

# BREAKING GROUND ON THE FUTURE OF PRIVATIZATION

Lend Lease Military Lodging Privatization





# THE RIGHT PARTNERS

## DELIVERING THE MILITARY'S ONLY LODGING PRIVATIZATION PROGRAM

Lend Lease (US) Public Partnerships is committed to collaborating with the Department of Defense to create best in class hotel developments for all government travelers. Clients benefit from the lessons learned and economies of scale of our nationwide military hotel portfolio and through our network of alliances and partnerships, we can confidently take on any challenge our clients face. We pride ourselves on providing predictable outcomes, responsiveness, safe standards, sustainability, and long-term return on investment for the clients, investors and communities we serve.

**INVESTED IN THE BELIEF THAT WITH PASSION, MORE IS POSSIBLE.**

Our history and our future focus is about delivering more value, more rewarding partnerships and more progressive results.

# PARTNERS

# OUR VALUE PROPOSITION

## FAVORABLE HOTEL ECONOMIC MODEL

- Consumer-branded lodging experience with long-term financial plan focused on sustainment
- All excess income is reinvested back into the program
- Mandatory 75% of per diem benchmark across portfolio
- 50-year lease agreement with all land and assets returned to the Army at the end of the lease term

## PROVEN FINANCIAL CAPABILITY

- Established investment grade credit rating
- \$285M secured in private debt
- World class investment partners Guggenheim and Bank of America Merrill Lynch
- Awarded Project Finance 2009 North American Real Estate Deal of the Year Award honoring innovation and achievement in the global finance market

## ESTABLISHED PROJECT COMPANY

- Asset manager, developer and design builder – With more than a decade of privatization experience, Lend Lease (US) Public Partnerships is the nation's leader in public-private development with more than 40,000 homes, 192 apartments and 11,600 rooms hotel rooms in its portfolio
- Hotel operator - IHG, one of the world's largest hotel groups with over 4,500 hotels and more than 650,000 guest rooms in 100 countries and territories around the world
- Centralized forecast accuracy, operating and revenue margin analysis and productivity benchmarking providing predictable outcomes for all stakeholders
- Procurement and transaction savings

## STRONG BRAND RECOGNITION

- Two globally recognized brands ensure consistent guest experience across a diverse portfolio
- Holiday Inn Express® One of the world's most recognized hotel brands providing guests a comfortable stay in a fresh, clean, uncomplicated hotel
- Candlewood Suites® An extended-stay hotel choice offering guests the convenience and independence they desire at an exceptional value
- IHG Rewards Club®, the world's first and largest hotel loyalty program. Over 632 million points awarded to IHG Army Hotels guests for use in IHG hotels worldwide

## DEMONSTRATED ASSET AND HOTEL MANAGEMENT PORTFOLIO

- Occupancy consistently 10-15% above national average
- 20% increase in overall guest satisfaction
- Delivered six Holiday Inn Express hotels, including the world's largest at Fort Sill, OK
- Broke ground on the military's first and the world's largest Candlewood Suites hotel on Joint Base San Antonio, TX
- Successfully executed early win program designed to make an immediate, positive impact in every guestroom. This innovative program was executed at all Group B hotels within 90 days of assuming operations
- At transition, 85% of department heads and 80% of line-level employees from Army Lodging hired by IHG. All Army Lodging employees granted the right of first interview for all positions
- Estimated 1,159 local jobs created through the renovation and enhancement of existing hotels
- More than \$304K donated to local charities and non-profit organizations, such as Fisher House Foundation, through fundraising and donation efforts



Collaborating with the Department of Defense to create best in class hotel developments for all government travelers.



## CONVENIENCE. COMFORT. CUSTOMIZED.

- Complimentary breakfast served daily
- Free weekly socials
- Concierge service
- Courtesy on-post shuttle service
- Free high-speed Internet
- Pets welcome
- 24-hour sweet shop, fitness centers, business centers, and guest laundry facilities
- Convenient online reservations
- IHG rewards Club® guest loyalty program



# EXEMPLARY OUTCOMES

## NEWSWORTHY RESULTS FOR THE DEPARTMENT OF DEFENSE

AS PUBLISHED IN

### The Washington Post

"The privatized hotels – operated by a subsidiary of InterContinental Hotels Group, known for its Holiday Inn Crowne Plaza and Candlewood Suites brands, among others – have upgraded the hotels with Internet access, flat screen televisions and other amenities. Now, all Army hotels allow pets and provide shuttle service around bases."

"At Fort Belvoir, the company [Lend Lease] is renovating three existing buildings – which should be complete next year – and building a new Staybridge Suites, set for completion in 2014 and located across from the hospital on the base."

"The Army had a significant amount of deferred maintenance that it needed capital to fix," said Thomas Lewerenz, a vice president at PFK Hospitality Research. The companies that competed to privatize the Army's hotels said, "we'll revitalize these assets and we'll build new assets and, in turn, we'll have exposure to this new target market."

Censer, Marjorie. "Army Privatizing Base Hotels." *The Washington Post* 12 Jul. 2012 \*

AS PUBLISHED IN

### The New York Times

"This allows the Army to focus on the mission," said Rhonda Hayes, an official in the office of Katherine Hammack, the assistant secretary of the Army for installations, energy and environment. "The Army is divesting itself of noncore functions. Housing was the first, and hotels were a natural follow-on. This is something the private sector does well and it makes sense for them to do it."

"What makes this deal strong is that it's tied to the military," said Mikiyon Alexander, director for United States public finance at Standard & Poor's Rating Services in New York. "You can actually tell what demand will be. We still believe cash flow will come in as expected," he added. "It's a pretty solid deal."

Shevory, Kristina. "The Army Calls In the Hoteliers." *The New York Times* 13 Jun. 2012: B6. \*\*

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THE NEW YORK TIMES BUSINESS WEDNESDAY, JUNE 13, 2012

## SQUARE FEET



At Fort Hood in Texas, an Army hotel privatization program involving two companies converted former barracks into a Holiday Inn Express. BEN SALAR FOR THE NEW YORK TIMES

### The Army Calls In the Hoteliers Privatized Hotels Take On Familiar Brands and Off-Post Amenities

By KRISTINA SHEVORY

FORT HOOD, Tex. — The hotel here could be any Holiday Inn Express, with a green and blue sign out front, a cheery lobby and a hot breakfast bar. But nearly all the guests on a recent afternoon wore camouflage fatigues and tan combat boots. A poster near the lobby with photos of the base's commanding officers greeted guests at what had once been a 1960s-era barracks.

At the Fort Hood hotel, what is commonplace in the civilian world is new and innovative. Its 274 rooms have been gutted and outfitted with flat-screen TVs and marble countertops. There is a free DVD library and a new outdoor pool with landscaping and deck furniture.

Over the last three years, the Army has started taking most of its 17,000 hotel rooms private, letting large companies build, renovate and operate them as a way to save money and modernize the facilities. About 4,400 rooms have been remade through a program called Privatization of Army Lodging, or PAL; the remainder should be done in the next 10 years.

"This allows the Army to focus on the mission," said Rhonda Hayes, an official in the office of Katherine Hammack, the assistant secretary of the Army for installations, energy and environment. "The Army is divesting itself of noncore functions. Housing was the first, and hotels were a natural follow-on. This is something the private sector does well and it makes sense for them to do it." The primary guests at Army hotels are soldiers who are participating in

training, receiving medical treatment or waiting for permanent housing. Using its housing privatization program, which dates to 1996, as a blueprint, the Army decided it was cheaper and faster for outsiders, rather than the government, to upgrade its hotels. More than 80 percent of Army lodging needed repairs or replacement, according to a 2010 Government Accountability Office report, which would cost the government over \$1.8 billion and take more than 20 years to complete. The Army expects it will take eight years using civilian companies. (The other military branches are not privatizing their hotels.)

Under the program, the Army passes ownership of the hotels to a subsidiary of the Australian giant Lend Lease, and retains ownership of the land. The InterContinental Hotels Group, or IHG, operates the hotels under the Holiday Inn Express and Candlewood Suites brands. After a 50-year lease, the buildings will revert to the Army. The Lend Lease subsidiary also raises money for the project.

There are three phases to the program. The first, which included the Fort Hood hotel, covered 3,400 rooms on 10 installations. The second phase will cover 4,800 rooms on 11 bases, and next spring, the Army plans to transfer the third group of hotels, or 7,000 rooms, to Lend Lease to start construction and renovation. All three phases are being financed by debt and income from the hotels themselves.

The money to pay off the loans comes largely from soldiers traveling on military business, who are paid a per diem as reimbursement for lodging, meals

and incidental expenses. With early-morning wake-up calls and often long security waits at entry gates, it is often easier to stay on a post. The hotel rates are approximately 75 percent of the government's local per diem; at Fort Hood, the average per diem is \$77 this year. Lend Lease and IHG receive fees; earnings go back to the hotels for investment and are not taken out of the program.

Although the threat of base closings and cuts in training missions loom in the background, analysts say the privatization program will continue because the Army will have to train soldiers regardless of potential cuts to the Department of Defense's budget or the drawdown of troops in Afghanistan and the end of the war in Iraq. The Army's partners in the deal, Lend Lease and the InterContinental Hotels Group, give added confidence.

"What makes this deal strong is that it's tied to the military," said Mikiyon Alexander, director for United States public finance at Standard & Poor's Rating Services in New York. "You can actually tell what demand will be."

"We still believe cash flow will come in as expected," he added. "It's a pretty solid deal."

The Holiday Inn Express at Fort Hood is a good example of what is to come at other Army bases. The interior was gutted at the hotel, which must meet the same standards as those off post. New furniture was brought in and service standards upgraded. Renovated hotels will operate under the Holiday Inn Express name, while new ones will be branded as Candlewood Suites.

"We're exposing millions of people on

an ongoing basis to what branded hotels look like," said Arthur Holst, the vice president for operations at IHG Army Hotels in Atlanta. "They're getting the benefits of the brands and some other special offerings."

Amenities were added to cater to military travelers, including weekly barbecues, courtesy shuttles, full-time concierges and free laundry facilities and DVD rentals.

It is a big departure from Army-run hotels, where quality was often mixed. Some looked and felt like old barracks, like the large hotel at Fort Leonard Wood in Missouri, where rooms had no tile floors and fluorescent lights. The biggest luxury was a digital clock. The renovation of that hotel started last fall.

"We were back in the bedspread and 19-inch TV era," said Sandy Van Bibber, the general manager of the Holiday Inn Express on Fort Hood. "You might go to a hotel that's great and another that is not so great. No one likes to travel and get a surprise."

Lend Lease and IHG plan to do more at Fort Hood, the country's biggest Army base. Ground is to be broken for a new Candlewood Suites hotel this fall. Two other aging hotels on post, with a total of 193 rooms, will be demolished after the Candlewood Suites opens.

Despite the upgrades and the assuming these hotels will be an easy sell. "Soldiers don't have to stay at a hotel," said Charles Smith, a senior vice president for lodging at Lend Lease. "We still have to provide a high class of service. Otherwise, they can vote with their feet."



# CREATING THE NEW STANDARD

**August 2009** – Lend Lease assumes ownership of 3,200 hotel rooms across 10 U.S. Army installations and, with IHG as hotel operator, becomes the first to begin operations under the Privatization of Army Lodging (PAL) program



**August 2010** – The first branded hotel on a military installation opens to guests on Fort Polk, LA

**November 2010** – Holiday Inn Express on Fort Hood opens to guests



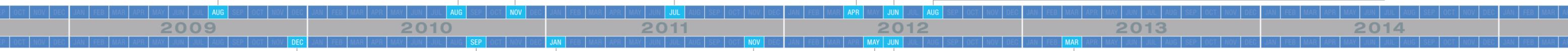
**July 2011** – Holiday Inn Express on Fort Rucker opens to guests

**April 2012** – Lend Lease secures \$275M in project debt to continue delivering new and renovated hotels for the PAL program



**June 2012** – Lend Lease breaks ground on 100-room Candlewood Suites on Fort Riley

**August 2012** – Lend Lease breaks ground on Candlewood Suites on Yuma Proving Ground



**December 2009** – Lend Lease receives Project Finance Magazine's 2009 Real Estate Deal of the Year Award

**September 2010** – U.S. Army asks Lend Lease to implement the second phase of the program adding 4,600 hotel rooms on 11 installations



**January 2011** – Lend Lease opens the Holiday Inn Express on Fort Sill, the largest Holiday Inn Express in the world by room count

**November 2011** – Holiday Inn Express on Fort Hamilton opens to guests



**May 2012** – Lend Lease breaks ground on the first newly constructed hotel, the 310-room Candlewood Suites® on Joint Base San Antonio

**June 2012** – Holiday Inn Express on Fort Wainwright opens to guests

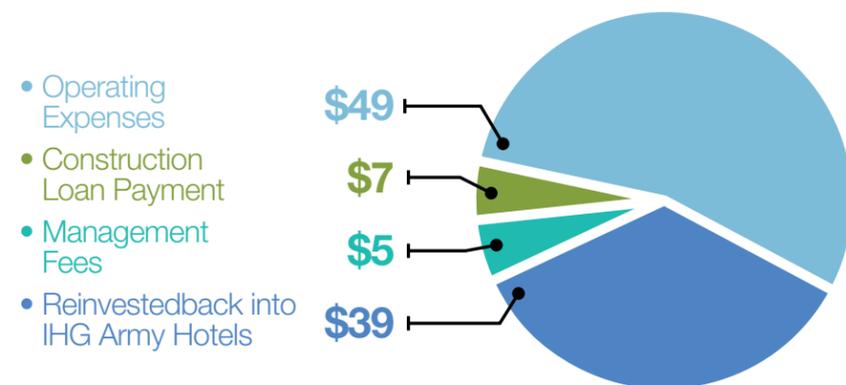


**Spring 2013** – Lend Lease and the Army agree to terms and officially transfer the third and final phase of the PAL program to Lend Lease, bringing its total privatized military hotel portfolio to more than 11,600 rooms on 39 U.S. Military installations.

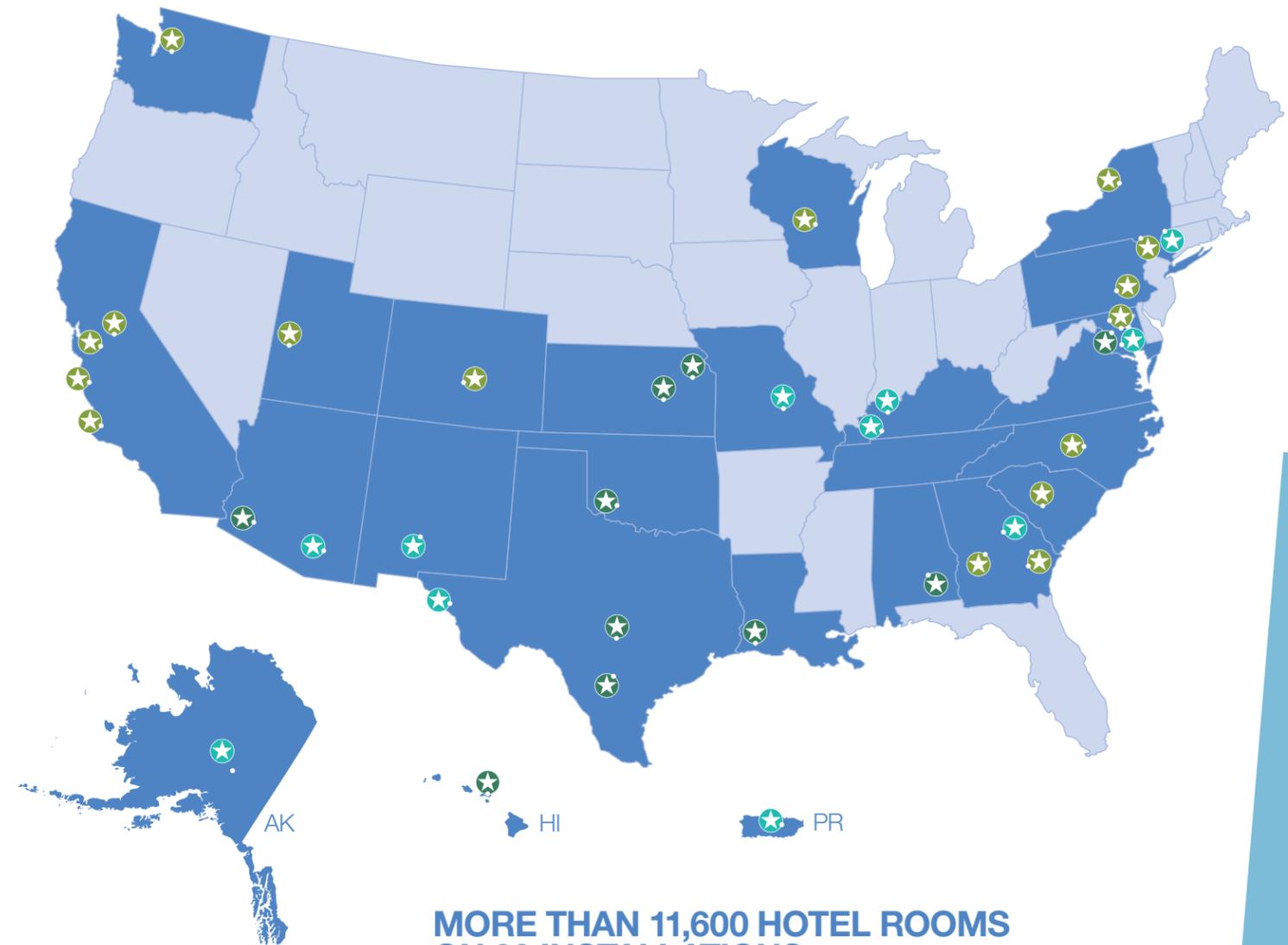


# INNOVATION. VALUE. RESULTS.

For every \$100 spent, \$39 is reinvested back into the hotels. That adds up to \$7.6 Billion over the next 50 years.



\*Updated to reflect Group C closing pro forma dated 4/30/13



## MORE THAN 11,600 HOTEL ROOMS ON 39 INSTALLATIONS.

### ★ Group A

Yuma Proving Ground, AZ  
Fort Shafter/TAMC, HI  
Joint Base San Antonio, TX  
Fort Hood, TX  
Fort Sill, OK  
Fort Leavenworth, KS  
Fort Riley, KS  
Fort Polk, LA  
Fort Rucker, AL  
Joint Base Myer-Henderson Hall, VA  
Fort Belvoir, VA

### ★ Group B

Fort Bliss, TX  
Fort Buchanan, Puerto Rico  
Fort Campbell, KY  
Fort Gordon, GA  
Fort Hamilton, NY  
Fort Huachuca, AZ  
Fort Knox, KY  
Fort Leonard Wood, MO  
Fort Wainwright, AK  
White Sands Missile Range, NM

### ★ Group C

Fort Lewis, WA  
BT Collins, CA  
Camp Parks, CA  
Presidio of Monterey, CA  
Hunter Liggett, CA  
Dugway Proving Ground, UT  
Fort Carson, CO  
Fort McCoy, WI  
Redstone Arsenal, AL  
Fort Drum, NY  
West Point, NY  
Carlisle Barracks, PA  
Fort Meade, MD  
Aberdeen Proving Grounds, MD  
Fort Bragg, NC  
Fort Jackson, SC  
Fort Stewart, GA  
Hunter Army Airfield, GA

January 2014

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