

Cavalier Hotel Incentive Package Summary of Terms

The Cavalier Hotel is a multi-structured hotel complex consisting of three (3) parcels located south of 42nd Street near the intersection of Atlantic and Pacific Avenues in the City of Virginia Beach, and described as follows:

“New Cavalier” - Located on the east side of Atlantic Avenue containing approximately 6.15 acres of property, and consisting of a 282-room hotel, conference center and associated amenities (GPIN 2418-96-6085 / 4201 Atlantic Avenue).

“Historic Cavalier” - Located on the west side of Pacific Avenue, across from the New Cavalier, containing approximately 12.48 acres (GPIN 2418-95-1853 / 4200 Pacific Avenue), on which the Old Cavalier is located.

“Pacific Parcel” - Located on the west side of Pacific Avenue and north of 40th Street. The parcel contains approximately 2.54 acres and is used as parking and for recreation (GPIN 2418-95-3425).

The New Cavalier, Historic Cavalier and Pacific Parcel are collectively referred to herein as the “Property”.

“Old Cavalier” - The historic multi-story hotel structure located on the Historic Cavalier parcel.

On the grounds of the Historic Cavalier is an approximate 53,000 sq. ft. lawn (the “Lawn”) located between the hotel building and Pacific Avenue. Also on the grounds of the Historic Cavalier is an approximately 36,700 sq. ft. entrance area located immediately to the north of the hotel building (the “Entrance Area”). The exact size of the Lawn and Entrance Area is subject to confirmation after a survey of the site.

All of the parcels and areas described herein as shown on Exhibit A, attached hereto.

Pursuant to an order of the Buckingham County Circuit Court, a court-appointed receiver has conducted a competitive bid process to sell the Property. As confirmed by an order of the Court entered on June 10, 2013, Cavalier Associates, LLC (the “Developer”) was the successful bidder and has been awarded a contract to purchase the Property for a purchase price of \$35,069,968.

The City of Virginia Beach (the “City”) and the City of Virginia Beach Development Authority (the “Authority”) have recognized the historic and cultural significance of the Property, specifically the Historic Cavalier. To induce the Developer to purchase the Property and to preserve certain aspects of the Historic Cavalier as set forth below, the City and the Authority have offered certain incentives and accommodations to the Developer, and the

Developer has offered to take certain steps with respect to the preservation of the Historic Cavalier.

This Term Sheet is an outline of terms. Moreover, this Term Sheet is not, nor is it intended to be, an offer, an acceptance, or a binding agreement of any kind. To the contrary, this Term Sheet is only a summary of the basic terms of a possible transaction which may be agreed to in principle only. Although this Term Sheet identifies many of the material issues, any possible transaction is complex and issues may arise during preparation and negotiation of definitive documentation that have not been discussed in this Term Sheet. Accordingly, legal obligations among the parties will only be as specified in any definitive agreements that ultimately may be approved by City Council, the Authority and the Developer's principals, and executed by all of the parties. Any obligations of the City are subject to appropriation of sufficient funds to meet that obligation by the City Council of the City of Virginia Beach. Additionally, none of the parties to this Term Sheet are under any obligation or duty to attempt to negotiate a transaction or any related documentation or, if such negotiations commence, to continue such negotiations. Nonetheless, by approving this Term Sheet, each party indicates its belief that this Term Sheet can form the basis for a transaction and the willingness to commence negotiation and preparation of definitive documentation toward that end.

Section 1 - Authority Obligations:

1. Approve EDIP grant to Developer in the amount of \$8,200,000 (the "Grant"). The Grant to be paid at Developer's acquisition of the Property ("Closing"). Execution of the Recapture Agreement (defined below) will be a prerequisite to payment of the Grant. The Grant is based on a total investment by the Developer of at least \$205,000,000 (the "Developer Investment") in the Property, with at least \$65,000,000 of the Developer Investment occurring within 3 years of Developer's commencement of rehabilitation of the Property, a cumulative investment by Developer of \$130,000,000 occurring within 6 years of Developer's commencement of rehabilitation of the Property, and a cumulative total of \$205,000,000 Developer Investment occurring within 9 years of Developer's commencement of rehabilitation of the Property. The calculation of the Developer's Investment shall include Developer's initial investment of the \$35,069,968 acquisition cost, plus documented closing costs and expenses (the "Initial Investment"), but shall exclude the costs for the construction of residential real estate units on the "Land Side Properties" (as defined below) (the "Residential Construction Costs").
2. Make annual incentive payment (collectively, the "Incentive Payments") to the Developer in an amount equal to the real estate taxes arising from the incremental increase in the assessed value of the Property over and above the purchase price of the Property as set forth herein, with a cap on the total incentive payments of \$5,000,000.

Section 2 - City Obligations:

1. Approve and authorize Authority making the Incentive Payments.
2. Purchase a private Green Space Easement over the Lawn and Entrance Area from the Developer for \$2,370,000 requiring (a) the Lawn to be maintained as green space and open space in substantially the same form as it currently exists, including the landscaped "Cavalier" ground sign, with the City having the right to approve any material, permanent changes to appearance of the Lawn, provided, however, Developer reserves full right to use the Lawn, including, but not limited to, catered and other events, and to make temporary installations of canopies, tents or similar items for special events on the Lawn, and (b) the Entrance Area to be maintained in substantially the same condition, including preservation and maintenance of the existing serpentine walls. Closing on the Green Space Easement to occur simultaneously with Developer's acquisition of the Property and Authority's award of the Grant.
3. Take steps necessary to assist the Developer in qualifying for gap financing as contemplated by Va. Code §58.1-3851.1.
4. Enter into a Cost Participation Agreement for road improvements (to be known as "Cavalier Drive") in a location at the northern portion of the Historic Cavalier to be determined by City and Developer in an amount not to exceed \$2,449,040, with 50% to be paid simultaneously with Developer's acquisition of the Property (the "Roadwork Deposit") and 50% to be paid upon completion of the improvements to Cavalier Drive and verification of expenditures by the Developer for the improvements. The Cost Participation Agreement will be subject to a sole source determination by the City's purchasing agent. Developer to complete said improvements by the time the renovated Old Cavalier reopens.
5. City acknowledges Developer's plan to develop the Property essentially as set forth in this Term Sheet and Exhibit B. The City views this proposal favorably and agrees to fast track the process for submission and review of Developer's Rezoning and Site Plan submissions for the Property.
6. Support Developer's application to include the Old Cavalier in the National Register of Historic Places and the Virginia Landmarks Register in order to qualify for state and federal tax credits. If the Old Cavalier fails to be listed on either register, hold the Historic Easement, defined below.
7. Grant Developer an initial franchise of less than five (5) years (commencing on the re-opening of both the Old Cavalier and the New Cavalier or such earlier date as the parties mutually agree, but in no event later than five (5) years after Closing) to operate beach concessions on the sandy beach in front of the New Cavalier (including without limitation, umbrellas and beach chairs) and to service hotel and resort guests from the hotel's food and beverage facilities consistent with Developer's operation of the Old Cavalier and the New Cavalier as a comprehensive, full service, destination resort.

Section 3 - Developer Obligations:

1. Purchase the Property.
2. Developer shall rehabilitate the Old Cavalier and the New Cavalier essentially as set forth in the plan attached as Exhibit B. The Old Cavalier and the New Cavalier will be operated as a full service resort. The Old Cavalier will be revitalized in a manner suitable to its past distinction and in a manner that will not jeopardize the inclusion of the Old Cavalier in the National Register of Historic Places and the Virginia Landmarks Register. The entire Property will be redeveloped to create a signature resort and a landmark destination at the Virginia Beach oceanfront. Rehabilitation in accordance with fully permitted construction plans and specifications will commence on or prior to the date (the "Outside Commencement Date") that is the earlier to occur of (a) 1 year after receipt by Developer of all required approvals and permits (which Developer agrees to promptly submit and diligently pursue), and (b) 2 years after Closing. Once rehabilitation has commenced, Developer will continue thereafter in a timely manner until complete. The New Cavalier will include a full service resort hotel, a restaurant, and convention and meeting space.
3. Invest at least \$205,000,000 (including the Initial Investment) in rehabilitation of: (i) the Old Cavalier, (ii) the New Cavalier, (iii) the beach club/ convention center at the New Cavalier, and (iv) a new hotel or timeshare structure on the site of the New Cavalier and the requisite infrastructure improvements, including purchase price for acquisition of the Property.
4. Construct residential units on the Historic Cavalier parcel and the Pacific Parcel ("Land Side Properties"). The residential units to be constructed on the Land Side Properties shall consist of single-family units with a mixture of lot and unit sizes, all to be designed and constructed in a high quality manner in accordance with a design developed specifically for these properties using high quality materials and exterior treatments, which will be designed to coexist with the live oaks and unique topography of the Land Side Properties. The architecture of the homes will be appropriate to and complementary of the examples of homes of the North End of Virginia Beach which meet these standards. Pedestrian walkways and landscaped accent areas will, where possible, complement and inter-connect the housing areas.
5. Right-of-way improvements at the northern portion of the Historic Cavalier shall include special paving, lighting and landscaping subject to plans approved by the City. On completion of the improvements, Developer shall dedicate any necessary right-of-way to the City and such improvements (Cavalier Drive) shall be a public street between Atlantic Avenue and Holly Road. Developer to post payment and performance bonds as customary for a municipal road project prior to receiving any funds. Prior to posting of bonds, Developer's obligation to complete right of way

improvements shall be secured by a letter of credit or personal guaranty as provided with respect to the Recapture Agreement, defined below.

6. Apply for inclusion of the Old Cavalier on National Register of Historic Places and Virginia Landmarks Register. Developer will dedicate and record at Closing an historic preservation easement over the Old Cavalier to City of Virginia Beach (the "Historic Easement"). The Historic Easement will contain generally the same restrictions against redevelopment and requirements for preservation as would be imposed on Developer by inclusion on the federal and state registries (such restrictions to be effective during any period that the exterior of the Old Cavalier is not required to be preserved in its current form by either registry or otherwise) and will be superior to any deed of trust or other liens encumbering the Old Cavalier (the "Old Cavalier Encumbrances"). In the event of a casualty to the Old Cavalier such that the Old Cavalier no longer meets the Secretary of the Interior's Standards for Rehabilitation (which is a prerequisite for qualification for federal historic preservation tax incentives), Developer shall either (i) repair and/or restore the Old Cavalier to the Secretary of the Interior's Standards for Rehabilitation; or (ii) within six (6) months of the casualty, repay to the Authority \$1,722,000 (the "Rehabilitation Grant Reimbursement") (which is the portion of the Grant allocable to the improvements associated with the Old Cavalier) and, if the required bonds have not been posted or Cavalier Drive is not complete, repay the Roadwork Deposit to the City. If Developer elects this option (ii), the Authority shall make no further Incentive Payments to Developer and if the bonds have not been posted, the agreement for the construction of Cavalier Drive shall terminate. In addition, if Developer elects option (ii) above, Developer may repurchase the Green Space Easement by repaying the City, within six (6) months of the casualty, \$2,370,000 ("the Green Space Reimbursement"). Notwithstanding the foregoing, commencing on the twelfth (12th) anniversary of the date of Closing and on each of the next five (5) succeeding anniversaries thereof, the Rehabilitation Grant Reimbursement shall be reduced by \$287,000.00 per year, resulting in no Rehabilitation Grant Reimbursement being due with respect to option (ii) above subsequent to the eighteenth (18th) anniversary of the date of Closing, it being understood that the full amount of the Green Space Reimbursement shall remain payable if Developer repurchases the Green Space Easement.
7. Execute the Recapture Agreement with the Authority for the Grant. The "Recapture Agreement" will provide for the repayment of 100% of the Grant by Developer to the Authority if, Developer fails to (a) promptly apply for inclusion of the Old Cavalier on the two historic registers, or (b) preserve the Old Cavalier structure in at least its current external form, or (c) commence rehabilitation of the Old Cavalier on or prior to the Outside Commencement Date. The Recapture Agreement will provide for repayment of a pro-rata share¹ of the Grant by Developer to the Authority if, (1) Developer has not invested \$65,000,000 of the Developer Investment in the Property by the end of the 3 year anniversary of commencement of rehabilitation of the Property, as provided herein, (2) Developer has not invested \$130,000,000 of the

¹ That is, the portion of the Grant attributable to the shortfall in the Developer Investment.

Developer Investment in the Property by the end of the 6 year anniversary of commencement of rehabilitation of the Property, as provided herein, (3) Developer has not invested the entire Developer Investment in the Property by the end of the 9 year anniversary of commencement of rehabilitation of the Property, as provided herein, (4) foreclosure proceedings are commenced under any of the Old Cavalier Encumbrances, or (5) Developer fails to complete the Cavalier Drive improvements by the time the renovated Old Cavalier reopens. If the Developer makes the full Developer Investment of \$205,000,000 by such 9 year deadline, then Developer shall be entitled to recoup any amount of the Grant recaptured by the City. Recapture Agreement to be between Authority and Developer or an affiliated entity of Developer reasonably acceptable to City. Recapture Agreement (and Roadwork Deposit) to be secured to reasonable satisfaction of City and Authority through either the posting of a letter of credit initially in the amount of the Grant plus the Roadwork Deposit or a personal guaranty or guaranties from one or more of the principals of the Developer in the same amounts (if such guarantors do not include Bruce L. Thompson and the other principals of Developer, then the proposed guarantor(s) shall be subject to the City's reasonable approval). The amount of the guaranty/ letter of credit to be reduced by the amount of the Roadway Deposit on the posting of the bond for the completion of the improvements to Cavalier Drive. In addition, the amount of the guaranty/letter of credit will be proportionately reduced upon Developer providing proof of qualifying expenditures for the Grant, it being understood that the amount of the guaranty/letter of credit will be reduced upon the occurrence of the Closing by the pro-rata share of the Grant attributable to the Initial Investment and that any letter of credit posted at Closing shall not be required to include such amount.

8. In consideration for the making of the Grant by the Authority and approval by the City of the Authority's payment of the incentive payment of up to \$5,000,000 for the incremental increase in real estate taxes on the entire Property, Developer agrees to execute a waiver of receipt of real estate tax exemption for the incremental increase to the historically significant structure (the Old Cavalier) as provided for in Section 35-80.1 of the Code of Ordinances of the City of Virginia Beach.

Section 4 - Next Steps:

1. June 10, 2013. The Developer awarded sales contract to Property by the Circuit Court of Buckingham County.
2. June 11, 2013. Developer to present general development plan in open session. City Council briefed in closed session on Term Sheet.
3. June 18, 2013. Closed session briefing to Authority. Public briefing on Term Sheet at City Council work session.

4. June 25, 2013. Public hearing/ public comment on Term Sheet at City Council meeting.
5. July 2, 2013. City Council to vote on undertaking obligations set forth in Section 2 above, and to approve the undertaking of the Authority obligations set forth in Section 1 above, conditioned on the Developer closing on the purchase of the Property as set forth below.
6. July 16, 2013. Authority vote on undertaking the obligations set forth in Section 1 above, and to approve the Grant.
7. July 19 or July 22, 2013. Developer to close on the Property, Authority to purchase the Open-Space Easement, Authority to award the Grant (EDIP) and Green Space Easement purchase money, City to pay Roadwork Deposit.

Exhibit A

Depiction of Property

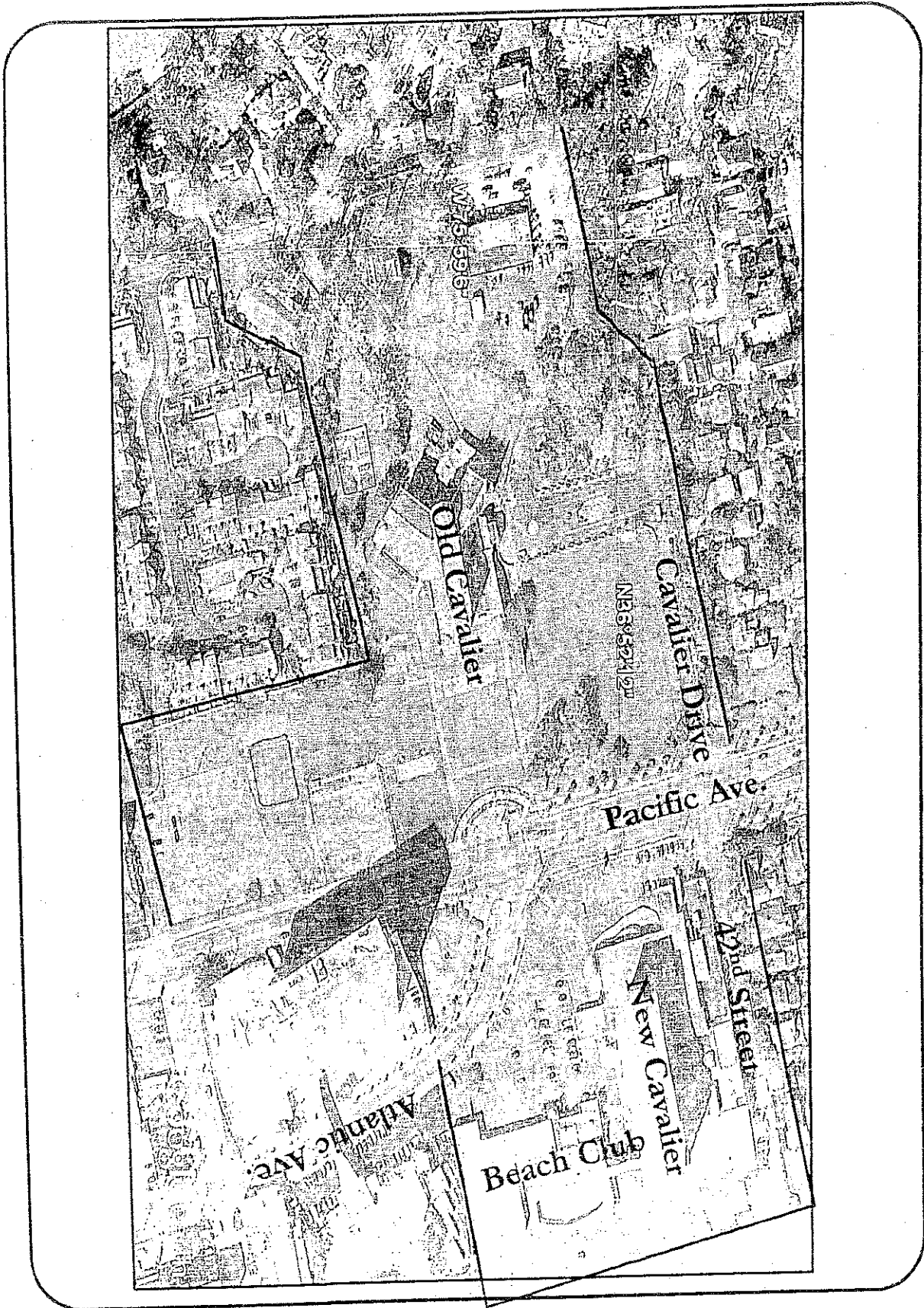


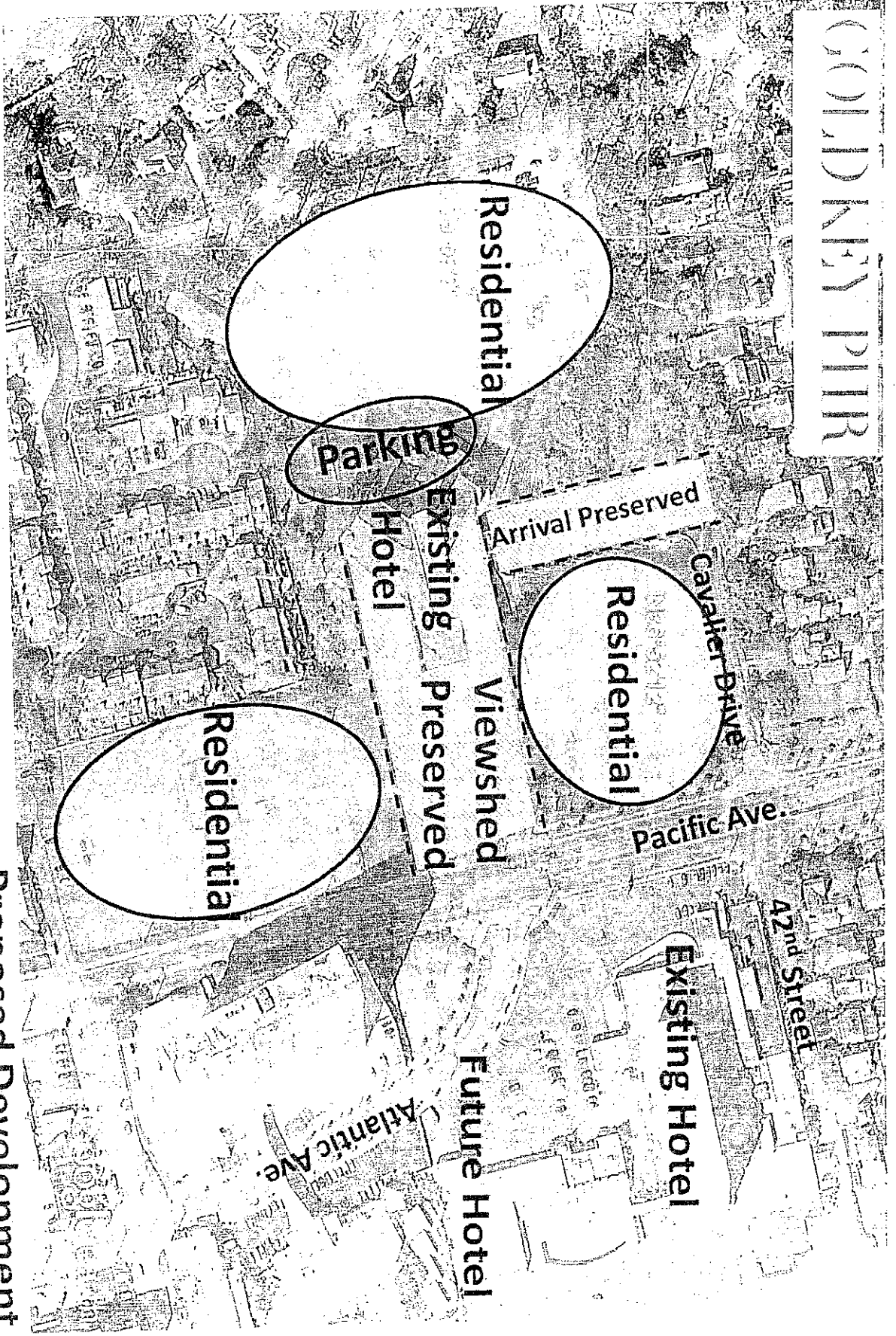
EXHIBIT A

6-14-13
12:00 pm

Exhibit B

Plan

GOLDENEY PIER



Proposed Development
Cavalier Hotel Sites