HILTON HOTEL, BROOKLYN, NY

Mezzanine Loan:	**$15 million***
Term:	**3 years (with a 1-year extension available)**
Rate:	**12%**
Fees:	**1% origination fee, 1% exit fee, 1% extension fee**
Senior Mortgage:	**$55 million**
Appraised Value:	**$89 million at closing**
Loan-to-Value Ratio:	**78.7%**

*Terra Income Fund 6 holds a $7.5 million interest in this loan.

Location

This recently opened hotel is located on the border between Downtown Brooklyn and Boerum Hill, one of Brooklyn's highly sought-after residential neighborhoods. The third-largest central business district in New York City, Downtown Brooklyn features over 17 million square feet of office space. It is home to 60,000 students in 11 colleges and universities and has emerged as a popular retail corridor – over 675,000 square feet of retail is under development in Downtown Brooklyn, with the Fulton Street Mall already generating over $700 million of retail sales annually. The hotel is in close proximity to the Brooklyn Bridge, the newly developed 85-acre Brooklyn Bridge Park and the Barclays Center.

Brooklyn has proven to be a robust hotel market. Proximity to Manhattan, more affordable rates and ongoing gentrification position hotels in Brooklyn to be increasingly attractive to tourists. Brooklyn emerged as a popular destination over the past decade, and compared to Manhattan it is underserved. In the latest year for which data is available, Brooklyn attracted 28% of New York City's total visitors, a 12% year-over-year increase; yet fewer than 1 in 10 of all New York City's hotel rooms are in Brooklyn.

Brooklyn is the most well-connected outer borough in New York City, and the property is an easy walk from 11 different subway lines. Five blocks east is New York City's third largest transportation hub, which includes the Brooklyn terminus of the Long Island Railroad and provides access to a number of train and subway lines. The area's main highway is the Brooklyn-Queens Expressway, located approximately one mile north of the property, providing access to the region's extensive highway system.

Property

The hotel was completed in November of 2016. It features 196 rooms, 2,375 square feet of meeting space, an executive lounge, a full-service restaurant, a bar, a library lounge and a fitness room. Average room size is a large 380 square feet. Many of the

competitive hotels have limited food and beverage offerings, and the general lack of full-service and upper upscale hotels in Downtown Brooklyn offers this Hilton a strong position in the competitive landscape.

The hotel's central location makes it a popular choice for business, group and sporting events. Prior to opening, it already had secured 25 group bookings that will utilize 1,766 room nights (at a rate of $264) from December 2016 through October 2017. Two of the group reservations are for the Detroit Red Wings and Boston Bruins. The hotel's management believes a positive and long-term relationship can be established, allowing the hotel to become the preferred stay for NHL teams. Additionally, the hotel has secured 1,000 room nights from the ACC Tournament in March 2017 as the Barclays Center will be hosting games for March Madness.

Of the hotel rooms to be delivered through 2018 within Brooklyn, 38% are located in the two northern neighborhoods, some distance from Downtown Brooklyn, and it's anticipated that more demand will shift to Downtown Brooklyn when the L subway shuts down in 2018 and travelers seek to maintain connectivity to Manhattan via the subway.

The property will benefit as the only full-service Hilton hotel in the immediate Downtown Brooklyn area. The Hotel was originally poised to be a Hilton Garden Inn, but given its strong location, Hilton Worldwide pushed for it to be a Hilton and provided an area of protection.

Opportunity

The Hilton Worldwide loyalty program has more than 50 million members worldwide, a number that increased 14% last year. Hilton's brand recognition combined with Brooklyn's under-supplied upscale segment gives the hotel the opportunity to both capture spillover demand from Lower Manhattan and establish itself as a prominent full-service offering in Downtown Brooklyn.

Our borrower, Flank, is a vertically integrated real estate development organization established in 2002 with experience developing residential, hospitality, and mixed-use projects with a strong design focus. Flank has developed $400 million of real estate and has another $400 million in the pipeline, with project sizes ranging from $20 million to $225 million. Flank is investing $25 million in this transaction.

Urgo Hotels, the property manager, has extensive experience and a current portfolio consisting of 31 hotels with 4,303 rooms. Its management team averages 20 years of hotel experience. Urgo has been recognized by Marriott and Hilton franchise communities as one of the top performing hotel operators, and in the last two years Urgo has added 13 hotels with 1,701 rooms.

In October 2016, New York Governor Andrew Cuomo signed a bill that imposes steep fines on rental hosts who break local housing regulations; the new law allows authorities to fine hosts up to $7,500 if they are caught improperly listing a property on a rental platform such as Airbnb. This new regulation is expected to drastically impact the supply of rentals available, with hotels standing to benefit. Airbnb was especially popular in Brooklyn due to the relatively limited hotel availability. The impact of the new law is likely to generate increased demand for available hotel rooms in Brooklyn.

- Based on our underwriting, a sale of the property in year four would provide sufficient proceeds to repay our loan and the senior loan even at an 8.7% cap rate. The appraiser estimated a 7.0% cap rate for the property, which would produce a sales price 24% higher.
- Replacement cost for a freestanding hotel of similar quality would be approximately $117 million or $595,000 per key. The last-dollar loan of Terra's loan is at $70.0 million or $357,000 per key – a 40% discount to replacement cost.

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- An investment in Terra 6 is speculative and involves a high degree of risk.
- The interest rate on this loan is not necessarily an indication of the return or distributions an investor may receive. Investor returns will be reduced by expenses.
- You should not expect to be able to sell your shares regardless of how we perform.
- If you are able to sell your shares, you will likely receive less than your purchase price.
- We do not intend to list our shares on any national securities exchange during or for a significant time after the end of the offering, and we do not expect a secondary market in the shares to develop.
- We have implemented a share repurchase program, but only a limited number of shares are eligible for repurchase by us. In addition, any such repurchases will be at a 10% discount to the current offering price in effect on the date of repurchase.
- You should consider that you may not have access to the money you invest for an indefinite period of time.
- An investment in our shares is not suitable for you if you need access to the money you invest.
- Our distributions may be funded from unlimited amounts of offering proceeds or borrowings, which may constitute a return of capital and reduce the amount of capital available to us for investment. Distributions funded from a return of capital are not funded from our net profit. Any profits returned to stockholders through distributions will be distributed after payment of fees and expenses.
- We have not identified specific future investments that we will make with the proceeds of this offering and you will not have the opportunity to evaluate our investments prior to purchasing shares of our common stock. As a result, our offering may be considered a “blind pool” offering.