

# SANDALWOOD LODGING

Investment Corporation



*A professionally managed REIT designed for investors seeking income and capital preservation*



**SANDALWOOD LODGING**

Investment Corporation  
Appreciating Real Estate <sup>SM</sup>

## What Are Your Risks?

All investments have certain inherent risks associated with them. The most significant risks of an investment in our company are:

- Prior to this offering, there has been no public trading market for our shares and there is no assurance that an active such market will develop.
- Currently, we have no identified Lodging Investments and, therefore, you will not have the opportunity to evaluate our portfolio prior to making your investment.
- Our Chairman, Vice Chairman and President are also officers and directors of the Advisor and its affiliates and will be engaged in business activities that may result in conflicts of interest with the services that the Advisor and/or its affiliates will provide to us, including forming, offering interests in and managing other real estate programs, which may affect or compete with Sandalwood's Lodging Investments, and allocating time, services and functions to other ventures. Our officers and directors will not be required to devote a minimum amount of time to the management of Sandalwood. As of the date of the prospectus, we have not identified any independent directors. Further, the agreements between Sandalwood and the Advisor are not the result of arm's length negotiations.
- We have no operating history for investors to evaluate and no established financing sources, each of which may affect our ability to implement our business strategy. Our management team has no experience in managing a public REIT.
- Affiliates of the Advisor, including Haberhill Lodging Ventures, LLC, BT Lodging Ventures, LLC and Madison Capital Management, LLC, may in the future be involved in investment programs with objectives similar to Sandalwood's, and therefore could face conflicts of interest in managing Sandalwood's operations and those of such other activities.
- Our Articles of Incorporation impose restrictions on ownership and transfers of shares in order to qualify as a REIT.
- We currently have no employees and, therefore, will rely on the Advisor for our investment decisions and day-to-day management.
- We may incur indebtedness of up to 50% of our Lodging Investments' aggregate value, although such debt limitation does not apply to individual properties and may be amended by the Board without the consent of stockholders.
- Investors will not have any ownership interest in the Advisor. The Advisor is indirectly owned by members of Sandalwood's management team.
- Depending on our performance, the Advisor may receive substantial fees and cash distributions from the sale, refinancing and liquidation of Lodging Investments.
- Due to increased compensation at higher return levels, incentive compensation to the Advisor could encourage investments with higher anticipated returns, which may in turn contain higher risk.
- In order to achieve our investment objectives, Sandalwood's investment strategies may be changed without the consent of stockholders if the directors determine it is in our best interest.
- A portion of the cash distributions to be made by Sandalwood may constitute a return of capital.
- We will face considerable competition for Lodging Investments.
- Failure to qualify as a REIT for federal income tax purposes would cause Sandalwood to be taxed as a regular corporation, which could materially reduce Sandalwood's cash available for distribution to stockholders.
- There are no limitations on the amount we may invest in whole mortgage loans. Interest rate fluctuations may reduce or eliminate the return on any mortgage loans we may purchase.

See the "Risk Factors and Conflicts of Interest" section of the Prospectus for a discussion of risks that you should consider before you invest in the common stock being sold in this offering.

**THIS BROCHURE MUST BE PRECEDED OR ACCOMPANIED BY A PROSPECTUS.**

**AN OFFER FOR THE SALE OF SANDALWOOD STOCK MAY ONLY BE MADE BY MEANS OF A PROSPECTUS.**

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## Overview of our Company

Sandalwood is a real estate investment company that focuses its investment strategy on properties and financial assets within the full-service segment of the lodging industry. A full-service hotel is a hotel which has restaurant food and beverage service, as well as conference or meeting facilities, such as a Marriott, Hilton, Sheraton, Hyatt and Westin. As of the date hereof, we have not entered into any contracts or arrangements with these hotel chains or identified any specific Lodging Investments to purchase with the proceeds of this offering. Sandalwood intends to qualify as a real estate investment trust for federal income tax purposes.

Our investments will generally fall into one of the following categories:

- Existing chain-operated or franchised full-service hotels, with long-term management agreements and/or franchise agreements in place. We will look for Lodging Investments that we believe have experienced temporary downturns in operations from both the cyclical and September 11, 2001 impacts. These assets will otherwise be reasonably well-operated by either a national hotel franchise operator or a well-qualified independent operator, and be affiliated with a nationally recognized hotel franchise.
- Existing full-service hotels with long-term franchise agreements, but management that can be replaced with an operator selected by us and approved by the franchisor. We plan to partner with property managers who have a successful track record and are interested in growing their management business. Operators will also have a strong financial incentive, based on profitability of the hotels, to improve revenues and operating profits at the hotels.
- Independently-operated full-service hotels, where we believe a change in brand or management will substantially improve both revenues and operating profits.
- We may invest in whole mortgage loans where (i) purchasing the mortgage gives Sandalwood the means to foreclose on and own the underlying full-service hotel; (ii) a significant portion of the return from the mortgage comes from a participation interest in the profits of the underlying hotel; or (iii) owning the mortgage will result in the hotels being consolidated on Sandalwood's books for accounting purposes.
- On a limited basis, not more than 15% of Sandalwood's net asset value may be invested in (i) stock in publicly traded lodging companies where we believe the underlying net asset value of the company exceeds the public equity value of the company; (ii) debt of publicly-traded lodging companies where we believe the public debt markets have undervalued the debt of the company and (iii) other mortgage debt.



### ***Real Estate – Back to Real REITurns***

*This photograph illustrates a full-service hotel, the asset class that Sandalwood focuses its investment strategy on.*

*This is not a Sandalwood property.*

## Our Investment Goals and the Strategies to Achieve Them

Our primary investment objectives are to:

### **Invest in Lodging Investments which we believe will generate attractive yields and enable us to pay regular quarterly dividends to stockholders**

Our strategy to achieve this objective is to:

- Invest only in full-service hotels which have no less than one year of operating history;
- Select hotel management companies and hotel franchises with demonstrable records of superior operating results relative to industry averages;
- Limit our borrowings to less than 50% of the total asset value of our portfolio at the time borrowings are made;
- When funds are available for distribution, subordinate up to 50% of the Advisor's annual asset management fee and 100% of the Advisor's incentive profit participation to distribution of an amount equal to a cumulative, non-compounded 8% annual return on Invested Capital, although there can be no guarantee that there will be any return on a stockholder's investment; and
- Increase our income (and dividends) and provide protection against inflation through receipt of percentage rent, automatic increases in base rent and/or profit participations in mortgages and other investments.

### **Create appreciation of Lodging Investments**

Our strategy to achieve this objective is to:

- Acquire Lodging Investments at purchase prices below estimated replacement cost and/or which we believe are undervalued;
- Professionally and actively asset-manage our Lodging Investments to maximize cash flow as a way of increasing asset value; and
- Actively monitor lodging market conditions to sell assets when advantageous market conditions exist.

### **Provide liquidity for your investment**

Our strategy to achieve this objective is to:

- List our shares on the American Stock Exchange; and
- In the discretion of the Board of Directors, dissolve Sandalwood and distribute liquidation proceeds if trading volume in the shares of our common stock on the AMEX does not reach a level equal to 6% of the average outstanding shares of common stock over any 90 consecutive calendar days within six years of the initial closing of the offering.

## Our Investment Goals and the Strategies to Achieve Them *(continued)*

### Preserve Invested Capital

Our strategy to achieve this objective is to:

- Buy full-service hotels in urban, suburban, airport and resort locations, which, in the judgment of the Advisor and the Board, (i) present superior investment opportunities, (ii) are located in markets which present significant barriers to new construction, have sound supply and demand characteristics, and solid economic growth and (iii) are, or will be, managed by and franchised from high-quality operators and franchisors;
- Diversify our portfolio by (i) investing not more than 33% of our total debt and equity capital (determined at the time of investment) in any one asset, if less than \$75 million has been raised pursuant to this offering, or not more than 20% of our total debt and equity capital (determined at the time of investment) in any one asset, if \$75 million or more has been raised pursuant to this offering, (ii) purchasing hotels under different hotel franchises and (iii) purchasing hotels geographically dispersed throughout the United States;
- Minimize the likelihood of default by limiting borrowings to not more than 50% of the total asset value of our portfolio at the time borrowings are made (based on annual appraisals of long-term assets by a nationally recognized independent appraisal firm and quarterly GAAP valuations of current assets);
- Invest only in hotels which have not less than one year of operating history; and
- Conservatively underwrite Lodging Investments.

### Maintain tax efficiency

Our strategy to achieve this objective is to:

- Qualify and maintain qualification as a REIT; and
- Structure leases in such a way as to minimize taxes to Sandalwood.

## Experienced in Our Field

Founded by principals who have been active in real estate and lodging valuation and research, acquisition, financing, disposition and asset management since 1982, Sandalwood is designed to combine the advantages of investing in commercial real estate with the experience and discipline of a professional investment management company. Our executive management team brings over 50 years of combined experience in the functional disciplines relevant to Sandalwood's business strategy and operations, although our Advisor and directors have not previously managed a REIT.

## Meet Our Executive Management Team

**Bryan E. Gordon** is the Chairman, Managing Director and a founder/promoter of Sandalwood and the Advisor. Mr. Gordon also serves as the Chairman, Managing Director and Chief Risk Officer of Madison Capital Management, LLC ("MCM"), a value-oriented investment management firm based in New York. Mr. Gordon has 19 years of experience in the fields of investment management, investment banking and management consulting, emphasizing real estate and other asset-based finance. Prior to co-founding MCM in 1996, he specialized in equity and debt financings, mergers and acquisitions, roll-up and formation transactions, and restructurings for REIT's, corporations, joint ventures and partnerships. As an investment banker at Smith Barney, Inc. and Bear, Stearns & Co., Inc., Mr. Gordon represented numerous lodging companies, including Marriott Corporation, Hotel Investors Trust (now Starwood Lodging), Red Lion Inns, LaQuinta and Prime Motor Inns, and numerous REITs, including Public Storage, Kimco Realty, Omega Healthcare Investors and Chelsea/GCA Realty. Mr. Gordon earned an MBA degree from Columbia University's Graduate School of Business and a BSE degree, cum laude, from the Wharton School of the University of Pennsylvania. Mr. Gordon is 41 years of age (as of October 31, 2002).



**Douglas H. S. Greene** is the Vice Chairman, Managing Director, Chief Investment Officer, Treasurer and a founder/promoter of Sandalwood and the Advisor. Mr. Greene is also the Managing Member of Haberhill LLC, the parent of Haberhill Lodging Ventures LLC. Mr. Greene has over 20 years of experience in lodging finance, acquisition, disposition and asset management, with Haberhill and Marriott/Host Marriott Corporation. Specifically, he has completed acquisition and disposition transactions with an aggregate value in excess of \$3 billion, utilizing debt purchases and foreclosures, negotiated prepackaged bankruptcies and partnerships roll-ups. Additionally, he had oversight responsibility for the asset management for approximately 250 hotels, and financed over \$1 billion of debt. Mr. Greene earned a BS degree from Cornell University's School of Hotel Administration. Mr. Greene is 42 years of age (as of October 31, 2002).



**Barbara A. O'Hare** is the President, Chief Operating Officer and a founder/promoter of Sandalwood and the Advisor. Ms. O'Hare also serves as the Chief Operating Officer and a Partner of MCM. Ms. O'Hare's 15-year background in business management has emphasized the areas of new product development, strategic marketing, global branding, investor relations, total quality management, sales management and corporate strategy formation. Prior to joining MCM in 2000, Ms. O'Hare's experience included serving at MessageMedia, an online communications company, Tokheim Corporation, an ISO 9000-registered manufacturer of retail gasoline distribution systems, Grant Thornton LLP, the fifth largest international accounting firm, Safeguard Business Systems, Inc., a manufacturer of accounting software and business forms, Pitney Bowes, Inc. and Northwestern Mutual Life. Ms. O'Hare earned a BS degree in Communications from Southern Oregon University and an MBA degree from Columbus University. Ms. O'Hare is 40 years of age (as of October 31, 2002).



## Affiliated Officers and Employees

Certain of the directors, officers and employees of Sandalwood and the Advisor are affiliated with MCM. In addition, MCM may provide certain corporate administrative services to the Advisor and Sandalwood on a cost-sharing basis. Through MCM, Mr. Gordon and Ms. O'Hare have directed the investment of over \$175 million and MCM had, as of June 30, 2002, over \$125 million of assets under management for institutional and high net worth investors, including a number of NYSE-listed REITs, investment banks and private equity and hedge fund firms. MCM focuses on investing in illiquid securities and other financial instruments (e.g., bonds, bankruptcy trade claims, lease contracts, bank debt and partnership interests) in under-performing and insolvent companies, primarily within the real estate, cable/media, leased equipment, health care and oil and gas sectors. MCM does not, however, make direct investments in such assets or operate such companies.

Through MCM, Mr. Gordon and Ms. O'Hare have made investments in over 600 companies. Approximately 60% of the acquisition cost of investments have been in companies in the aggregate owning approximately 1,000 commercial real estate properties in a variety of sectors, including lodging, multi-family apartments, office, shopping centers, warehouse / industrial, self-storage and undeveloped land. As partners of MCM, Mr. Gordon and Ms. O'Hare are primarily responsible for developing and implementing MCM's total return-oriented investment approach, which has delivered a six-year average annual cash return to investors of approximately 27%, with consistent preservation of invested capital and relatively low volatility. A "total return" investment approach measures performance based on all elements of a return, including: dividends, capital gains distributions and changes in net asset value.

**Investors in Sandalwood should not assume that they will experience returns, if any, comparable to those experienced by investors in such prior MCM programs. The prior MCM programs had investment policies and objectives different than Sandalwood. Investors who purchase shares in Sandalwood will not thereby acquire any ownership interest in any prior MCM programs. In addition, MCM will not act as an advisor to Sandalwood.**



### **Appreciate Real Estate**

*This photograph illustrates a full-service hotel, the asset class that Sandalwood focuses its investment strategy on. This is not a Sandalwood property.*

## Favorable Lodging Industry Fundamentals

### Trends in the Lodging Industry

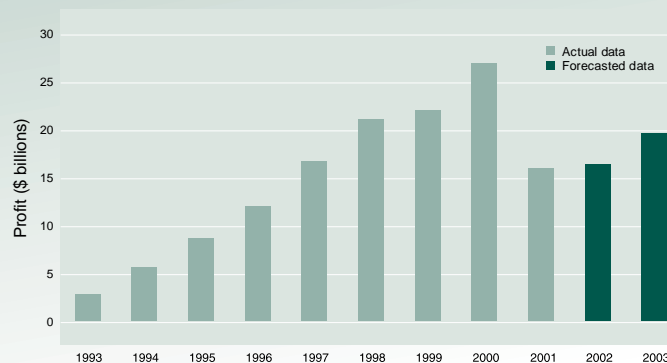
According to Smith Travel Research, prior to 2001, the hotel industry had been steadily improving its financial performance over the prior eight years. However, due primarily to a drop in occupancy beginning in March 2001, and further exacerbated by the events of September 11, 2001, a marked drop in industry-wide profitability occurred during 2001 and, based on published industry forecasts, profitability growth is projected to be nominal in 2002. However, according to PricewaterhouseCoopers, profitability is projected to begin to recover significantly in 2003 and continue into 2004.

Further evidence supporting the forecasted turnaround in the hotel industry can be found in hotel loan delinquency rates. PricewaterhouseCoopers projects that delinquency rates will peak in 2002 at 5.5% of outstanding loans, well below the 16% level in 1991-1992. Their research indicates that the majority of problem loans have already become delinquent and have already been or are being restructured.

Full-service hotels comprised approximately 34% of total hotel room supply and approximately 45% of total industry revenues as of December 31, 2001. The changes in the hotel industry during the last three quarters of 2001 and the beginning of 2002 were more pronounced in the full-service segment of the hotel industry, reflecting the disproportionate effects of the recession on the corporate sector and the September 11 events on gateway cities. From 1992 through 2000, full-service hotels experienced consistent annual revenue per available room ("RevPAR") growth, but this trend turned negative beginning in 2001. This fact is further demonstrated by a comparison of the annual growth in RevPAR for all branded full-service hotels versus the growth in US Gross Domestic Product ("GDP") from 1992 through 2001. Although the percentage change in GDP as compared to RevPAR over this time period was 3.09% versus 3.56%, RevPAR changes were significantly more volatile than GDP changes on an annual basis – both on a positive and negative basis.

Although, according to Smith Travel Research, full-service hotels saw RevPAR levels decline 9.7% in the first half of 2002, as opposed to a decline of 7.4% for the hotel sector in general, PricewaterhouseCoopers forecasts overall hotel trends reversing in the third and fourth quarter, with total hotel RevPAR growth of 1% in the third quarter and 6.9% growth in the fourth quarter, resulting in just a 2.3% forecasted decline in 2002. Total hotel RevPAR growth is expected to continue in 2003, with PricewaterhouseCoopers forecasting growth of 3.5% for the full year and a robust 5.6% in 2004. Because these increases are based upon a projected increase in travel from the corporate sector, we believe these projected RevPAR increases, will benefit the full-service hotel segment more than other segments. With economic growth expected to accelerate in 2003 and 2004, coupled with the historical trends noted above, we believe the full-service segment should achieve disproportionately larger Average Daily Room Rate ("ADR") increases combined with occupancy gains and, hence, experience even more robust RevPAR growth. We believe that these increases, combined with less new supply, means that full-service hotel values should appreciate from current levels.

**US Hotel Industry Profitability  
1993-2003**



Sources: 1993-2001; Smith Travel Research, March 2002 (used with permission), 2002-2003; PricewaterhouseCoopers, LLP (from a publicly available press release dated June 13, 2002, although specific consent from PricewaterhouseCoopers, LLP was not obtained).

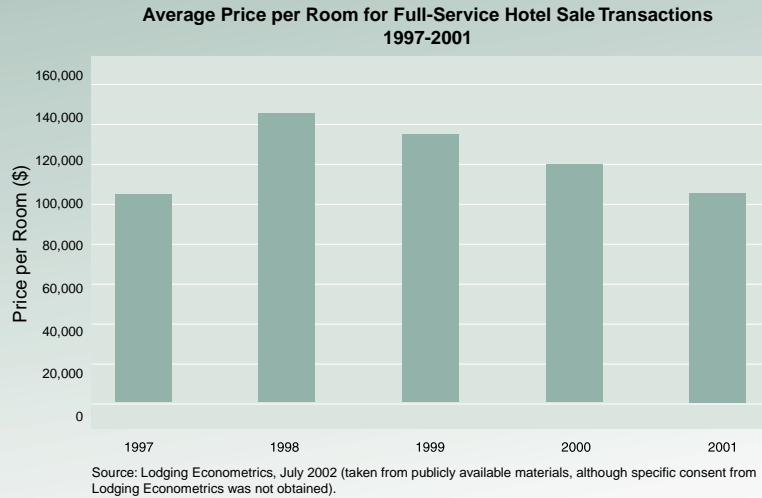
**Annual Change in Full-Service Hotel RevPAR  
1992-2001**



Source: Smith Travel Research, March 2002 (used with permission).

## Our Investment Opportunity

In general, the most opportune time to invest during the real estate investment cycle occurs shortly after the bottom of the cycle has been reached, when properties can be purchased at larger discounts to their replacement cost. According to Hospitality Valuation Services, an average new full-service hotel cost approximately \$160,000 per room to develop in 2000 (the last year for which such data is available). As can be seen in the following graph, the average purchase price per room for full-service hotel sale transactions has steadily declined beginning in 1999, to approximately \$107,000 per room in 2001 (according to Lodging Econometrics), a 33% discount to the latest data on replacement cost.



In addition, both the public and private capital markets, which as recently as 1999 provided substantial new investment capital to the hotel industry, have today almost completely withdrawn from the industry, as shown in the graph below. We believe that this "capital vacuum" has created an opportunity for investors such as us to achieve superior risk-adjusted returns relative to the past five years. Mortgage interest rates are at very low levels on a historical basis, which should further enhance our returns on invested equity. **Thus, we believe that we are at the beginning of an opportune period to purchase full-service hotels at relatively attractive prices (relative to replacement cost) to deliver relatively attractive returns on investment.**



Finally, we believe that the full-service hotel sector consistently benefits from barriers to entry in terms of new supply additions, as compared with the limited-service sector. In general, it requires at least \$30-\$40 million in capital to develop a new full-service hotel, as compared with less than \$10 million for most new limited-service hotels. Finding and assembling acceptable development sites for full-service hotels is much more difficult and expensive. Because of this, and the fact that full-service hotels generally require "ground-up" architectural designs (as compared with "cookie-cutter," franchisor pre-approved designs for most limited-service hotels), full-service hotels usually have a three to five year lead time to develop, as compared to 12 to 24 months for limited-service hotels. **Thus, we believe that natural constraints exist on new full-service hotel supply additions, which serves to hold-up the long-term values of such assets.**

## Convenient Investor Services

### Call Us Toll-Free

For your convenience, call one of the Investment Professionals at our managing dealer, Emerald Bay Capital Management, at (800) 969-3226 between the hours of 9:00 a.m. to 7:00 p.m. EST, Monday through Friday. Or, you may call Sandalwood's Investor Services Department at (800) 817-7263.

### Subscribe and Access Your Account Online

You can obtain a subscription form and answer many of your questions online at [www.emeraldbaycapital.com](http://www.emeraldbaycapital.com). Once you are an investor, your account information will be available through American Stock Transfer and Trust Company's secure, password protected web site at [www.sandalwoodlodging.com](http://www.sandalwoodlodging.com).

### Investing is Easy with Electronic Funds Transfer

An Emerald Bay Investment Professional can help you complete the subscription form over the telephone and then send out the completed forms for your signature by mail, fax or email. Our electronic funds transfer service allows you to conveniently wire transfer funds to originate your investment.

## How You Invest

You can subscribe to Sandalwood's investment offering in three easy steps:

**Step One:** Simply contact one of the Investment Professionals at Emerald Bay to request an investor kit. Emerald Bay's office hours are from 9:00 a.m. to 7:00 p.m. EST, Monday through Friday. Emerald Bay's telephone number is (800) 969-3226. Or, you may email Emerald Bay at [info@emeraldbaycapital.com](mailto:info@emeraldbaycapital.com).

**Step Two:** When you receive our investor kit, carefully review all information and contact your Emerald Bay Investment Professional with any questions. Complete all requested information in the subscription form and make your selections pertaining to reinvestment of cash distributions and initial payment method to open your account. If your Emerald Bay Investment Professional has initiated this process for you, simply review the completed information for accuracy, complete any missing information and sign the subscription form.

**Step Three:** You may participate in our offering with a minimum investment of only \$10,000 (\$3,000 for IRAs). Additional shares may be purchased in increments of \$1,000 (\$200 for IRAs). You may enclose a check made payable to Sandalwood Lodging Escrow Account for your subscription amount, along with your completed subscription form, and mail it to our escrow agent, U.S. Bank, in the enclosed business reply envelope. Alternatively, you may arrange to have funds wire transferred from your bank or brokerage account to U.S. Bank. Please refer to the subscription form for wiring instructions.

## Who Should Invest

- Investors seeking steady current income
- Investors seeking relative safety of invested capital
- Investors seeking to diversify their equity holdings by adding commercial real estate
- Investors seeking long-term capital appreciation
- Investors seeking tax-efficiency

## Who Should Not Invest

- Investors unwilling to accept the risks related to investing in commercial real estate
- Investors seeking short-term income and/or total returns
- Investors unwilling to accept that the value of their investment may fluctuate



***Inhospitable Investment Markets?  
Find Some Hospitality in our REIT***

*This photograph illustrates a full-service hotel, the asset class that Sandalwood focuses its investment strategy on. This is not a Sandalwood property.*

## Benefits of Investing With Us

### The right time for REITs

- REITs generally offer more predictable and higher dividends, superior risk-adjusted total returns and lower volatility than many other investment alternatives
- REITs are a distinct asset class whose performance typically does not follow other asset classes, such as traditional stocks and bonds

### Experienced management team

- Founded by principals who have been active in real estate and lodging valuation and research, acquisition, financing, disposition and asset management since 1982, and bring over 50 years of combined experience in the functional disciplines relevant to Sandalwood's business strategy and operations

### Favorable lodging industry fundamentals

- Significant opportunities exist to purchase Lodging Investments at relatively attractive prices and yields

### Prudent investment practices

- Anticipated portfolio diversification by property, geography, hotel franchise and operator
- Limited use of borrowings
- No risky "ground-up" development deals

### Compensation of our management team is subordinated to our stockholders' return

- Up to one-half of our Advisor's 2.5% asset management fee will be subordinated to an 8% annual return to stockholders
- The Advisor's only other compensation is in the form of incentives after payment of a cumulative 8% annual return to our stockholders
- We will not pay or compensate our executive officers
- Although the Advisor's incentive compensation, and a portion of the asset management fee is subordinated to an 8% annual return to stockholders, there is no guaranteed return to stockholders and distributions will be made only when funds are available for distribution



### ***The Right Time for REITs***

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### Favorable terms for investors

- Lodging Investments which we believe will generate attractive yields and enable us to pay regular quarterly dividends to stockholders
- No selling commissions will be charged, resulting in additional proceeds available for Lodging Investments
- Liquidity through listing of the shares on the American Stock Exchange
- Low front-end and on-going expense ratios – no acquisition, financing or disposition fees payable to the Advisor
- Dividend reinvestment program (DRiP) with no selling commissions
- Minimum investment of only \$10,000 (\$3,000 for IRAs)

### Convenient Investor Services

- Toll-free calling, online subscription and account access, and electronic funds transfer



# SANDALWOOD LODGING

Investment Corporation

11790 Glen Road  
Potomac, Maryland 20854

For more information, contact our managing  
dealer, Emerald Bay Capital Management, at  
(800) 969-3226 or at [www.emeraldbaycapital.com](http://www.emeraldbaycapital.com)