



August 23, 2011

Distribution to:

Evansville Redevelopment Commission
Evansville City Council
Hunden Strategic Partners
London Witte

RE: Comparative Analysis of Downtown Evansville Hotel RFP Respondents

Prime Lodging, LLC respectfully submits this analysis of several key criteria of the Downtown Evansville Hotel RFP respondent proposals. We welcome and are eager to participate in the vetting process of our proposal. At the same time, we wanted to take the opportunity to identify for you our assessment of the proposals in hopes to generate discussion on each of the criteria considered.

As Prime Lodging, LLC considered and prepared its response to the Downtown Evansville Hotel RFP we considered several factors as key to the overall success of the project, including: developer equity, financing, construction budgets, operating projections, hospitality development experience, hospitality management experience, construction experience, and risk mitigation to our investors and the City of Evansville. We feel with the development team we have compiled and the solutions we have outlined in our proposal we have addressed all of these areas thoroughly.

Our sincere hope is that the vetting process places as much significance on all of these factors as we have. The success of this project cannot be tied to one particular segment of the proposal as they are all intertwined, work together, and should be considered collectively. In other words, deficiencies in one area can significantly impact another.


In the pages following, we have attempted to summarize the relevant facts from each proposal as it relates to various criteria and then provide an analysis of the key differences.

We think this document provides a good rough outline for the vetting process, at least of our proposal, and would be happy to address any questions you may have following your review. Our goal in presenting this information to you is simply to provide our opinion of the differences between the proposals submitted, and allow you to review the information and make an informed decision on key points of each proposal. While we understand this may seem one sided in nature, we were all challenged by our competitor publically to analyze their proposal to the greatest extent possible. To that end, we have concerns regarding our competitor's proposal which we hope will also be taken under consideration by all parties, and we welcome the same scrutiny from them should they decide to do so.

Regards,

A handwritten signature in black ink, appearing to read 'C. Verville', written in a cursive style.


Christopher T. Verville
Managing Member
Prime Lodging, LLC

	Criteria	The Kunkel Hotel Group, LLC
\$3.5MM equity with proof of funds provided in proposal Hyatt Key Money not considered part of equity but included in Year 1 operating cash flow model	Developer Equity	\$2.0MM equity proposed with no proof of funds provided \$1.00MM Hyatt Key Money claimed as equity <ul style="list-style-type: none"> - Only \$478K available per Hyatt - Only contributed after opening \$1.0MM additional to be contributed to develop NW corner of MLK Blvd and Walnut Street if option selected by City


Analysis: Excluding Hyatt Key Money, Prime Lodging, LLC has proposed 75% more developer equity than The Kunkel Hotel Group, LLC and has provided proof of funds for the Developer Equity committed to this project.

Prime Lodging, LLC has not treated Hyatt Key Money as developer equity since 1) it is not guaranteed, 2) it is not available until after the hotel is open, and 3) unamortized funds over a 20 year period are due back to Hyatt should the Franchise Agreement be terminated for any reason during that same 20 year period. The Hyatt Key Money will be the same to either party and was overstated in both proposals - \$22K (4.6%) by Prime Lodging, LLC and \$522K (109.2%) by The Kunkel Hotel Group, LLC. The adjustment for the actual Hyatt Key Money to be available has no impact to Prime Lodging, LLC's construction phase cash flow as it was not included as a source of funds and does not materially impact Year 1 Operating Cash Flows.


However, there is significant impact to The Kunkel Hotel Group, LLC's construction phase cash flow as \$1.0MM from Hyatt was included as a source of funds. Additionally, unless the budget included the funds to be paid directly by the City to the demo contractor, and therefore a wash with the reduction of City Incentive Funds for this amount, there is potentially another shortfall in The Kunkel Hotel Group, LLC's source of funds of \$720K.

	Criteria	The Kunkel Hotel Group, LLC
\$7.28MM (includes reduction for City's direct payment to demo contractor) Modifications to forgivable loan portion clearly stated	Incentive Package	\$8.0MM (no allowance for reduction from City paying demo contractor directly) \$3.5MM additional required to develop NW corner of ML King Jr. Blvd and Walnut Street \$4.5MM over 10 year period for lease of 250 parking spaces Unspecified modifications requested on forgivable loan

Analysis: Prime Lodging, LLC has held the City Incentive Package flat vs. the previous Project Development Agreement. The Kunkel Hotel Group, LLC has made no allowance for or reference to the City's direct payment to the demolition contractor as a result of the Emergency Order issued by the Department of Metropolitan Development. The Kunkel Hotel Group, LLC has also requested an additional \$8.0MM of Incentives related to 1) the development of the NW corner of MLK Jr. Blvd. and Walnut Street, and 2) leasing of parking spaces.

	<p align="center">Criteria</p>	<p align="center">The Kunkel Hotel Group, LLC</p>
<p>Developer to cover pre-construction costs 100% (~\$1.4MM) up until a projected April closing with the City and Senior Debt.</p> <p>After closing, City/Developer funds used at a ratio of 2.33/1 or 70% City and 30% Developer until City funds are exhausted.</p> <p>City funds not fully drawn until month 14 (12/2012)</p>	<p align="center">Draw Schedule</p>	<p>Developer equity contribution of \$167K monthly with 50/50 split between Senior Debt and City funds.</p> <p>Assumes senior debt available Day 1.</p> <p>City funds fully drawn by Month 6 of schedule</p>

Analysis: As depicted in Addendum #1, Prime Lodging, LLC is proposing to mitigate financial risk to the City by agreeing to cover all project costs using developer equity until a proposed April 2012 closing. This period of time allows for the proper pre-construction activities to occur and for the EB-5 loan to fund. It also means the full City funds are not fully drawn out until much later in the project under the Prime Lodging, LLC proposal.


	<p align="center">Criteria</p>	<p align="center">The Kunkel Hotel Group, LLC</p>
<p>\$22.5MM Proposal from Geneva Capital Group</p> <p>Proposed terms:</p> <ul style="list-style-type: none"> - 5 years - 5-5.5% interest, fixed - Interest only months 1-30 - Principal and interest months 31-60 (20 year amortization schedule) - No pre-payment penalty 	<p align="center">Senior Debt</p>	<p>\$22.0MM Conditional Approval from Acer Capital Group</p> <p>Proposed terms:</p> <ul style="list-style-type: none"> - 12 years - 2 year construction, interest only at 7.25% - 10 year permanent with 25 year amortization at 6.50% - Pre-payment penalty after construction period

Analysis: Though the exact financing facility is not called out in The Kunkel Hotel Group, LLC's proposal, many advantages of the EB-5 facility proposed by Prime Lodging, LLC exist over any other type of financing. One of the most important and relevant advantages is that the focus of the underwriting process is strictly the project, not the company or individuals involved, greatly minimizing the risk of not passing the underwriting process. By submission of the Proposal Letter from Geneva Capital, they have affirmed that they have done their own project due diligence and believe that the project meets the criteria necessary to be approved by the USCIS and therefore be funded through the EB-5 program. EB-5 financing is one of the best financing sources available for new construction hotel projects, evidenced by several well-known flags such as Marriott, W Hotels, Hilton, and Hyatt having been financed with EB-5 funds.

We do not feel it is likely that The Kunkel Hotel Group, LLC has completed a significant portion of their underwriting if using a conventional financing method as that is much more sensitive to the final terms of the Contract and would, at minimum, require a more complete design in order for an outside appraiser to estimate the cost of the hotel. Additionally, we feel it is not feasible to conventionally finance this size of a project with only \$2.0MM in Developer Equity and at such a high LTC ratio.

It is unclear to us the lending capabilities of the firm which provided The Kunkel Hotel Group, LLC with a conditional approval letter; specifically, whether they are a broker or have the authority to originate the loan for which they are providing a term sheet. Further, the conditional approval letter is not a commitment to lend and expired 6/17/11. This aspect of The Kunkel Hotel Group, LLC's response should be closely scrutinized and understood before making comparisons to Prime Lodging, LLC's source of financing (which has been fully disclosed in our response).


NOTE: It should be understood by those who are evaluating the proposals that true conventional financing options on this project, while available, are extremely unlikely to be enticing enough to any development group given the level of incentives offered by the City of Evansville. True conventional financing on the project will likely not be able to exceed 50% Loan to Cost ratios which, given the current incentive levels from the City of Evansville, would require a developer cash contribution in the \$8MM range. These cash requirements, when plugged into pro-forma models on this project, result in market returns in regards to IRR and cash-on-cash analysis that are insufficient to entice developers, given the risk being assumed. Therefore, unless the City of Evansville increases the current incentive levels dramatically, we feel it is unlikely any developer would conventionally finance this project as it currently is proposed. For this reason, Prime Lodging, LLC asserts that EB-5 funding constitutes the best source currently being contemplated to produce the desired result for the City of Evansville. Admittedly, EB-5 funding is a slower funding process; however, Prime Lodging, LLC has offered a way to mitigate the timeline by proceeding with many aspects of the pre-construction period deliverables at no financial risk to the City and will keep the opening date for the hotel in Summer of 2013.

	Criteria	The Kunkel Hotel Group, LLC
\$33.28MM Hyatt Place 220 8 330 (Combined below and above ground) Lower level: 13,326sf Meeting rooms: 5,315sf Meeting room storage: 1,685sf Indoor Pool and Fitness Area: 1,750sf Restaurant, Lounge, Kitchen: 9,300sf Guest Room Floors 2-8: 110,880sf	Size and Character of Improvements: Budget Hotel Brand # Rooms # Floors Parking Size	\$33MM Hyatt Place 220 7 550 space above ground parking garage No building square footages provided 10,000sf meeting/banquet space

Analysis: Prime Lodging, LLC has submitted a design that more closely conforms to the standards and specifications of the Hyatt Place brand in both exterior design and interior layout than the design proposed by The Kunkel Hotel Group, LLC. At the same time it is an attractive and cost-effective design for the financial constraints of this project. Prime Lodging, LLC team member Corporex, in conjunction with its subsidiary Commonwealth Hotels, has built and owned 50+ hotels and 5 Hyatt Place Hotels (more than any other hospitality developer in the last 5 years) and lends considerable historical data and knowledge to the design/engineering/budgeting of this hotel project. With the design-build approach on this project, and the budgets and contingencies that are in place, the Prime Lodging, LLC team has strong confidence in bringing the project home on-time and within the budgets set forth within the proposal.


We would question the ability of The Kunkel Hotel Group, LLC to construct the hotel as proposed within the stated budgets, particularly related to:

- 1) *The above ground parking structure and the footprint indicated in their preliminary design is a potential major issue for the Kunkel Team. Firms with experience in the structured parking arena will surely confirm that in order for efficient parking layout, there must be a minimum of 60' width per plate (and a minimum of 2 plates wide for ramping) for a total minimum width of 120' plus exterior wall paneling. The Kunkel plan appears to show a distance of approximately 90' in width. This creates a parking efficiency problem which will drive up the cost per space to well above the budget numbers set forth in Kunkel's proposal. We feel the minimum financial aspect of this budget shortfall will be approximately \$2.5MM and in all likelihood could be much more. Also, even if a 120' width requirement could be achieved, there is still the issue of the overall height of the structure driving up the cost. Any reputable builder will confirm that a minimum of 275-300 square foot per parking space must be included in any design so as to include the drive aisles necessary for the parking facility. If you take the lowest of allotment of 275sf and multiply it by 550 parking spaces you get a total required square footage of 151,250sf. If the 120' width requirement is achieved and you multiply that by the available site depth of approximately 290' you get an overall plate size of 34,800sf. 151,250sf divided by 34,800sf gives you a parking structure that is 4-1/2 to 5 stories tall. If you use the same calculation based on the actual footprint they list on their conceptual plans, you get a parking structure that is 6 stories tall. These heights create additional costs as well.*
- 2) *The general shape of the building lends itself to an inefficient use of space and unused areas of the building. There is a reason that most hotels utilize efficient floor plates simply for this reason. Creation of unusable space, simply put, merely pushes the cost per key up on the project.*
- 3) *While it is not clearly stated in the Kunkel proposal, one can infer by the engineering consultants used by Kunkel on this project that the structural type on the building will be conventional steel building. This creates unnecessary additional floor to floor heights that add to the overall costs as well as fireproofing expenses that are unnecessary in a concrete structure. Perhaps a bigger budget issue is the extensive curtain wall glazing system and cladded exterior façade that will drive up the costs. Looking at the elevations provided in Kunkel's proposal, it appears that no provision has been made for p-tac or v-tac room air conditioning units that are commonplace with hotels. This indicated a centralized HVAC system approach that will surely drive up the construction costs.*
- 4) *Simply put, the Kunkel preliminary design and the budget that they have set forth do not coincide in our opinion. Total budgeted costs could top \$4-5MM more than outlined in their proposal.*

	Criteria	The Kunkel Hotel Group, LLC
<p>Prime Lodging, LLC has strategically partnered with Corporex, a national development firm, to provide industry leading consultative services including design, value-engineering, finance, scheduling, and operational experience.</p> <p>Commonwealth Hotels has also been retained to ensure the ongoing viability of the development, but during the construction phase they will also be working very closely with Hyatt and all team members to ensure FF&E procurement and Hyatt compliance along the way.</p>	Hospitality Experience	None specified


Analysis: The partnership with Corporex and Commonwealth Hotels provides a significant advantage to Prime Lodging, LLC in that Prime Lodging, LLC will be partnering with experienced hospitality developers throughout the construction phase. The design, value-engineering, project management, and Hyatt experience provided by Corporex and Commonwealth Hotels will ensure the highest levels of quality, adherence to Hyatt standards, cost controls, and schedule controls.

Please refer to our Exhibit 4 – Affiliated Companies portion of the Prime Lodging, LLC RFP response for extensive background information on the Corporex and Commonwealth Hotels team members and qualifications.

	Criteria	The Kunkel Hotel Group, LLC
Construction to be bid multi-prime with Construction Management services provided by Verville Construction Company, LLC and Corporex.	Construction Experience	The Kunkel Group to serve as General Contractor and Project Manager.

Analysis: Prime Lodging, LLC has decided to bid this project multi-prime in order to take advantage of skilled labor contractors with the appropriate experience and resources to complete a project of this size on the proposed schedule and within budget. The Construction Management service providers for Prime Lodging, LLC have considerable new construction experience including mid-rise and hospitality. Please refer to our Exhibit 4 – Affiliated Companies for specific experience relative to this project.

To our knowledge, this experience (mid-rise/hospitality) does not exist within The Kunkel Hotel Group, LLC and therefore presents a significant risk to quality, cost, safety, and schedule.

	Criteria	The Kunkel Hotel Group, LLC
<p>Grand Opening: Summer 2013</p> <p>Includes 6 months pre-construction phase for design, engineering, permitting, etc.</p> <p>Projected closing with City and Senior Debt April 2012</p>	Construction Schedule	<p>Grand Opening: November 2012</p> <p>Schedule does not include Design/Engineering/Pre-Construction activities</p>


Analysis: The schedule from Prime Lodging, LLC includes numerous items not included in the schedule from The Kunkel Hotel Group, LLC which will have a material impact on the overall schedule for this Project, including: design and engineering, bid package preparation/review, design review with Hyatt, building inspections, weather days, project closeout, and soft opening period. We feel that the omission of these items makes it unlikely that The Kunkel Hotel Group, LLC schedule can be achieved.

Prime Lodging, LLC (as presented in Addendum #1) has placed emphasis on pre-construction activities in the schedule to facilitate an efficient and cost effective construction phase.

	Criteria	The Kunkel Hotel Group, LLC
Commonwealth Hotels, Inc.	Hotel Management	Select Hotels Group, LLC

Analysis: Prime Lodging, LLC is proud to have strategically partnered with Commonwealth Hotels, Inc. to provide the daily management and operations services for this Hotel. Commonwealth Hotels, LLC is one of the leading, full-service hotel management companies in the US, currently operating over 40 hotels in 16 states. Properties managed by Commonwealth Hotels have a strong history of profitability and they enjoy a long-term and strong working relationship with Hyatt.

Commonwealth Hotels will be instrumental in the pre-construction, construction, and soft-opening phases of the project on behalf of Prime Lodging, LLC. Their experience in past Hyatt projects, as well as their inter-company relationship with Corporex, acting as the development leader, will be paramount in ensuring a smooth and profitable opening of this hotel.

	Criteria	The Kunkel Hotel Group, LLC																																																					
	Operating Projections																																																						
<table border="1"> <thead> <tr> <th><u>Occupancy</u></th> <th><u>ADR</u></th> <th><u>RevPAR</u></th> <th><u>DSCR</u></th> </tr> </thead> <tbody> <tr> <td>58%</td> <td>\$100</td> <td>\$58.00</td> <td>1.83</td> </tr> <tr> <td>60%</td> <td>\$106</td> <td>\$63.60</td> <td>2.05</td> </tr> <tr> <td>64%</td> <td>\$110</td> <td>\$70.40</td> <td>1.99</td> </tr> <tr> <td>64%</td> <td>\$116</td> <td>\$74.24</td> <td>1.98</td> </tr> <tr> <td>64%</td> <td>\$118</td> <td>\$75.52</td> <td>2.03</td> </tr> </tbody> </table>	<u>Occupancy</u>	<u>ADR</u>	<u>RevPAR</u>	<u>DSCR</u>	58%	\$100	\$58.00	1.83	60%	\$106	\$63.60	2.05	64%	\$110	\$70.40	1.99	64%	\$116	\$74.24	1.98	64%	\$118	\$75.52	2.03	<table border="1"> <thead> <tr> <th></th> <th><u>Occupancy</u></th> <th><u>ADR</u></th> <th><u>RevPAR</u></th> <th><u>DSCR</u></th> </tr> </thead> <tbody> <tr> <td>Year 1</td> <td>65%</td> <td>\$112</td> <td>\$72.80</td> <td>1.44</td> </tr> <tr> <td>Year 2</td> <td>66%</td> <td>\$115</td> <td>\$76.14</td> <td>1.27</td> </tr> <tr> <td>Year 3</td> <td>67%</td> <td>\$119</td> <td>\$79.61</td> <td>1.32</td> </tr> <tr> <td>Year 4</td> <td>68%</td> <td>\$122</td> <td>\$83.22</td> <td>1.40</td> </tr> <tr> <td>Year 5</td> <td>69%</td> <td>\$126</td> <td>\$86.98</td> <td>1.49</td> </tr> </tbody> </table>		<u>Occupancy</u>	<u>ADR</u>	<u>RevPAR</u>	<u>DSCR</u>	Year 1	65%	\$112	\$72.80	1.44	Year 2	66%	\$115	\$76.14	1.27	Year 3	67%	\$119	\$79.61	1.32	Year 4	68%	\$122	\$83.22	1.40	Year 5	69%	\$126	\$86.98	1.49
<u>Occupancy</u>	<u>ADR</u>	<u>RevPAR</u>	<u>DSCR</u>																																																				
58%	\$100	\$58.00	1.83																																																				
60%	\$106	\$63.60	2.05																																																				
64%	\$110	\$70.40	1.99																																																				
64%	\$116	\$74.24	1.98																																																				
64%	\$118	\$75.52	2.03																																																				
	<u>Occupancy</u>	<u>ADR</u>	<u>RevPAR</u>	<u>DSCR</u>																																																			
Year 1	65%	\$112	\$72.80	1.44																																																			
Year 2	66%	\$115	\$76.14	1.27																																																			
Year 3	67%	\$119	\$79.61	1.32																																																			
Year 4	68%	\$122	\$83.22	1.40																																																			
Year 5	69%	\$126	\$86.98	1.49																																																			

Analysis: Prime Lodging, LLC operating projections were based on a combination of data from the STR report and Hyatt’s estimations adjusted to what we feel is closely tied to and achievable in the local Evansville market. The Kunkel Hotel Group, LLC has much higher projections for both occupancy and ADR (and as a result RevPAR) which, in our opinion, portrays the higher end of expected results, but more importantly, fails to portray the operational stability under the lower end of expected results. Despite these differences in operating assumptions, Prime Lodging, LLC projects a much higher debt service coverage ratio than The Kunkel Hotel Group, LLC which is a key benchmark of the ability of an entity to service its debt.

Summary

Based on the foregoing, we feel Prime Lodging, LLC’s proposal has several significant advantages – particularly in regards to: developer equity, requested City incentive levels, minimizing the City’s financial risk, the ability to obtain senior debt financing, hospitality development and operations experience, and construction experience. Beyond that we feel there is significant risk with The Kunkel Hotel Group, LLC proposal as it relates to capital shortfalls, senior debt financing, understated budgets, and an unrealistic schedule. While both groups are local companies, Prime Lodging, LLC is able to offer the knowledge and experience of a large, national hospitality developer.

Finally, as a general note, we feel the lack of depth and transparency in The Kunkel Hotel Group, LLC proposal when compared to the proposal of Prime Lodging, LLC clearly demonstrates the level of understanding, preparation, and capability of Prime Lodging, LLC exceeds that of The Kunkel Hotel Group, LLC.