

Evansville Hotel Update

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The logo for Strategic Partners is located in the upper right corner of the slide. It consists of the words "strategic" and "partners" stacked vertically in a bold, lowercase, sans-serif font. The text is white and is contained within a black rectangular box. The box is set against a larger black rectangular background that occupies the right side of the slide.

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Prior Questions Answered:



1: Do either or both have the ability to finance the project as proposed? *Based on the information provided and investigation, yes.*

2: When is the soonest that the project can be financed? *Kunkel can finance early spring; Prime would be subject to EB-5 process.*

3: What are the other key elements of the proposal that are positive or negative?



Kunkel Concerns from September:

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- 1. Experience**
- 2. Brand**
- 3. Management Company**
- 4. Budget**
- 5. Projections**
- 6. Design**
- 7. Financial Strength**

Progress to Date

1. Experience – New Mgmt. Co. mitigates concern
2. Brand – Sheraton/Starwood mitigates concern
3. Management Company – Senate Hospitality mitigates concern (Gaylord/Hammons)
4. Budget – HSP and Shiel Sexton reviewed. Questions answered. Until Sheraton design approved, still some risk.
5. Projections – Appraisal mitigates concerns.
6. Design – Sheraton & Senate combo mitigates concern. Connector still TBD.
7. Financial Strength – Significant due diligence. Concerns mostly mitigated.

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Appraisal

Performance Projections

Occupancy	Appraisal	Kunkel	HSP
Year 1	57%	65%	55%
Year 2	63%	66%	60%
Year 3	66%	67%	65%
Year 4	67%	68%	65%
Year 5	67%	69%	65%

Avg, Daily Rate	Appraisal	Kunkel	HSP
Year 1	\$116	\$100	\$109
Year 2	\$121	\$106	\$112
Year 3	\$126	\$110	\$116
Year 4	\$130	\$116	\$119
Year 5	\$133	\$118	\$123

RevPAR	Appraisal	Kunkel	HSP
Year 1	\$66	\$65	\$60
Year 2	\$76	\$70	\$67
Year 3	\$83	\$74	\$75
Year 4	\$87	\$79	\$77
Year 5	\$89	\$81	\$80

Appraisal

Result of appraisal: \$30.9 million value.

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Assumes 10-year 100% abatement. Assumes garage is built but no guaranteed income from City or ERC. If full abatement not approved, may need additional subsidy.

Financial Assumptions for Evansville Hotel		
	Hotel 100% Abatement	Hotel Partial Abatement
Value:	\$30,900,000	\$28,300,000
Sources of Funds		
Loan (75% LTV):	\$23,175,000	\$21,225,000
City Participation:	\$8,000,000 X	\$8,000,000
Sheraton Key Money	\$600,000	\$600,000
Equity:	\$1,225,000	\$3,175,000
Total	<u>\$33,000,000</u>	<u>\$33,000,000</u>
Cost of Project:	\$33,000,000	\$33,000,000
Source: Hunden Strategic Partners		

Additional Questions:

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1: Biggest concern is financial. Does Kunkel have funds for the project? Yes, if equity required is \$2.5 million or less.

2: Will there be a need for additional equity? Only if project costs are greater than \$33 million (including working capital) or if abatement is not granted.

**3: What if hotel does not perform as expected?
Working capital is sufficient. Project covers expenses at 38% occupancy (at \$89 rate). Hotel pays full debt service at 55% and market ADR.**

Additional Due Diligence from Kunkel:



- **Financial Statements (2010 and 2011 YTD)**
 - Received, not audited. Reviewed and many questions asked.
 - Income & Expense
 - Debt Service
 - Balance Sheet
- **Tax Returns**
 - Received 2010 taxes. Reviewed and investigated.
- **Bank Statements**
 - Received, reviewed and investigated.
- **Dunn & Bradstreet Report**
 - Purchased, reviewed. Not relevant.

Additional Due Diligence from Kunkel:



- **Analysis of Financials and Interviews with Kunkel:**
 - **Global net income for Kunkel should increase to approximately \$2 million due to:**
 - **Refinancing**
 - **New Leases at existing projects**

Is Equity in Place?



- **Deal will require equity to be in place for needs of project.**
- **Between current cash, refi cash and tax credit receipts, Kunkel will have \$2.5 million available.**
 - **\$562,000 in bank**
 - **\$1,000,000 from refinance**
 - **\$500,000 from tax credit deal by 12/31/11**
 - **\$500,000 from tax credit deal by spring 2012**

Additional Due Diligence from ACG (Finance Co):

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- **Dunn & Bradstreet Report**
 - **Purchased, reviewed. No issues.**
- **Phone conversations regarding debt structure.**
 - **Construction/Mini Loan likely 24 to 36 months until hotel stabilizes. Then refinance. 75% LTV.**
 - **Permanent Financing:**
 - **50% ACG**
 - **40% SBA**
 - **10% Equity**

Next Steps

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- **Negotiate MOU Terms**
 - **Tax Abatement will be a primary issue**
- **Present MOU Terms to ERC for approval at December meeting**
- **Continue negotiating various agreement details
December – February**
 - **Development Agreement**
 - **Construction Agreement**
 - **Other Agreements as necessary**

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Questions?