DEMAND ANALYSIS AND MARKET OVERVIEW FOR A CONFERENCING FACILITY

Ann Arbor, Michigan

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By

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Introduction & Scope

Ann Arbor, the home of the University of Michigan, is a city that, to many who have attended college or resided there, represents a superlative blending of city and institution. Ann Arbor is a small town with a very real cosmopolitan personality. Over the decades, there have been many proposals to develop convention centers, conference centers and other types of events facilities in the downtown and some surrounding areas. The University of Michigan has developed facilities either departmentally or geographically on campus to meet their conference needs. Similarly, Eastern Michigan University has developed facilities which serve its staff and programs as well as the meeting needs of local and regional groups unrelated to the institution. Likewise, Washtenaw Community College has made many of their facilities available to public and private organizations. In this paper, we have attempted to analyze demand for meeting and conference facilities based upon local analysis and analysis of other facilities located in university towns in the Midwest.

This paper contains a market overview and demand analysis for a meeting and conference facility in downtown Ann Arbor, Michigan. The market analysis in this paper has been prepared based upon relevant economic indicators, a survey of potential users, interviews with meeting professionals and similar/comparable facilities in comparable markets. We utilized this information to evaluate the area's ability to attract groups and the potential of such a development given the current trends in the meeting market. The scope of this study includes, but is not necessarily limited to, the following:

- An analysis of economic and demographic data representative of the area such as population, employment, retail sales, household income and traffic, to determine the health of the market area pertaining to such a facility.

- An investigation of the meeting industry on a local and regional scale to determine conference and meeting trends in terms of market sources, size, utilization characteristics, duration, purpose, format, frequency, and services required. This also included an evaluation of the preferences of the market with regard to extent, size and nature of meeting facilities, lodging accommodations and amenity packages. Demand for such additional services such as availability of audio/visual equipment and operators, graphics and ancillary presentation aids, and conference planning has also been considered.

- An evaluation of comparable regional properties in terms of rate structure, size, and scope of facilities and services, utilization characteristics and degree of success in the market, types and styles of events and groups attracted and trends in general.

- An analysis of utilization trends in the region to include utilization, market impact and revenue potential and what that might mean for a facility in downtown Ann Arbor.

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November 15, 2010

EXECUTIVE SUMMARY

In this independent study, Hospitality Advisors inventoried meeting and event facilities currently available in the Ann Arbor area, a market that historically has utilized a mix of private hotels and conferencing facilities as well as publicly related facilities such as those at the University of Michigan. Ann Arbor has always been an interesting university town that inspires wonderful memories for those who visit. It is a relatively small city and not easy to compare to larger markets. Besides those in Ann Arbor and at the University of Michigan, there are myriad other first class public and private conference facilities located proximate to Ann Arbor, for example at Eastern Michigan University, and at the very forward thinking and progressive Washtenaw Community College. Though Eastern Michigan University and the University of Michigan are of different character, they both provide first class space for conferences and events, as does Washtenaw Community College which has, among other things, a culinary arts program as well as ongoing training and certification courses for construction trades on its campus.

In the text of this paper, we define various types of meetings facilities that are found universally, as often the scope and purpose of each type is confused or misunderstood. Additionally, we reveal and discuss the various facilities found in the Ann Arbor area that are available and currently utilized for and by both public sector meetings and private sector events.

We have evaluated the economic and demographic trends of Washtenaw County and Ann Arbor. In particular, during the course of our field work, we found conference and ballroom facilities in local hotels and free standing facilities that rely on demand from the nearby universities as well as from local and regional businesses and residents to sustain what is a declining demand for meetings and events space. Since 2001, all over the country and particularly in the Midwest, demand for all types of meeting space, i.e. corporate, social and educational, has been declining. We believe that some of this decline is due to changing business models as more technology-based training and meeting are utilized on-site and because of cost concerns by corporate America and social meeting planners. Additionally, the supply of space built locally by the public sector has increased, whether it is facilities such as the new conference facilities at the Ross Business School and Palmer Commons at the University of Michigan, or the Convocation Center at Eastern Michigan University, which are all top-of-the-line facilities. The decline in demand for conference and convention space in recent years results as well from industry consolidation and alternative means of conveying information, such as the Internet and improved telecommunications, which provide companies the ability to promote themselves and their products less expensively and without the cost and ever increasing hassle of airline travel.

We have visited and evaluated the proposed site, the Library Lot, which is being made available for development potentially as a conference center and hotel.

We have developed several financial scenarios based upon comparable conference centers in the Midwest. These centers are of varying sizes and we reduced the analysis to revenue and expenses per square foot to evaluate the market. We understand that one of the current proposals is for a conference center of approximately 25,000 to 32,000 square feet in conjunction with a hotel and restaurant.

Starting on Page 46, we analyzed revenues and operating expenses of comparable facilities. Then we looked at development costs, using a well-known, nationally-recognized construction cost survey, compared it with the current development proposal, and arrived at conference center development costs of $300 per square foot, (which is at the low end for these types of facilities, as we have seen them as high as $400 per square foot.) Using $300 per square foot, we calculated the estimated cost and then calculated debt service, interest and principal requirements under the proposed bonding proposal. In the final chart, we calculated the estimated profit or loss after debt service, which shows there will be a substantial annual shortfall both before and after debt service. Our estimated shortfall is approximately ($1,105,000). Our research concludes that a conference center, whether it is 25,000 square feet or 32,000 square feet, will fall far short of meeting debt service.

Given local market conditions, which appear to be more long-term trends than short-term conditions, a conference center as proposed in downtown Ann Arbor would compete directly with existing underutilized private and public facilities and would not attract or create significant new business unless it was more than twice the size of the proposed conference center. A facility of the size of the one proposed will divide current demand for the most part and will not create sufficient additional demand to justify it.

Finally, during the course of our fieldwork we found evidence that the former Pfizer facility, which was purchased by the University of Michigan last year, is being configured to likely contain conference facilities to be utilized by the University of Michigan to host both large and small events. If this is true, most likely there will be significant meeting space capacity in existing local facilities that will become even more underutilized.

DIFFERENT TYPES OF MEETING AND EVENT FACILITIES

The purpose of this section is to describe the underlying concept of meeting and event facilities to enable a more thorough understanding of the intention and capabilities of each type of facility that is commonly developed and the market orientation of each.

Conference centers have long been an integral part of companies', institutions' and associations' efforts to maintain internal and external communications and specialized education. Typical meeting locations which have been developed to meet this demand range from corporate boardrooms to hotels, resorts, country clubs, universities and conference and convention centers. Each of the aforementioned categories of meeting facilities has certain attributes to offer the various types of groups and organizations. However, all except executive conference centers specifically cater to a variety of markets in addition to the primary market. Currently in Ann Arbor and Washtenaw County there are many hotels with meeting space that has evolved to try to meet the demands of the community as well as the universities. Additionally, there are many facilities on campus and at the local hospitals designed to meet various departmental or institutional needs.

Many organizations have recognized the advantages involved with various locations for specific meeting formats. Many organizations have included conference rooms in corporate or departmental headquarters. Such in-house meeting facilities are convenient and comfortable. This is common in university settings, which encourage alumni to bring their business back to campus for training (such as the Ross School of Business). Other facilities have actually developed a revenue stream though online training, which usurps business from competitors.

By way of clarification, the following is a summary of the various types of meeting and event facilities, their similarities and differences, as well as their primary target markets.

Facility

Hotels & Inns

Hotels and inns are primarily designed to meet the lodging needs of a variety of markets. Meeting rooms in lodging facilities are typically oriented toward social events and training meetings. Most hotel facilities are usually used for local middle and lower management levels and associations. The targeted markets are generally more price-sensitive and these facilities are also characterized by a high percentage of single-day usage.

University Conference Centers

Generally developed by and associated with a major educational institution, these facilities are typically staffed by university personnel. Lodging facilities range from specially designed conference style accommodations to dormitory rooms as available. Targeted markets are primarily associations-technical in orientation, and academic/university related. Groups are typically more price-sensitive than resort, corporate, or executive markets. These are characterized by high day and seasonal usage. The Ross School of Business, Palmer Commons, The Michigan League, the Michigan Union and Medical School have such facilities. Eastern Michigan has Eagle Crest Conference Center.

Resorts

Group programs are developed to increase occupancy and rental management programs for condominiums and utilization of dining and recreational amenities (which are usually extensive) during slow tourist seasons. Staffing and meeting aides are usually professional and sophisticated as to needs of attendees. Size of each facility varies depending on the target market, and emphasis is primarily on combining corporate and recreational uses as well as attracting social oriented events and conferences. These events are similar to those held at either executive or corporate centers but emphasis is more toward incentive, recreation, and socially-oriented objectives. Eagle Crest Conference Center is contiguous to the Ann Arbor/Ypsilanti Marriott and Eagle Crest has some of these characteristics. The existing market appears to have absorbed much of the demand for conference space.

Corporate Conference Centers

Designed by a corporation primarily for in-house use, corporate conference centers are typically available on a limited basis to outside users. These facilities are staffed and supplied with sophisticated meeting aids. Size of the facility varies depending on companies' needs. Emphasis is primarily to satisfy the companies'/owners' training and development as well as internal communication needs. While primarily designed for in-house corporate use, the characteristics of outside users, if any, are similar to users of executive conference centers.

Executive Conference Centers

Executive conference centers are developed primarily to satisfy the requirements of specialized executive level meetings and are staffed with conference center coordinators. These facilities are built with sophisticated audio-visual equipment and meeting aides. Typically lodging rooms are available to serve conferees either in nearby hotels or as part of the development. Facilities include specially designed meeting rooms and breakout rooms. Emphasis is characterized by excellent service, high quality and security. The target market is primarily upper-level management planning, educational and training seminars as well as corporate and less price sensitive associations. Often, these facilities are located proximate to corporate headquarters, large corporate parks in urban areas and at airport hubs.

Events Centers

Designed to accommodate special events such as concerts, shows, and sporting events, events centers are typically built specifically for these purposes and therefore are not very flexible in their spacing. These facilities can usually accommodate from 500 to 10,000 people and do not typically include a hotel facility. Targeted for large social and entertainment events, this type of facility must be able to accommodate large groups of people and is characterized by primarily day events. The Eastern Michigan Convocation Center and the University of Michigan's Crisler Arena are examples of this type of facility.

Convention Centers

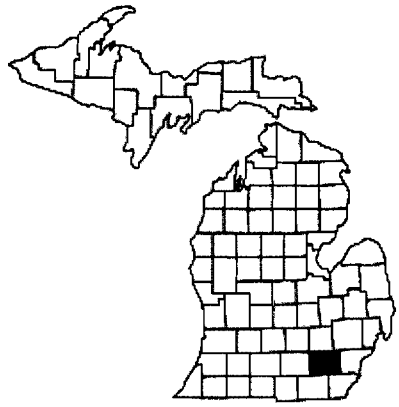
Convention centers are typically owned and/or operated by a municipality to increase tourism and business activity. These facilities are usually situated in a central business district and do not include a hotel facility, but are within close proximity to many hotel rooms. They typically include significant exhibition space and some ancillary conference rooms for smaller meetings and break-outs. Primarily state and national associations and large trade groups who require exhibit space utilize convention centers. Proximity to a large number of hotel rooms and recreational amenities is required. Cobo Center in Detroit and McCormick Place in Chicago are representative.

Current Meeting Environment

Size and frequency of meetings has steadily declined for the last ten years in most markets and the return on investment in meeting space can be difficult to compute and ventures such as hotels with meeting space are oftentimes considered risky. Smaller hotel properties containing only guestrooms are typically more profitable and less risky, which makes them more likely to be financed. In the Ann Arbor area, existing full-service hotels have updated and/or added meeting space to serve the meetings market while the University of Michigan, Eastern Michigan and other public institutions have added meeting space internally to meet their demand over the years.

Public sector development or participation is often reserved for projects or portions of projects which are not appealing to the private sector. Provided that the necessary base demand is not being met by the private sector and ancillary features are in place, the public sector may serve constituents by entering the development arena. Public events facilities and convention centers represent the type of projects in which the public sector participates.

ANN ARBOR AREA DESCRIPTION



Currently, one subject development area discussed for a hotel and conference center development is situated in the city of Ann Arbor, Washtenaw County, Michigan. Washtenaw County is located in the southeastern portion of Michigan's Lower Peninsula. Washtenaw County is not part of a Metropolitan Statistical Area but is proximate to the Detroit Metropolitan Area. The image to the left illustrates the location of Washtenaw County relative to other Michigan Counties.

Area Highway System

A network of roads and highways that includes Interstate 94, U.S. 23 and Michigan Route 14 (M-14) service the Ann Arbor area. Interstate 94 begins in Port Huron at the Canadian border and ends in Billings, Montana and connects the area to such major cities as Detroit, Chicago, Milwaukee and Minneapolis. U.S. 23 runs from Toledo, Ohio north through Ann Arbor and joins with Interstate 75 and connects the area to cities such as Flint, Saginaw and Bay City. All vehicle traffic will arrive via one of these routes. We have shown the passenger car traffic counts at major freeway exits leading into Ann Arbor's downtown area. Additionally, we have added a chart displaying the distances to major cities around the region.

Average Daily Traffic Counts	Period	2000	2008	Comp. Annual Growth
I-94 at Jackson Ave.	2000-2008	49,900	46,800	-1.06%
I-94 at Ann Arbor-Saline Road	2000-2008	61,500	57,200	-1.20%
I-94 at State Street	2000-2008	83,900	75,700	-1.70%
U.S. 23 at Washtenaw Ave.	2000-2008	78,000	71,300	-1.49%
U.S. 23 at Plymouth Road	2000-2008	70,400	67,300	-0.75%
M-14 at Main Street	2000-2008	51,700	47,300	-1.47%

Source: Michigan Dept. of Transportation, 2009

Distances to Major Cities	
Location	**Distance** (in Miles)
Grand Rapids, Michigan	129
Flint, Michigan	53
Lansing, Michigan	66
Detroit, Michigan	40
South Bend, Indiana	181
Fort Wayne, Indiana	151
Indianapolis, Indiana	265
Chicago, Illinois	233
Toledo, Ohio	50
Akron, Ohio	178
Cleveland, Ohio	166
Dayton, Ohio	190
Toronto, Ontario	264
Erie, Pennsylvania	257

Source: MapPoint

Ann Arbor is a commercial center in southeastern Michigan. The Ann Arbor area is situated along Michigan's major east/west thoroughfare in I-94 and has easy access to most population centers in Michigan. Additionally, Ann Arbor has easy access to Detroit and the international border with Canada as well as neighboring states. The primary subject site is located in the downtown area contiguous to the public library and is to be built on top of an underground parking structure.

Air Traffic

The Detroit Metropolitan Airport is the largest airport serving the Washtenaw County area. The airport is approximately 25 miles east of the proposed subject property in the Detroit suburb of Romulus and is accessible by way of Interstates 94 and 275. Approximately 17,226,086 enplaned passengers were serviced by Detroit Metropolitan Airport in 2008. There were about 300,000 fewer passengers in 2008 as compared to 2000. Also notice that in 2006, Detroit Metro saw an all-time high in enplanements before seeing a 19 percent drop for 2007.

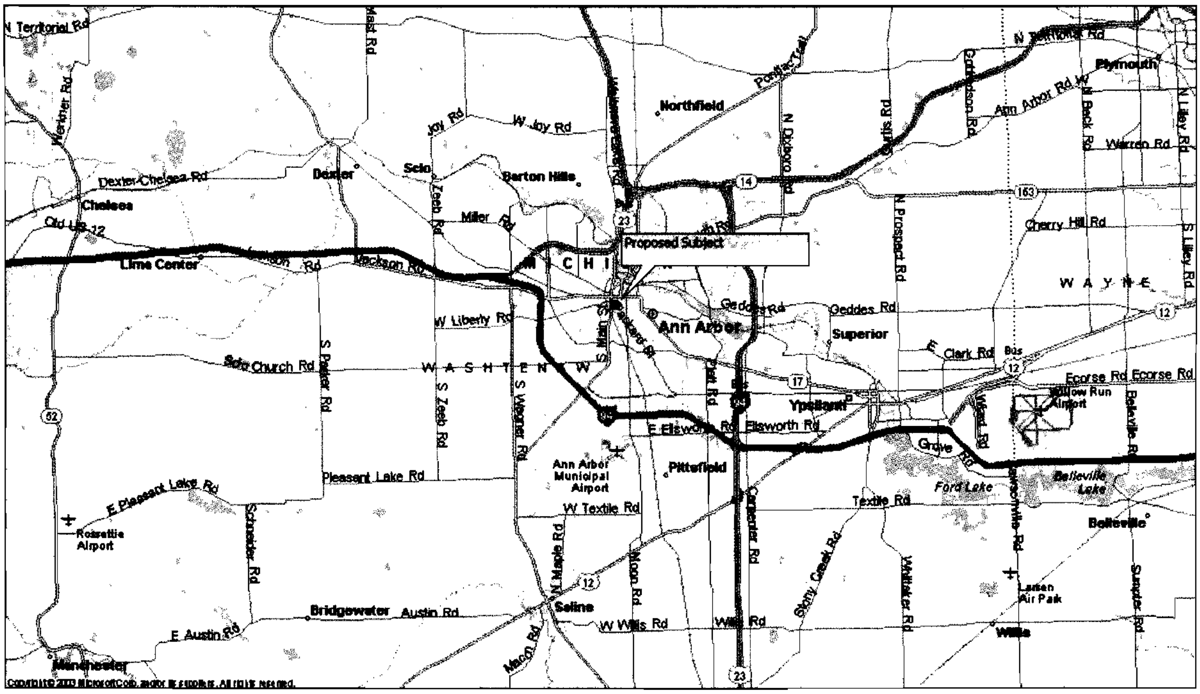
Historic Passenger Volume
Detroit Metropolitan Airport

Year	Total Passengers	Percent Increase (Decrease)
2008	17,226,086	21.78%
2007	14,145,126	-19.34%
2006	17,536,267	-0.75%
2005	17,668,661	2.31%
2004	17,269,691	6.92%
2003	16,152,020	4.22%
2002	15,497,817	-2.95%
2001	15,969,111	-9.13%
2000	17,572,823	-
	Compounded Annual Growth	-0.28%

Source: Michigan Department of Transportation

Metro Airport (DTW), before construction of the new midfield terminal had three passenger terminals - an International Terminal and two domestic terminals. A multi-story parking deck, which can accommodate 6,700 vehicles, was opened in 1994. Detroit Metro Airport serves as Delta Airlines' major hub, which handles approximately 74% of the passenger traffic at DTW, and provides scheduled service by all major domestic airlines and numerous international carriers. Detroit Metro is also the world aviation headquarters for Ford Motor Company and General Motors Corporation. The biggest growth has occurred in international passengers partially due to Delta Airlines' increased frequencies to foreign destinations. DTW's carriers provide non-stop service to over 100 domestic destinations, many of them served repeatedly throughout the day. Wayne County and Northwest Airlines constructed a new midfield terminal as part of a $2 billion expansion program at DTW in 2002. The new $1.2 billion terminal features 99 gates and an 11,000 space parking deck. The new deck plus the surface lots are able to accommodate almost 13,000 vehicles. Other construction projects included a south access road, a fourth parallel runway, and extensive modifications to existing terminals. Completed in 2008, the new North Terminal replaced the Davey and Smith domestic terminals with 26 gates for other major air carriers serving Detroit.

MAP OF THE ANN ARBOR AREA



ECONOMIC & DEMOGRAPHIC FACTORS

In this section, we examine indicators that are relevant to market demand in order to assess the economic environment in which the proposed subject property is located. Analysis of this data provides a broad measurement of an area's economic health, as well as indicates trends and levels of business activity which occur in a particular area. The subject property is influenced in a general manner by the economical, political, physical and social characteristics of Washtenaw County. The proposed subject property is located in the city of Ann Arbor in Washtenaw County, Michigan.

EMPLOYMENT

One of the most important factors in determining present and potential commercial and industrial growth is employment. The following table illustrates the decrease in overall employment since 2000 for Washtenaw County, where the proposed facility is to be located, as well as for the State of Michigan. The Washtenaw County unemployment rate has historically been closer to the national average than to the Michigan average. The following table illustrates employment and labor force data as well as compounded annual growth analysis for the aforementioned areas.

Unemployment Figures	Period	2000	2000 Unem. Rate	2009	2009 Unem. Rate	Labor Market CAG
Washtenaw County Labor Force	2000-2009	185,202	-	183,794	-	-0.08%
Washtenaw County Employment	2000-2009	180,898	**2.32%**	168,054	**8.56%**	-0.81%
Michigan Labor Force	2000-2009	5,144,000	-	4,889,000	-	-0.56%
Michigan Employment	2000-2009	4,953,000	**3.71%**	4,224,000	**13.60%**	-1.75%

Source: Michigan Labor Market Information, 2010

The University of Michigan is the largest single employer in the Washtenaw County/Ann Arbor Area and acts as the driver for much of the public and private development activity for the area. This is, in large part, due to a highly-educated workforce and a very diverse employment base. Public-sector employers in the Ann Arbor Area are primarily related to health care and higher education. We've shown charts below detailing the largest employers, largest sectors, and foreign-owned employers.

Major Public Sector Employers - Ann Arbor Area

Employer	Employees	Market Sector
University of Michigan	16,143	Higher Education
University of Michigan Medical Center	16,000	Health Care
Trinity Health	4,500	Health Care
Ann Arbor Public Schools	3,000	Public Education
Eastern Michigan University	1,932	Higher Education
Veterans Administration Medical Centei	2,100	Public Education
Washtenaw Community College	1,559	Higher Education
Washtenaw County	1,300	County Government
United States Post Office	923	U.S. Government
Chelsea Community Hospital	800	Health Care

Source: Ann Arbor SPARK

Many of the private-sector employers are related to the automotive industry. This is due, in part, to the proximity of Ann Arbor to Detroit as the hub of the automotive industry, but also due to the engineering, technical and research talent throughout Ann Arbor and the rest of Southeastern Michigan. Other major employers are involved with retail, food, mortgage banking, software, and publishing.

Major Private Sector Employers - Ann Arbor Area

Employer	Employees	Market Sector
Ford Motor Company	2,000	Automotive Components
General Motors Powertrain	1,765	Automotive Components
Thomson Reuters	1,716	Accounting Software
ACH	1,300	Instruments & Consoles
Toyota Technical Center	1,060	Auto Research & Development
Borders Group, Inc.	1,000	Book Retailer
CitiMortgage	800	Mortgage Lender
Chrysler Proving Grounds	750	Automotive Testing
Domino's Pizza Inc.	923	Corporate Headquarters
ProQuest	475	Online Information

Source: Ann Arbor SPARK

Major Industry Sectors - Ann Arbor Area

Industry Sector	Area Employees
Health Care	23,400
Higher Education	19,491
Automotive	12,385
Life Sciences/Biotech	3,626
County & Federal Government	2,223
Software/Customer Service IT	2,080
Information/Print & Online	1,900
Imaging/Vision	560

Source: Ann Arbor SPARK

These charts provide a snapshot of the total employment picture as these jobs provide a base for all economic activity in the region. Furthermore, there are approximately 57 foreign-owned companies with operations in the Washtenaw County/Ann Arbor Area. Additionally, there are numerous foreign-owned companies related to the auto industry with operations in the west suburbs of Detroit.

Foreign-Owned Companies - Ann Arbor Area

Country of Origin	Operations
Japan	15
Canada	6
Australia	2
Germany	14
Belgium	2
France	2
United Kingdom	2
Malaysia	1
Sweden	1
Switzerland	3
South Korea	1
Netherlands	2
Denmark	1
Austria	2
Spain	1
Taiwan	1
India	1

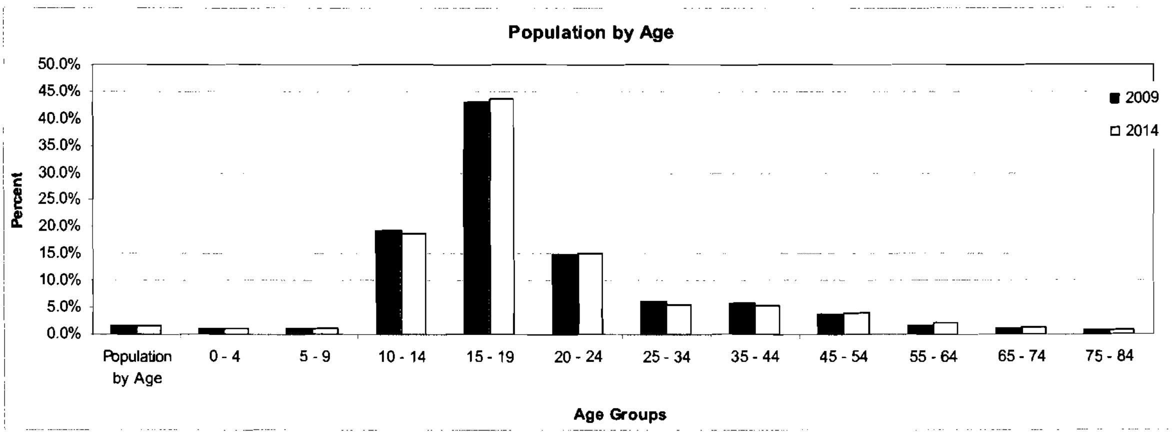
Source: Ann Arbor SPARK

The workforce in the region has access to high-quality educational opportunities which increases international exposure and diversifies the economic base.

Population

The population trends of an area have no direct correlation with hotel room night demand, but do reflect the economic health of an area. Therefore, a discussion of population is necessary. With a population of 350,873 in 2010, Washtenaw County has seen a 0.81% compounded annual increase over the ten year period starting January 1, 2000 and ending December 31, 2009. The population of the City of Ann Arbor declined by approximately 4.7% over the period starting April 1, 2000 and ending December 31, 2009, which is a 0.48 percent annual decrease. The State of Michigan has experienced growth with an annual increase of 0.14 percent, during the 10-year period between 2000 and 2009. Michigan's projections for the five-year period of 2010-2015 show a 0.3 percent annual increase.

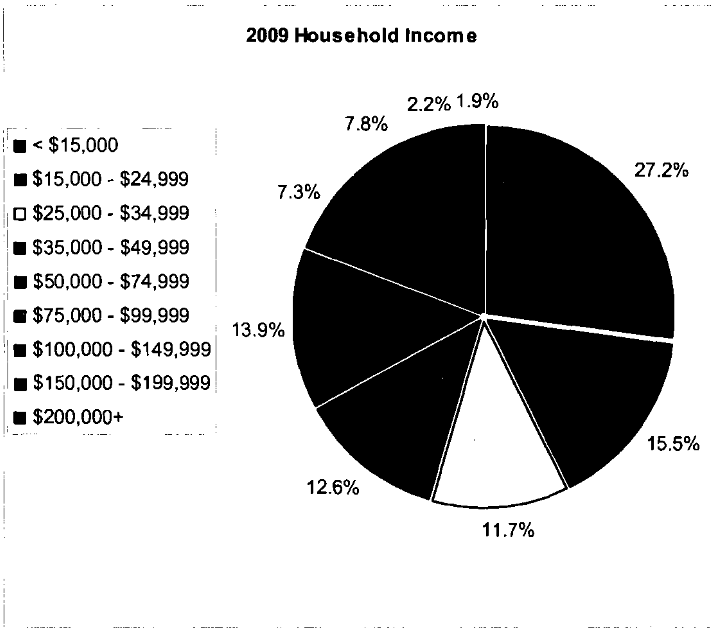
Locally, within one mile of downtown Ann Arbor, the population is 33,106 as of 2009. This is expected to increase by 0.15 percent per year until 2014. The majority of the population is between the ages 10 and 54, with the largest segment between the ages of 15 and 19 years old. The median age is 23.1 years old. Refer to the table from ESRI.



Mean Household Income

Trends in personal income reflect the spending ability of local residents. Like population trends, personal income has no direct correlation with hotel or convention demand, but rather tends to gauge the economic health of a market area. Washtenaw County and Michigan incomes can be compared and measured through this analysis. Washtenaw County's level of Mean Household Income resulted in a 1.27 percent compounded annual growth from 2000-2009. Meanwhile, the State of Michigan registered growth of 0.12 percent annually from 2000-2009.

Locally, within one mile of the subject site, the mean household income amounted to $48,986 for 2009. The majority of households within one mile earn less than $15,000 per year which is due in large part to the high number of college students residing within the survey area. Slightly less than 20 percent of households earn more than $75,000 per year. Mean household income is expected to increase to $50,124 by 2014. Refer to the chart from ESRI showing household income information.



Retail Sales

The level of retail sales is an additional measure of an area's economic health and vitality, and may point out an economic trend for the future. The level of retail sales for Washtenaw County declined at an average annual rate of 0.28 percent and at 1.4 percent per household from 2000-2009. The State of Michigan increased over the 10-year period with 1.36 percent annual growth but retail sales per household in Michigan declined at an average annual rate of 1.33%.

The following table summarizes the economic and demographic information.

Economic and Demographic Data				
Population	**Period**	**2000**	**2009**	**Average Annual Compounded Change**
Washtenaw County	2000 - 2009	$324,488	$350,873	0.78%
	Projected 2010 - 2015	$354,395	$372,342	0.83%
Michigan	2000 - 2009	$9,955,146	$10,035,070	0.08%
	Projected 2010 - 2015	$10,067,540	$10,240,430	0.28%
Mean Household Income				
Washtenaw County	2000 - 2009	$86,716	$97,739	1.20%
Michigan	2000 - 2009	$75,952	$88,826	1.58%
Retail Sales				
Washtenaw County (Millions)	2000 - 2009	$4,764.97	$4,632.55	-0.28%
Washtenaw County Per Household	2000 - 2009	$37,782	$32,539	-1.48%
	Projected 2010 - 2015	$33,576	$34,403	0.41%
Michigan (Millions)	2000 - 2009	$10,691	$12,074	1.22%
Michigan Per Household	2000 - 2009	$33,637	$29,663	-1.25%
	Projected 2010 - 2015	$30,649	$31,518	0.47%

Source: Woods and Poole Economics; 2010

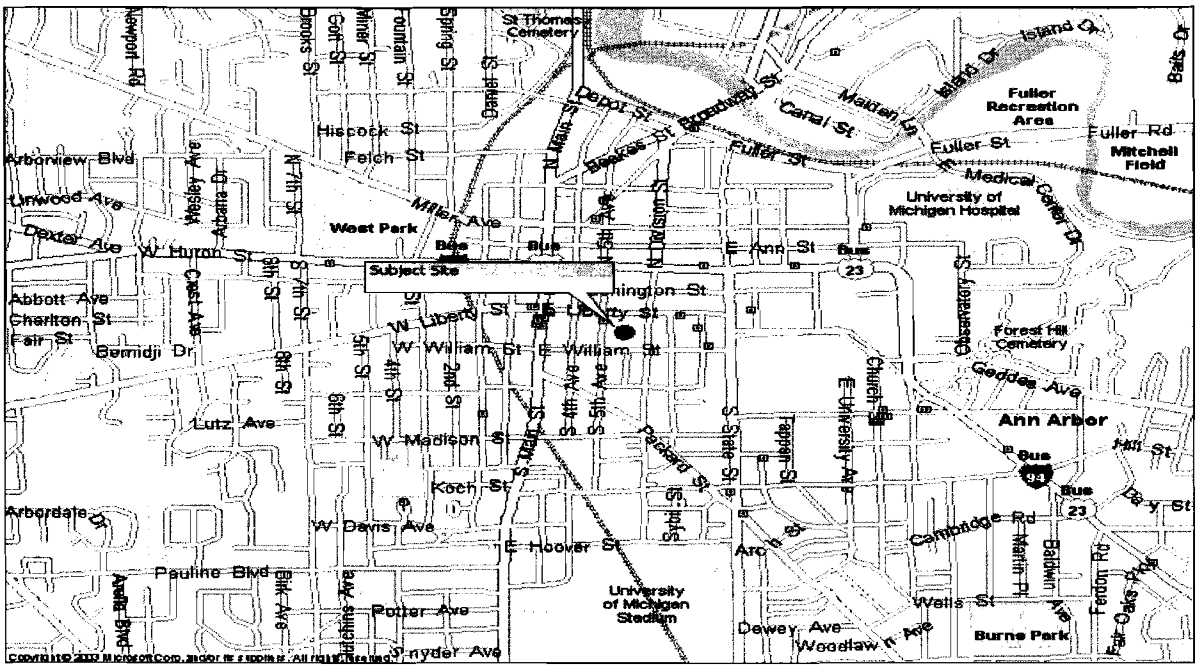
SUMMARY

Our review of economic trends indicates that the state of Michigan remains in its worst economic fix in a generation. According to *The Michigan Economic Outlook for 2010-2012*, RSQE forecast by University of Michigan economists Donald R. Grimes and George A. Fulton from March 2010, Washtenaw County employment decreased by 4.4% from 2001 to 2008 and the county's per capita income growth ranked 357th out of the nation's 365 metro areas. Washtenaw County unemployment increased to 8.8% in 2009 as compared to 5.9% in 2008. A small decline in the county unemployment rate is forecast in 2011 and 2012 but the county will still have fewer jobs at the end of 2012 than it did at the end of 2008. More specifically, Washtenaw County has seen steady but minimal growth in population and household income overall, but the labor force, retail sales, and traffic counts on major roads have been declining. Washtenaw County as a whole has had some growth in many areas of its economy and continues to have a very diverse employment base, which drives development in the area. The public sector, specifically the University of Michigan and Eastern Michigan University as well as the popularity of arts, entertainment, sports and cultural attractions spawned by these institutions have helped sustain the Ann Arbor market.

Site Overview

The proposed site for meeting space development is located between Fifth Avenue and Division Street near William Street. The 1.2 acre site is proximate to the Ann Arbor Public Library. Construction has begun for a four-story underground parking structure. A hotel is proposed in conjunction with the meeting facility.

Map of the Subject Site



Visibility and Access

As proposed, the subject site will have very good visibility from Fifth Avenue. Overall visibility will be good. Access is gained by way of Fifth Avenue and Division Street. The site is small for such a large high-rise development. This study will consider potential market demand as opposed to physical site limitations.

MARKET ANALYSIS (SUPPLY AND DEMAND)

Facility Supply

As a background for the market analysis, we have provided an overview of various types of facilities used to house various conferences, meetings and events. Included in this analysis is a general description of the facilities followed by the type of customer which each of the facilities typically targets.

For the purpose of this study, we have identified three different types of facilities which are currently in the general market area and/or would provide competition for a conference center in Ann Arbor. The three specific types of facilities included are event centers, hotels and university facilities. The following is a description of the various meeting facilities, by type, that were identified during the course of our fieldwork.

Hotels

We have included the details of the conference hotel market in the Ann Arbor area. The local full-service hotel market contains properties with meeting space for events.

Hotel Property 1

Property:	Weber's Inn	**Amenities (Yes/No)**	
Address:	3050 Jackson Ave.	Business Center:	Yes
Cross Streets:	Jackson	Wired High Speed Internet:	Yes
City:	Ann Arbor	Wireless:	Yes, Common Areas
County:	Washtenaw	Restaurant:	Yes
Number of Rooms:	158	Breakfast Included:	No
		Meeting Space:	Yes, 19,514 SF
		Swimming Pool:	Yes
		Whirlpool/Spa:	Yes
		Fitness Room:	Yes
		Pets Allowed:	No

Comments:
This property is considered competitive due to location, market orientation and quality of facilities. This property is well-known in the Ann Arbor area as a local retreat and for its 19,500 SF of meeting and conference facilities.

Hotel Property 2

Property:	Ann Arbor Marriott Ypsilanti at Eagle Crest	**Amenities (Yes/No)**	
Address:	1275 S. Huron St.	Business Center:	Yes
Cross Streets:	Huron & I-94	Wired High Speed Internet:	Yes
City:	Ypsilanti	Wireless:	Yes
County:	Washtenaw	Restaurant:	Yes
Number of Rooms:	236	Breakfast Included:	No
		Meeting Space:	Yes, 27,244 SF
		Swimming Pool:	Yes
		Whirlpool/Spa:	Yes
		Fitness Room:	Yes
		Pets Allowed:	No

Comments:

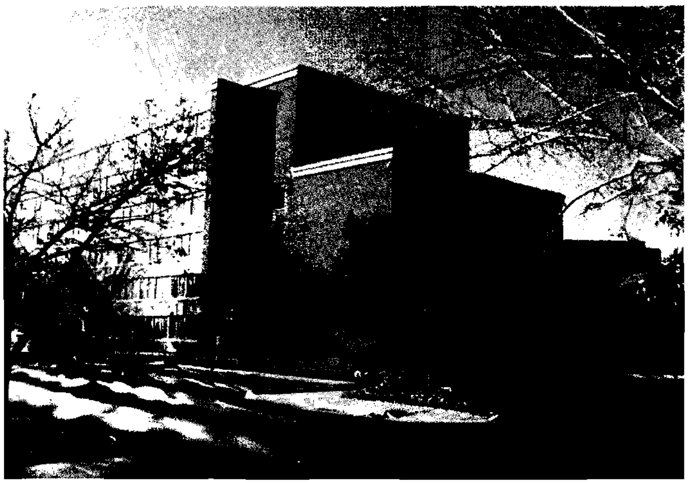
This property is considered competitive due to location, market orientation and quality of facilities. This property is attached to the Eagle Crest Conference Center, which is owned by and affiliated with Eastern Michigan University and fulfills a large amount of associated meeting demand with its 27,000 SF of conference space.

Hotel Property 3

Property:	Holiday Inn near U of M	**Amenities (Yes/No)**	
Address:	3600 Plymouth Rd	Business Center:	Yes
Cross Streets:	Plymouth & Green	Wired High Speed Internet:	Yes
City:	Ann Arbor	Wireless:	Yes
County:	Washtenaw	Restaurant:	Yes
Number of Rooms:	225	Breakfast Included:	Yes
		Meeting Space:	Yes, 12,081 SF
		Swimming Pool:	Yes
		Whirlpool/Spa:	Yes
		Fitness Room:	Yes
		Pets Allowed:	No

Comments:
This property is considered competitive due to location, market orientation and quality of facilities. This property also features a salon, a car rental desk and sport courts for tennis and basketball, as well as 12,000 SF of meeting and banquet space.

Hotel Property 4



Property:	Sheraton Four Points	**Amenities (Yes/No)**	
Address:	3200 Boardwalk	Business Center:	Yes
Cross Streets:	State & Boardwalk	Wired High Speed Internet:	Yes
City:	Ann Arbor	Wireless:	Yes
County:	Washtenaw	Restaurant:	Yes
Number of Rooms:	197	Breakfast Included:	No
		Meeting Space:	Yes, 13,689 SF
		Swimming Pool:	Yes
		Whirlpool/Spa:	Yes
		Fitness Room:	Yes
		Pets Allowed:	No

Comments:

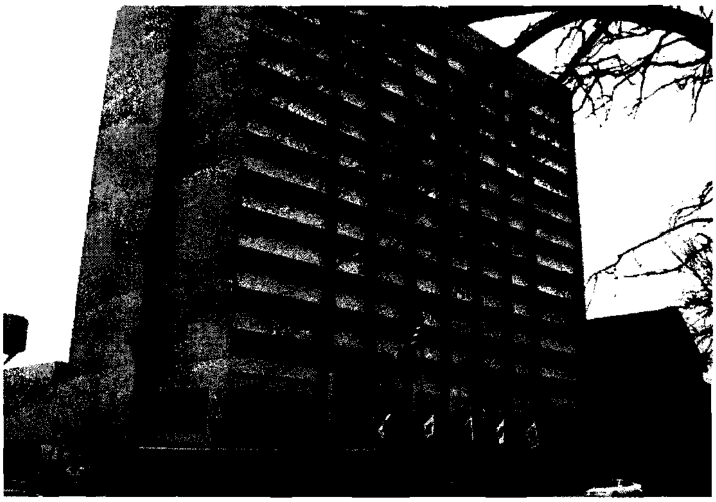
This property is considered competitive due to location, market orientation and quality of facilities. This property is located on the south side of Ann Arbor in a heavily commercial and retail area and has 13,700 SF of meeting and banquet space.

Hotel Property 5

Property:	Kensington Court	**Amenities (Yes/No)**	
Address:	610 Hilton Blvd	Business Center:	Yes
Cross Streets:	Hilton & State	Wired High Speed Internet:	Yes
City:	Ann Arbor	Wireless:	Yes
County:	Washtenaw	Restaurant:	Yes
Number of Rooms:	200	Breakfast Included:	No
		Meeting Space:	Yes, 19,869 SF
		Swimming Pool:	Yes
		Whirlpool/Spa:	Yes
		Fitness Room:	Yes
		Pets Allowed:	No

Comments:
This property is considered competitive due to location, market orientation and quality of facilities. This property is also located on the south side of Ann Arbor in a heavily commercial and retail area and has almost 20,000 SF of banquet and meeting space.

Hotel Property 6



Property:	Campus Inn	**Amenities (Yes/No)**	
Address:	615 Huron St	Business Center:	Yes
Cross Streets:	Huron & State	Wired High Speed Internet:	Yes
City:	Ann Arbor	Wireless:	Yes
County:	Washtenaw	Restaurant:	Yes
Number of Rooms:	208	Breakfast Included:	No
		Meeting Space:	Yes, 8,708 SF
		Swimming Pool:	Yes
		Whirlpool/Spa:	Yes
		Fitness Room:	Yes
		Pets Allowed:	No

Comments:
This property is considered competitive due to location, market orientation and quality of facilities.

Hotel Property 7

Property:	Clarion Hote	**Amenities (Yes/No)**	
Address:	2900 Jackson Ave.	Business Center:	Yes
Cross Streets:	Jackson & I-94	Wired High Speed Internet:	Yes
City:	Ann Arbor	Wireless:	Yes
County:	Washtenaw	Restaurant:	Yes
Number of Rooms:	162	Breakfast Included:	Yes
		Meeting Space:	Yes, 8,559 SF
		Swimming Pool:	Yes
		Whirlpool/Spa:	Yes
		Fitness Room:	Yes
		Pets Allowed:	Yes, for a fee

Comments:
This property was orignially built as a Holiday Inn with a Holidome and was also a Best Western before gaining the Clarion flag. This property is considered competitive due to location and market orientation.

We found that there were other examples of facilities in other areas in Michigan which were not successful.

Hyatt Regency Hotel and Conference Center Flint, Michigan: This 16 story facility was developed in Flint in the early 1980's and contained 33,000 square feet of publicly-funded conference space. Today, after nearly thirty troubled years including a bankruptcy in the late 1980's, the facility is being used as dormitory space for University of Michigan-Flint.

Sheraton Hotel and Conference Center Jackson, Michigan; Built with federal tax dollars and opened in 1976, this downtown, ten story facility closed in 1988 and remains vacant. Jackson City Council is considering demolition at the taxpayers' expense. The city is considering a public park in its place.

The chart below shows the full-service hotels with the most meeting space in Washtenaw County.

Local Hotel Meeting Space

Facility	Square Footage
Ann Arbor/Ypsilanti Marriott Eagle Crest	32,404
Weber's Inn	19,514
Sheraton Four Points	13,689
Kensington Court	19,869
Holiday Inn North	12,081
Clarion Hotel	8,664
Campus Inn	8,559
Average SF	*16,397*

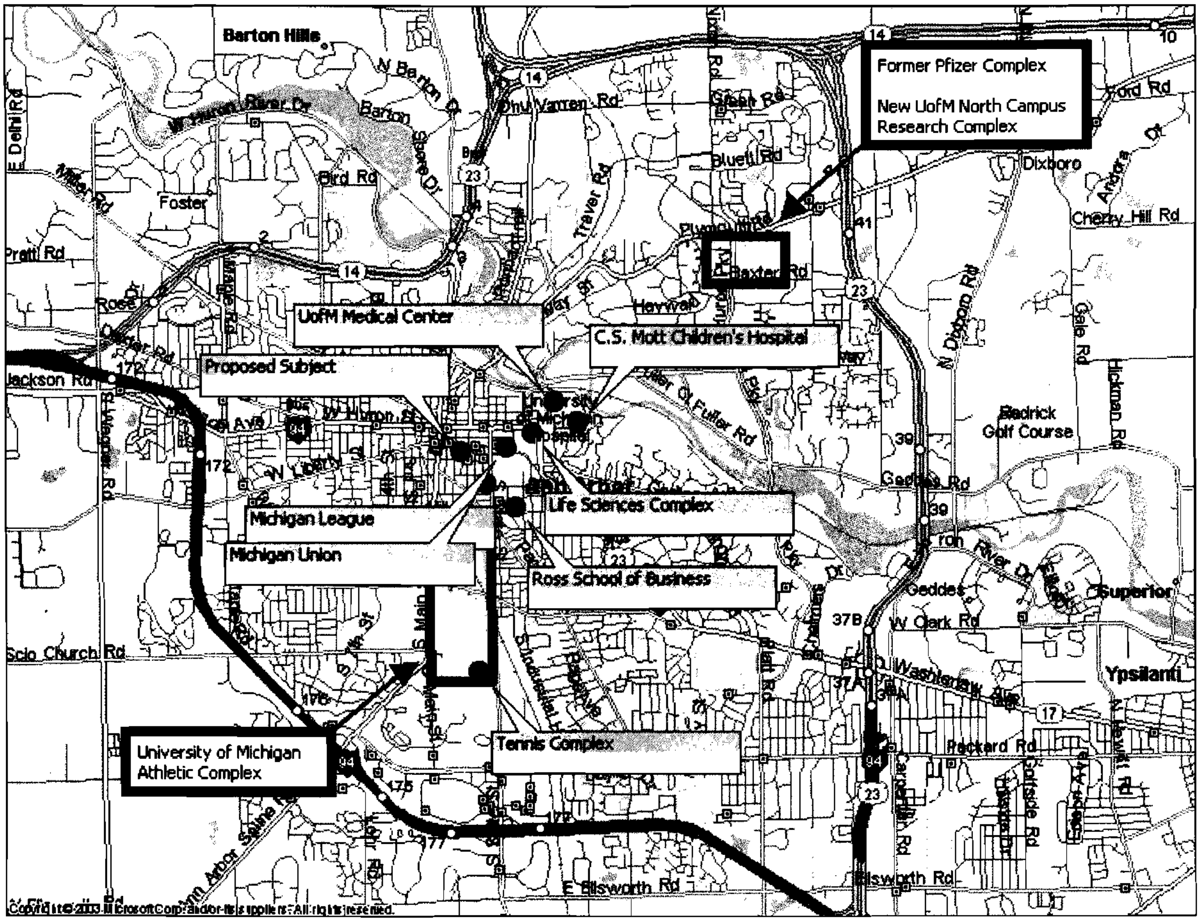
Source: Hospitality Advisors

The hotel facilities shown above serve the meeting demand and capture a large portion of the room nights generated by said meeting facilities. These facilities attract numerous social events and the proposed facility would compete directly for this business. There are other hotels with meeting space in the Ann Arbor area, but they don't contain the type of facilities and supporting amenities to capture significant demand from these hotels or the subject. Overall, the occupied rooms in the Ann Arbor market are down approximately 7.2 percent over the past twelve months. Over the same period, the hotels listed above were down approximately 10.5 percent. Since 2007, the overall hotel market is down approximately 11.5 percent. Additionally, the full-service hotels listed above were down approximately 10.9 percent. Both corporate group and corporate transient business have been eroding over the past two years. The trend in these segments has been down in the Upper-Midwest since 2001. New conference space will reduce the already declining meeting and banquet business at these existing hotels.

DESCRIPTION OF EXISTING CONFERENCE CENTERS

University of Michigan Facilities

The University of Michigan has meeting facilities within many of its main school buildings, hospitals and athletic facilities. Refer to the map below for the facilities available for rentals.



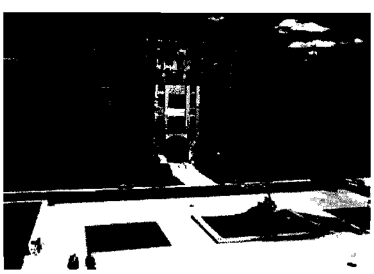
Facilities:

The University of Michigan has numerous educational and athletic buildings with facilities that are available for use. Educational buildings are preferred by some alumni groups and by associations giving seminars affiliated with the specific school whose facility they are using. Many college facilities are available to the public with preference given to scheduled academic groups. Hospital facilities are utilized primarily by medical groups and departmental meetings and events. According to university officials, the new C.S. Mott Women's and Children's Hospital under construction will contain state-of-the-art meeting and conference space for University Health Systems use.

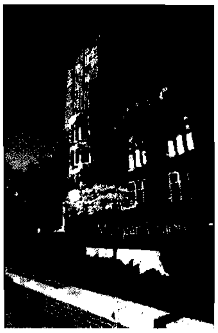
Additionally, University of Michigan recently acquired the former Pfizer research complex, which has existing space that can be used for approximately 800 conference attendees and which space will be renovated in the near future. We've shown a list of some university facilities and some details about their spaces below.

Ross School of Business: Ross School of Business is world-renowned in executive training and entrepreneurial studies. The school recently constructed a modern new building which houses its classrooms, auditoriums and conference facilities. Major rooms in the building are the Blau Auditorium, sixth-floor Boardroom, Colloquium and the Davidson Winter Garden. A new 105-room Executive Residence is attached to the Ross School of Business to house conference attendees.

Pierpont Commons: Pierpont Commons is the student union of the school's North Campus. There are numerous lounges and rooms available for meetings. Additionally, this building houses many of the retail vendors as well as administrative offices. This facility has meeting space available to the public.



Michigan League Building: The League building is located on Central Campus and has numerous amenities offered in a student union. This building houses numerous meeting, conference and ballrooms. Additionally, it houses the university's catering services as well as various other departments and vendors. The League Building is the preferred venue for major high-profile events associated with the university.



Michigan Union: The Union building is also located on Central Campus and has numerous amenities offered in a student union. This building also houses numerous meeting, conference and ballrooms. Additionally, the Michigan Union is home to the majority of student organizations as well as student activities and retail vendors and study space.

Crisler Arena: Crisler Arena is home to the University of Michigan Basketball teams, but can also be used for athletic and school dinners and events.

Varsity Tennis Building: The Varsity Tennis facility is located at the south end of Michigan's athletic complex along State Street. This building is only available for large functions since it can only be modified to roughly 30,000 square feet.

Miscellaneous Meeting Facilities

We have found other meeting facilities within the area which we believe would impact the proposed facility. These facilities are located at Eastern Michigan University and Washtenaw Community College.

Eastern Michigan University: Many of the meeting rooms, lecture halls and common space in campus buildings are available for rental, but the most prominent meeting space at Eastern Michigan is located in the Convocation Center, which can be used to host major dinners and events. The Convocation Center contains 200,000 square feet with a 7,000 square foot atrium and has floor space for approximately 9,500 people. According to school officials, this space has attracted the Annual St. Joseph Mercy Hospital Gala away from the Michigan League Building in Ann Arbor. Additionally, the new Student Union building has numerous rooms and common space which can be used for meetings and events.

Washtenaw Community College: Washtenaw Community College is a local trade and vocational school, which also offers associate's degrees and professional certifications. Additionally, many professors from University of Michigan and Eastern Michigan teach basic classes during the summer. Washtenaw offers many of its buildings with classrooms and common space for professional training meetings and seminars. Meeting rooms are available in all seven classroom buildings and the Towsley Auditorium. Food service is provided through catering from the Student Center Building.

Michigan Information Technology Center: The MITC was originally conceived as a high-tech office building with a meeting and conference center serving the high-tech and information technology community in Ann Arbor. According to building officials, it is one of the most 'wired' high-tech buildings in the country and the home of the 'Internet 2' expansion of the Internet. The MITC has approximately 15,000 square feet of meeting and conference space with 8,200 square feet of conference and breakout space. The additional 7,000 square feet of space is contained in a multipurpose room and a tiered classroom. Each room has its own audio/visual equipment and ports.

Blessed with two major universities and a community college that is very proactive, Washtenaw County has a significant number of public facilities in addition to private facilities available for meetings and events.

Convention and Conference Centers in Small and Midsize Markets

The following are convention and conference facilities which have been developed in small and mid-size markets. We felt these were appropriate subjects to look at as comparable, though they vary in size and complexity. Our main focus was to include facilities in cities with a major university, such as Michigan State University, the University of Wisconsin, Notre Dame University, the University of Texas, and facilities in nearby cities such as Grand Rapids and Toledo.

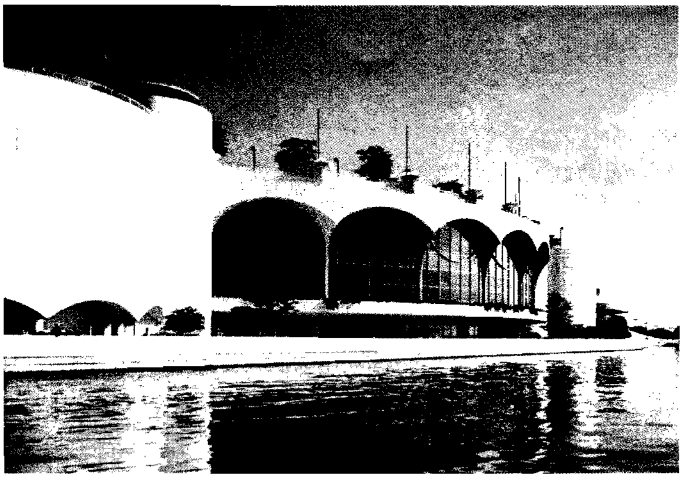
Comparable 1

Property:	Lansing Center	**Amenities (Yes/No)**	
Address:	333 E. Michigan Ave.	Business Services:	No
Cross Streets:	Michigan & Cedar	Wired Internet/Telephone:	Yes
City:	Lansing	Wireless Internet:	Yes
County:	Ingham	On-site Catering:	Yes
Square Footage:	124,118	Utilities:	Yes
		Event Security:	Yes
Competitive Analysis (1-Low, 5-High)		Audio Visual:	Yes
Square Footage	3	Airport Transportation:	No
Location:	4	Equipment Rental:	Yes
Accessibility:	4	Public Area Amenities:	Yes
Parking:	3		
Hotel Proximity	2		
Age/Condition	5		
Amenities:	4		

Comments:

Lansing Center, public shows are down approximately half. This is the primary facility for state association business which is down about 30% over the past 3 years. Corporate shows and meetings are down 20-30% over the same period. SMERF events are growing slightly but are more hotel-oriented. In 2008, the Lansing Center experienced a loss of approximately $830,000 before debt service. In 2009 it lost $1.025 million dollars before debt service.

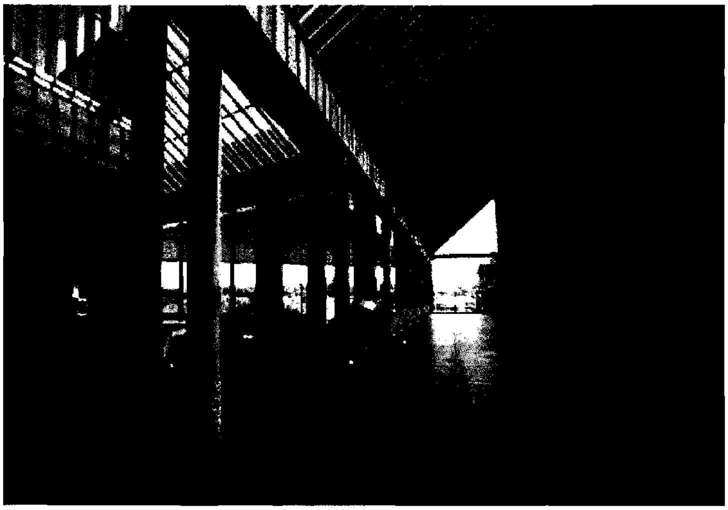
Comparable 2



Property:	Monona Terrace	**Amenities (Yes/No)**	
Address:	1 John Nolen Drive	Business Services:	Yes
Cross Streets:	John Nolen & Pinckney	Wired Internet/Telephone:	Yes
City:	Madison	Wireless Internet:	Yes
County:	Dane	On-site Catering:	Yes
Square Footage:	134,960	Utilities:	Yes
		Event Security:	Yes
Competitive Analysis (1-Low, 5-High)		Audio Visual:	Yes
Square Footage	4	Airport Transportation:	No
Location:	5	Equipment Rental:	Yes
Accessibility:	4	Public Area Amenities:	Yes
Parking:	3		
Hotel Proximity	4		
Age/Condition	5		
Amenities:	4		

Comments:
Monona Terrace was inspired by Frank Lloyd Wright and faces out on Lake Monona. The subject is also located in a state capital with a downtown location and captures most of the state-oriented business although it is down significantly. However, in 2008, Monona Terrace experienced a $4.5 million loss before debt service. In 2009, it lost $4.57 million before debt service

Comparable 3

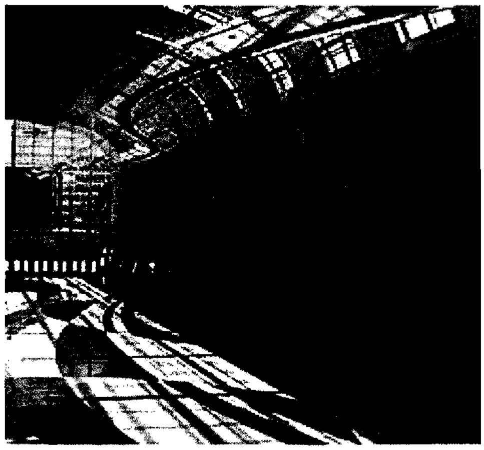


Property:	Century Center	**Amenities (Yes/No)**	
Address:	120 S. St. Joseph	Business Services:	No
Cross Streets:	St. Joseph & Colfax	Wired Internet/Telephone:	Yes
City:	South Bend	Wireless Internet:	No
County:	St. Joseph	On-site Catering:	Yes
Square Footage:	75,622	Utilities:	Yes
		Event Security:	Yes
Competitive Analysis (1-Low, 5-High)		Audio Visual:	Yes
Square Footage	2	Airport Transportation:	No
Location:	5	Equipment Rental:	Yes
Accessibility:	3	Public Area Amenities:	Yes
Parking:	3		
Hotel Proximity	3		
Age/Condition	4		
Amenities:	3		

Comments:

This facility is located in downtown South Bend along the St. Joseph River and is connected to the Marriott hotel. This facility does some business with Notre Dame University. In 2008, Century Center lost over $1.8 million dollars before debt service. In 2009 it experienced a loss of over $1.6 million dollars before debt service.

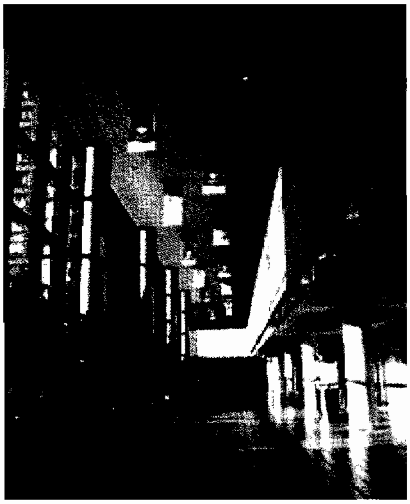
Comparable 4



Property:	DeVos Place	**Amenities (Yes/No)**	
Address:	303 Monroe Ave. NW	Business Services:	Yes
Cross Streets:	Michigan & Monroe	Wired Internet/Telephone:	Yes
City:	Grand Rapids	Wireless Internet:	Yes
County:	Kent	On-site Catering:	Yes
Square Footage:	256,684	Utilities:	Yes
		Event Security:	Yes
Competitive Analysis (1-Low, 5-High)		Audio Visual:	Yes
Square Footage	5	Airport Transportation:	No
Location:	5	Equipment Rental:	Yes
Accessibility:	4	Public Area Amenities:	Yes
Parking:	4		
Hotel Proximity	3		
Age/Condition	5		
Amenities:	4		

Comments:
According to local officials, Grand Rapids has been able to attract some regional and national shows to stabilize business during a slow economy along with agricultural and religious groups. However, DeVos Place lost $533,000 in 2008 before debt service and in 2009 it lost $557,000 before debt service.

Comparable 5



Property:	SeaGate Centre	**Amenities (Yes/No)**	
Address:	401 Jefferson Ave.	Business Services:	No
Cross Streets:	Jefferson & Superior	Wired Internet/Telephone:	Yes
City:	Toledo	Wireless Internet:	Yes
County:	Lucas	On-site Catering:	Yes
Square Footage:	85,757	Utilities:	Yes
		Event Security:	Yes
Competitive Analysis (1-Low, 5-High)		Audio Visual:	Yes
Square Footage	2	Airport Transportation:	No
Location:	5	Equipment Rental:	Yes
Accessibility:	4	Public Area Amenities:	Yes
Parking:	4		
Hotel Proximity	3		
Age/Condition	3		
Amenities:	4		

Comments:
This facility is organized as a 501(c) 3 non-profit entity. Additionally, it is part of the entertainment district in downtown Toledo which includes a new sports arena as well as a new minor-league ballpark. However, in 2008, the SeaGate Center lost $2.3 million dollars before debt service. In 2009, it lost $1.67 million dollars before debt service.

Comparable 6

Property:	Texas Convention Center	**Amenities (Yes/No)**	
Address:	500 E. Cesar Chavez St.	Business Services:	Yes
Cross Streets:	Chavez & Red River	Wired Internet/Telephone:	Yes
City:	Austin	Wireless Internet:	Yes
County:	Travis	On-site Catering:	Yes
Square Footage:	246,097	Utilities:	Yes
		Event Security:	Yes
Competitive Analysis (1-Low, 5-High)		Audio Visual:	Yes
Square Footage	4	Airport Transportation:	No
Location:	5	Equipment Rental:	Yes
Accessibility:	5	Public Area Amenities:	Yes
Parking:	5		
Hotel Proximity	5		
Age/Condition	4		
Amenities:	5		

Comments:
This facility is located in downtown Austin and draws large technology shows due to its location and size. This facility has meeting and banquet rooms available but they are also used as breakout rooms and for preparation for large shows. In 2008, it lost $10.2 million dollars before debt service. In 2009, it lost $16.1 million dollars before debt service.

There were two facilities which we considered but ultimately were not deemed to be comparable due to size of facilities and market orientation.

Cobo Center: - Located in downtown Detroit, this facility totals more than 700,000 square feet and draws regional and national conventions and events. It is home to the North American International Auto Show every January, yet has meeting rooms as small as 600 square feet. The facility is to undergo an expansion and renovation, as control has been transferred from city of Detroit to the auspices of a regional authority. According to public information Cobo Center lost $16.33 million in 2009, $17.25 million in 2008, $15 million in 2007, and $24 million in 2006.

McCormick Place: - Located south of downtown Chicago, this facility totals more than 2 million square feet and draws many regional but mostly national conventions and events. It competes with national facilities such as New York, Las Vegas and Los Angeles. Due to market orientation and size, we have not considered this facility in our analysis. In 2008, McCormick Place experienced a $19 million operating deficit. For 2009, the deficit was $34 million.

A common theme among all the private and public officials we spoke with concerning conference and convention facilities is that utilization is down substantially and events are not being booked far in advance as they were five to ten years ago. Additionally, many shows are downsizing. Government business is down the least while corporate groups and trade shows are down the most.

ANALYSIS OF OPERATIONS OF PROPOSED CONFERENCE CENTER

We have analyzed the financial feasibility of the proposed conference center by analyzing 2008 and 2009 revenues and expenses from the previously described two comparable nearby facilities in the Midwest (Toledo and Grand Rapids) and the four facilities at comparable major universities.

Comparable Revenues

Facility	2008 Revenues	2009 Revenues
Comparable 1	$4,945,861	$4,630,288
Comparable 2	$4,606,747	$3,894,682
Comparable 3	$3,368,324	$2,889,536
Comparable 4	$4,911,081	$4,469,124
Comparable 5	$2,062,409	$1,997,516
Comparable 6	$17,452,000	$16,525,000

Source: Hospitality Advisors

Comparable Revenue Per Square Foot

Facility	2009 Revenues	Square Footage	Revenue/SF
Comparable 1	$4,630,288	124,118	$37.31
Comparable 2	$3,894,682	134,960	$28.86
Comparable 3	$2,889,536	75,622	$38.21
Comparable 4	$4,469,124	256,684	$17.41
Comparable 5	$1,997,516	85,757	$23.29
Comparable 6	$16,525,000	246,097	$67.15
Average Revenue/SF			*$29.02*

Source: Hospitality Advisors

The subject facility is a much smaller center than the above comparables, and we have analyzed its operations with this in mind. We have reduced the analysis to revenue and expenses per square foot in order to statistically evaluate the market. Of the above six comparables, we consider comparables #1, #2 and #3 to be the most similar to the subject, because of their location in major Midwest University cities similar to Ann Arbor and because of their event characteristics. For example, the Texas Convention Center hosts numerous rodeos, which are uncharacteristic and costly to run, so its revenue and expenses per square foot are higher. The average 2009 revenue per square foot for Comparables #1, #2 and #3 is $34.10. We believe the proposed Library Lot facility could generate as much as $42.00 per square foot of annual revenue before operating expenses and bond principal and interest payments. $42.00 in revenue per square foot is $13.14 higher than Madison, Wisconsin, $4.69 higher than Lansing and $3.79 higher than South Bend. The proposed conference center's revenues per square foot are not likely to be higher, in part because Valiant's hotel is counting on taking in $5.8 million in revenues of its own from its adjoining hotel meeting, conference and restaurant facilities.

Operating expenses are typically higher than revenues in these facilities. Refer to the charts below for operating expenses in the above facilities.

Comparable Expenses

Facility	2008 Expenses	2009 Expenses	Avg. Expense
Comparable 1	$5,501,968	$5,655,554	$5,578,761
Comparable 2	$9,181,480	$8,466,300	$8,823,890
Comparable 3	$3,519,747	$3,488,266	$3,504,007
Comparable 4	$5,444,620	$5,026,407	$5,235,514
Comparable 5	$4,373,699	$3,671,577	$4,022,638
Comparable 6	$27,646,000	$32,677,000	$30,161,500
	Average Expenses		*$9,554,385*

Source: Hospitality Advisors

Comparable Expenses Per Square Foot

Facility	2008 $/SF	2009 $/SF	Average $/SF
Comparable 1	$44.33	$45.57	$44.95
Comparable 2	$68.03	$62.73	$65.38
Comparable 3	$46.54	$46.13	$46.34
Comparable 4	$21.21	$19.58	$20.40
Comparable 5	$51.00	$42.81	$46.91
Comparable 6	$112.34	$132.78	$122.56
	Average Expenses		*$62.09*

Source: Hospitality Advisors

For comparables #1, #2 and #3, operating expenses average approximately $52.61 per square foot in 2009. We estimate operating expenses for the subject development to be $58.00 per square foot, which results in an approximate annual operating deficit of $512,000 before debt service and reserves. Operating expenses could well be higher per square foot because the subject facility would not have the operating efficiencies or other benefits of larger scale facilities.

Cash Flow Summary

Square Footage	Revenue/SF	Expenses/SF	Cash Flow Before Debt Service
32,000	$42.00	$58.00	$0
	$1,344,000	$1,856,000	($512,000)

Source: Hospitality Advisors

The next step in our analysis is to estimate development costs. For this we went to Marshall and Swift as a resource. They list convention centers as costing $300 to $400 dollars per square foot to develop, though actual numbers within that range are difficult to pin down. We estimate development costs to be a minimum of $300 per square foot. The developers of the subject facility estimate a development cost of $281.00 per square foot or $9,000,000, which is below the lowest end of the range for downtown high-rise construction. The developer's estimate may or may not include a provision for furnishings and equipment, especially high-tech and audiovisual equipment. Our analysis does not include the hotel component since a conference center was our focus, but we are assuming it would be built in conjunction with the facility.

Development Cost Analysis		
Square Footage	Cost/SF	Development Cost/SF
32,000	$300.00	$9,600,000

Source: Hospitality Advisors

In order to estimate debt service, we reviewed the development proposal and adopted as reasonable the Valiant proposal's estimated terms for the Conference Center's bond financing, based on Valiant's estimate of a 30 year term, and a 5.5% tax exempt interest rate.

Estimated Debt Service 5.5% for 30 Years			
Development Cost	Municipal Bond	Debt to Equity	Annual Debt Service
$9,600,000	$8,700,000	90.6%	$592,772

Source: Hospitality Advisors

In our last chart, we estimate the amount of the annual public profit or shortfall from the operation of the conference center after payment of debt service:

Estimated Profit or Shortfall		
Cash Flow Before Debt	Annual Debt Service	Shortfall
($512,000)	($592,772)	($1,104,772)

Source: Hospitality Advisors

Conference Center Concerns

Privately owned conference centers generally have a higher cost per square foot than publicly owned convention centers and are smaller in size. Many times conference/convention centers and hotels get scrambled into one facility, attempting to be all things to all people. Usually this is done in privately-developed hotel properties where it is not necessary to differentiate which facility generates what revenue, as it all falls into one pot. In the Valiant proposal it is unclear how this differentiation would be made between the revenue to be derived from the Valiant privately owned hotel conference space and the revenue to be derived from the publicly owned Conference Center space.

In analyzing proposals for publicly owned conference centers in comparison to privately owned Midwestern executive conference centers, one finds that net revenues per square foot are slightly less than 10% of revenue dollars in privately owned centers. We define net revenues as revenues minus expenses or cash available for debt service. This falls in line with available industry data from private sources for privately owned conference centers. We have not found any financial projections for the publicly owned conference center in the proposal. However, it is highly unlikely that the subject conference center would be financially feasible using either conventional or municipal bond financing.

The declining demand for conference space since 2001 results from: on-site technology-based staff training; industry consolidation; and alternative means of conveying information, such as the internet and improved telecommunications, which provide companies the ability to promote their products and themselves less expensively and without the cost and ever-increasing hassle of airline travel.

The proposed conference center is negatively impacted by the proximity of the University of Michigan's approximately 100,000 square feet of conference, meeting and ballroom space. The University is, for example, openly marketing its new Stephen Ross School of Business meeting and conference space to the general public.

Although the conference center proposal does not estimate conference center revenue and expenses, given realistic market trends, it is highly unlikely that a conference center is financially feasible without significant taxpayer assistance for the foreseeable future. Furthermore, a 25,000 to 32,000 square foot facility in downtown Ann Arbor does not open new markets, but simply competes with existing underutilized facilities. In order to open new markets, a significantly larger facility of at least 60,000 square feet would be necessary, and given downtown development costs and market trends, this undertaking would be a high-risk real estate venture.

ASSUMPTIONS AND LIMITING CONDITIONS

The following are assumptions utilized during our analysis and are based upon discussions held during our fieldwork with local hotel operators, various civic leaders, and others knowledgeable in the state of Michigan hospitality industry.

The legal and regulatory requirements applicable to this project, including zoning, other state and local government regulations, permits and licenses were not ascertained. No effort was made to determine state or local legislation, including any environmental or ecological matters, nor were the potential impact of possible energy shortages quantified.

This study is based upon information developed from research of the market and knowledge of the industry. The sources of information and bases of the estimates and assumptions are stated in the body of this paper. Hospitality Advisors has no responsibility to update this paper for events and circumstances occurring after the date of this paper.

The paper is based on estimates and assumptions developed through our research of the market. However, some assumptions may not materialize, and unanticipated events and circumstances may occur; therefore, actual results may vary from those presented, and the variations may be material.

Further, Hospitality Advisors has not been engaged to evaluate the effectiveness of management, and are not responsible for future marketing efforts and other management actions upon which actual results will depend. Otherwise, neither the paper nor its contents may be included or quoted in any offering circular or registration statement, prospectus, sales brochure, loan, appraisal or any other agreement or document without the prior written permission of Hospitality Advisors. They should not be relied on for any other purpose. It is agreed that Hospitality Advisors' has no liability for any matter relating hereto.