Third Party Review/Springhill-Element Marriot Hotel: **(Developer's responses to questions in Bold)**

Thank you again for taking the time to speak with us about the dual branded SpringHill Suites and Element project on South Tejon. As we discussed on the call today, we are not surprised that the developer is seeking additional assistance for the project. While many limited service hotels can get financed without any public assistance (TIF contributions) across the county, the Colorado Springs hotel market has historically had pressure on room rates. This pressure has been driven largely by the number of government employees staying at the properties who have relatively low per diem limits on room charges. In addition, the proposed project has a parking structure, which increased cost makes the hotel property less favorable from an economic return perspective. We do have a few comments below regarding the application dated February 2018 to the Colorado Springs Urban Renewal Authority by JKV Holdings.

Page:

6 The budget has a $2.4 million line item for a guaranteed equity return. This is included in the $4,837,500 Loan Expenses. We typically don't see a guaranteed equity return in a debt sources and uses. Also, you should get confirmation that their IRR calculations include this amount.

The equity return is similar to an interest expense while the project is being constructed. To begin the process, we will need to raise in this case, $15,000,000. While the project is being built and before it is open, we anticipate that there will be a requirement of 8% on that equity. The returns in the IRR calculation begin essentially with the day the project opens and calculates IRR based on that date and the returns thereafter. The 8% essentially serves to reduce the IRR's to the extent that they are over 8%.

8 Clarity the "(after fees 30%)" for the TIF Bonds. Is this the debt service coverage ratio mislabeled? Fees are typically 2-3% for a bond issue.

The "after fees 30%" anticipates the costs of bonding with interest hold-backs and all of the fees associated with this. We tried to be conservative with the extent of those fees.

9 The total debt number of $48,570,815 Project Debt is higher than $47,920,815 Debt Service (65%) on pages 11-13. What is the difference between these numbers? The proforma numbers are also inconsistent throughout the document. Also, it would be helpful to get their assumption on cap rates. They are using a holding period of seven years, which is two years longer than most projects we see.

You are correct that they are different. This is unintentional. The $47,920,815 is the latest and most accurate. The differences in pro forma numbers are addressed on page 10 stated that there were some last minute clarifications that came up after most of the book was published. In the interest of time, we decided to not make the changes.

11-13 Cash-on-cash (leveraged) does not include the $1mm Key Money reduction to Equity. This along with the $2.4 million guaranteed return (mentioned above) should be included.

Based on negotiations with Marriott, the key money will come in the form of cash, reduction in fees and working capital in the first couple of years and will not essentially reduce the equity needed to be raised or be used in calculating IRR's. Nor will the $2.4 be included in the IRR calculations of the project, or they will serve to actually reduce the overall IRR's as the original equity money will be invested earlier than used in these calculations.

15 The Managing Member will own and manage the hotel. You may want to have them add back the 3% hotel management and 1% asset management fees for IRR since they will receive this return.

The managing member is a term used for LLC's and their membership. This will be JVK. The management company will be Hotel Equities and will earn 3% for their hotel management work and the 1% asset management fee manages the Marriott relationship, oversees the project operations, runs renovations, assures compliance, files tax forms, reviews accounting records and budgets, and conducts monthly operational meetings. That money does not go to the managing members but is compensations for these functions.

Other The proforma includes a 5% Reserve for Replacement, which is common for a hotel. However, for a new construction we usually see a ramp up (2% year 1, 3% year 3, 3% year 4, 4% year 5 and 5% thereafter). A lower FFE reserve will enhance their IRR in the early years.

We see a ramp up in reserve often in these projects. We have found that when mandatory renovations are required in year 7, there is not enough money reserved if we don't start with 5% from the opening year. The partners would then be required to come up with additional equity and that would lower returns significantly in that year. Many projects use the tactic of lowering these reserves in early years to boost projected cash flows. We find this historically to be a mistake.

Thanks again for speaking to us. Please don't hesitate to contact us with additional questions. We would be happy to speak to the developer directly about the project. At that point, we could assess the references to the minimum IRR projections that are solving for and requirements in the market to obtain those IRR hurdle rates.

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