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January 28, 2010

Stephen Rapundalo
Chair, Evaluation Committee
City of Ann Arbor
100 N. Fifth Avenue
Ann Arbor, MI 48107-8647

Dear Stephen,

On behalf of all who have supported our Valiant Partners team, I wanted to express our appreciation for the professional approach the City has taken to understand the options for this unique piece of property and how it may become both an economic and vital engine for our community. Risk is associated with anything we do in life that has meaning, and we compliment you, your committee, and City Council for your professional process.

This is a unique economic time and the Library Lot is a unique location, which can serve to stimulate economic development in our community. William and Liberty Streets have always struggled and are showing the strain of this economy. A Hotel and Conference Center on this location is a perfect fit. The need for a downtown conference center has been in discussion for more than 40 years, and now is the perfect time to plan for the building of Ann Arbor's first Conference Center. That demand is seemingly clear to all in the business and University community, but in response to the Evaluation Committee inquiry, we have hired a nationally known firm to do a "Demand Analysis" for us, which we will share when completed. Construction costs may never be lower and the growth and internationally recognized vitality we see in the University will create demand, perhaps well beyond our capacity to satisfy. Following our project, the city has the old "Y" site to permit further expansion of unmet needs this Center will create.

We believe that a number of legitimate concerns were raised at the presentation by the Committee and the public. Part of the process is to have such concerns raised, and to make every effort to address these. Set forth below is our response to these concerns, and suggestions as to how we may deal with them while maintaining the integrity of the project and the benefits to the City.

The first issue is the concept of a Conference Center itself. There are some segments of the community that believe that a Conference Center/Hotel is not the best use for this site. It is a natural part of any selection process that there will be different views. Recognizing these views, we do want to reiterate that this is a concept that we are committed to, both because we, and many institutions within Ann Arbor strongly believe that a Conference Center is the most important stimulus project for the City, and because we are convinced that this is the highest revenue producing use for this site. We particularly want to stress that the existing hotel market for Ann Arbor is limited, and that the only way a new hotel can be supported is through the new demand to be created by the Conference Center.



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We therefore recognize that our proposal will be seriously considered only if the Committee and the City agree that a Conference Center/Hotel is the best use for this site. We would like to address, however, the issues that were raised that relate to the feasibility and specifics of our proposal. These are:

(i) Risk to the City: This relates to the proposed use of \$8 million of full faith and credit City bonds, that would be paid back by ground rent and real estate tax equivalency payments, which would be subordinated to first mortgage financing on the hotel.

(ii) Market Demand: Is there sufficient demand to support a 32,000 SF Conference Center? This also relates both to the danger that the project could become a "White Elephant" if it is not used as well as to the risk to the City, as lack of demand could affect the revenue flows that support the City bonds.

(iii) Design: Comments ranged from "really great" to "out of scale, out of context."

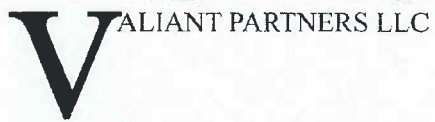
We think these issues can and should be addressed and that we can do so in a manner that will both satisfy any concerns and produce a better project. Some steps that we are initiating or considering include:

We have commissioned a study by HVS Consulting, an international hospitality firm, to more precisely evaluate the demand. Our program and pro formas so far have been based on the evaluations and desires of local institutions, such as AACVB, the University of Michigan, and SPARK, as well as many members of the community. We would, however, all benefit from an objective third party study. This study will be completed in three [3] weeks.

The Conference Center financing proposal was based on an evaluation by Roosevelt & Cross as to what was needed to assure financing at the lowest possible cost. It is possible, and likely, however, that we could obtain the financing for the Conference Center without the same level of risk to the City (and possibly without any risk to the City). This could involve (i) raising the capital through TIF bonds secured only by the ground rent and tax equivalency revenues, instead of through a City Bond; or (ii) using a City Bond but (a) reducing the bond amount by building the Conference Center in phases (see below); and/or (b) making the payments on the City Bond a priority payment rather than subordinated to first lien financing on the hotel.

The proposal to build a 32,000 SF center was based on the strong desire by the AACVB and others for as large a center as possible. We believe that the need, however, might be satisfied by a facility in the range of 25,000 SF (with potential expansion of that facility through the sharing of new facilities in the Library when that project proceeds). We will test the proposition of whether 25,000 SF will still provide Ann Arbor with a competitive facility in the demand study, noted above. If we were able to satisfy the need with a 25,000 SF center, then the City Bond would be reduced by 25% to \$6 Million, but still supported by the same revenue stream.

We are flexible on the design of the project. The important features are the Conference Center, which needs to be an "iconic" structure designed by a renowned architect, as well as the amount and usability of the open space. The specific design of the hotel, and of the open space, however, can be modified and we would welcome participation in this process by the public as well as by the Committee and administration professionals.



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The above suggestions indicate some, but not all of the ways we can address any concerns and thereby both improve the benefits to the City while limiting the potential risk. These suggestions, however, should be viewed as a starting point. Valiant Partners sees this as a collaborative process that we, in conjunction with the City and its advisors, will use to refine our proposal to accomplish these goals.

I wanted to formally express what we shared with your Evaluation Committee on January 20th that we look forward to strategically partnering with you to work out the details on architecture, as well as the financing. While we know this proposal "works", we have had meetings to review new financing options, as well as to reduce the size of the Conference Center, which then reduces the City's exposure. We look forward to being your strategic partner in these discussions in an effort to bring to Ann Arbor that which best serves this City's long term vital interests.

As I stated at the presentation, The Valiant Partners are committed to using all their resources to make this Proposal a reality.

Yours very cordially,

Bruce Zenkel

cc: Evaluation Committee, Mayor John Hieftje, Ann Arbor City Council