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Via E-Mail & Overnight Delivery

Library Lot Advisory Committee  
City of Ann Arbor  
100 North Fifth Avenue  
Ann Arbor, MI 48107-8647

Re: Ann Arbor RFP #743

Ladies & Gentlemen:

We are in receipt of a copy of the Ann Arbor Chronicle article dated 1-25-10 wherein it provided an in-depth reporting of the Advisory Committee's meeting on January 21, at which meeting the Advisory Committee deliberated the merits of all proposals, reducing for further consideration to two proposals, the Valiant proposal and the Acquest proposal. We have just received a copy of Valiant's response to those deliberations, and we respectfully herewith submit our concerns related to those deliberations and Valiant's response to those deliberations.

The Ann Arbor Chronicle article may have been a result of reporting errors, or in fact, committee members may have misinterpreted both our written submission, as well as our oral presentation.

First of all, a comment attributed to Sam Offen indicated that "he was bothered that Acquest wanted to purchase the air rights to the Library Lot, but did not want to pay anything until the conference center was built on the old YMCA parking lot at the NW corner of Fifth and William." That is not accurate in that all we stated was that we had proposed some correlation between the amount of payment for those air rights (lease or purchase) and the ultimate development of a conference center on the YMCA site. If the conference center was never built, it would be a moot point. Also, Eric Mahler was reported to have said that "the conference center construction required at the YMCA site lot was almost a non-starter." Our proposal never required the City to build a conference center on the YMCA site, certainly not concurrent with the proposed development of the hotel. Having said that, we believe subsequent feasibility studies and economic impact studies would make a strong case for the development of such a facility. We propose that we would pay fair market value for the air rights, which market value, pursuant to an independent appraisal, would obviously be influenced whether or not a conference center existed on the YMCA site. In any event, unlike the Valiant proposal, our proposal assumes absolutely no risk to the City. All we required with respect to the YMCA site is that we be a stakeholder in the ultimate use of that site, minimally assuring us that the ultimate development of that site would not be adverse to the economic success of our proposed hotel.

As to Kevin McDonald's comment to the effect that "the most important consideration for people to ask themselves was how much risk they were willing to accept," we assert that we are asking the City to accept no risk. As much as we advocate the need for synergy between a

conference center and a proposed hotel, we quickly acknowledge that the potential for a conference center on the YMCA site would most certainly require an independent feasibility study and equally important an economic impact study measuring the economic benefit to the City and the County as well as other downtown commercial establishments and other stakeholders. Should such studies warrant funding of a proposed conference center it would indeed have to be a collaborative effort involving the DDA, the City, Washtenaw County, as well as the hotel itself and other commercial interests. We never assumed that the potential for a conference center on the YMCA site would be a risk assumed solely on the City's shoulders.

As to comments describing our conceptual design as "hulking" and "blocky" we would like to emphasize that our team has endeavored to craft a conceptual design that we believe will fully comply with both the RFP requirements as well as the newly adopted D1 Zoning regulations, especially those regarding required building and streetwall setbacks, density, floor area ratio and building height. We are fully cognizant that the specifics of our design proposal will need to be more fully developed and vetted by the Planning Commission, East Liberty Historic District and by the City Council. We have consistently stated that our proposal is extremely conceptual in nature and is flexible by design. The scale of the project and specific functional and programmatic components will clearly need to respond to an independent market analysis. The architectural character of the @Hotel at Library Plaza will be developed as stated in our vision statement to be complimentary to both the Ann Arbor District Library and to the Ann Arbor Transit Authority Bus Depot, as well as the immediate neighborhood and Ann Arbor as a whole. The design intent is to create an iconic mixed-use building appropriate for its time and place.

We express further concern at this point in the selection process in that all the proposals were ranked by each of the Selection Committee on a basis of most preferable to least preferable. We take particular exception to Mr. Mahler's reported comment as "not enthusiastic about bringing Acquest along because of the alleged contingency related to the YMCA parking lot," with Ms. Teall apparently agreeing. Mahler's only positive comment reported as weighing in Acquest's favor was the permanent residences that would result from the condominium element. There is no condominium element contained in our proposal.

We can appreciate the Selection Committee's need to shortlist proposals. The general tenure of the reported deliberations, however, would suggest that based upon the initial written and oral presentations, the Committee has preliminarily reached a decision in favor of Valiant. It's much too soon to rank the two finalists.

As we examine Valiant's response to these deliberations as contained in its January 28 letter, it has proposed major changes to its proposal wherein we have not. Valiant has apparently made a unilateral decision to commission a study by HVS Consultants to evaluate the demand. We assume they are referring to hotel as well as convention center demand. In our opinion this should be a function under the direct control of the City and/or the DDA as the report loses its independence when the consultant's client is one of the proposers.

We are encouraged by the DDA's decision to engage a consultant to drill down and evaluate the merits of both hotel proposals. There are dramatic differences in these two proposals which have not been appropriately vetted to this point. We contend that our proposal is clearly the most doable and financeable in that projected costs are much more in line with the realities of the

market, i.e. our assumed average daily rates are \$135 versus Valiant's at \$179. Our assumptions assume occupancy in the stabilized year of 67%, certainly an aggressive assumption in today's depressed market, but considerably more conservative than Valiant's 75%. We further contend that our proposal assumes absolutely no risk to the City as the development of a conference center was never made contingent to our proposal, and that we are proposing to pay fair market value for the air rights. Our proposal also stated that if the value of those air rights might subsequently be enhanced by the development of a conference center, we would agree to negotiate an increase associated with the incremental value.

We would presume that the DDA's consultant will effectively drill down and vet both proposals by a common set of criteria and that the consultant would have a particular expertise in the hotel market.

We look forward to moving forward in this process and hope that we might have an opportunity to respond to the Selection Committee's questions and/or concerns regarding our proposal in an open forum.

Very truly yours,

(Transmitted electronically)

David G. Ong  
President

cc: Joan Cleland / Doug Smith – Acquest  
Scott Bonney & Joel Smith – Neumann Smith  
Matt Frankiewicz – White Lodging