SBFRIEDMAN

EXHIBIT 4A
LCRA 11/28/18

MEMO

To: Bob Long, Economic Development Corporation of Kansas City, Missouri

From: Fran Lefor Rood, SB Friedman Development Advisors
312.424.4253, frood@sbfriedman.com

Lance Dorn, SB Friedman Development Advisors
312.424.4255, ldorn@sbfriedman.com

Date: October 12, 2018

RE: Preliminary Financial Review – Hyatt House

SB Friedman Development Advisors (SB Friedman) was engaged by the Economic Development Corporation of Kansas City, Missouri (EDCKC) to conduct a preliminary financial review of the proposed Hyatt House Downtown Kansas City hotel (the "Project"). The Project will be built on an existing surface parking lot located at 900 Broadway Boulevard (the southwest corner of Broadway Boulevard and 9th Street) in Downtown Kansas City (the "Site"). An automatic stackable parking system, to accommodate parking spaces lost to development, will also be constructed on an existing surface parking lot located on the west side of the adjacent north/south alley.

The Project will be developed by the Boulder-based Pedersen Development Company LLC (the "Developer"). The Developer's affiliate, Depot Square Apartments, LLC, currently owns the Site, as well as the adjacent Google Fiber office building at 908 Broadway Boulevard. The Developer indicated that Project financial feasibility is challenged by the small footprint of Site, which is driving extraordinary costs associated with a taller building with smaller floorplates. Therefore, the Developer is requesting the following assistance from EDCKC:

- Sales tax exemption on construction materials (STECM);
- Reimbursement of a 1% Community Improvement District (CID) sales tax for 25 years; and
- Abatement of property taxes (above current predevelopment taxes) generated by the Project for 15 years under the Land Clearance for Redevelopment Authority (LCRA) (requested as 100% abatement in Years 1-10, 37.5% abatement in Years 11-15).

Per EDCKC, the Project qualifies for the higher level of property tax abatement in Years 1-10 as it is located in a continuously distressed area.

This memorandum includes a review of the following:

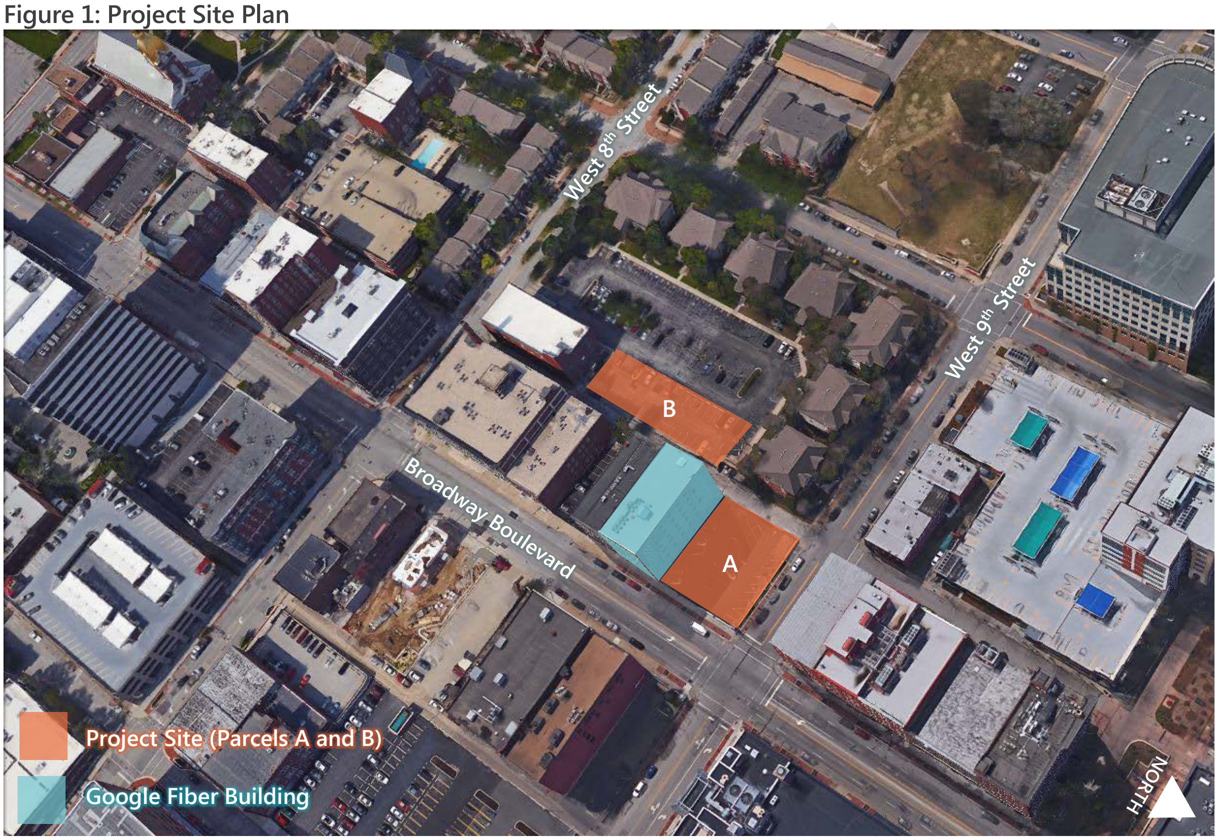
- Project characteristics
- Development budget
- Proposed sources of financing
- Proforma assumptions and 10-year cash flow
- Need for requested financial assistance

Our analysis indicates that the full amount of requested financial assistance appears to be needed for the Project to achieve viable rates of return. Our recommendations are provided in more detail in the **Conclusions and Recommendations** section of the memo.

Project Characteristics

The Developer's affiliate Depot Square Apartments, LLC acquired the Site in November 2017, including the existing surface parking lots and the Google Fiber building. An aerial of the Site is presented in **Figure 1**. The Developer is proposing a new construction $39.1 million 13-story, 153-key extended-stay hotel (Parcel A) on the Site, with an automatic stackable parking system that can accommodate up to 48 cars (Parcel B). The stackable parking is intended to replace the surface parking, which is available to tenants of the Google Fiber building, that will be lost due to the Project. The Developer will lease 100 additional parking spaces for hotel guests in nearby garage(s).

Figure 1: Project Site Plan



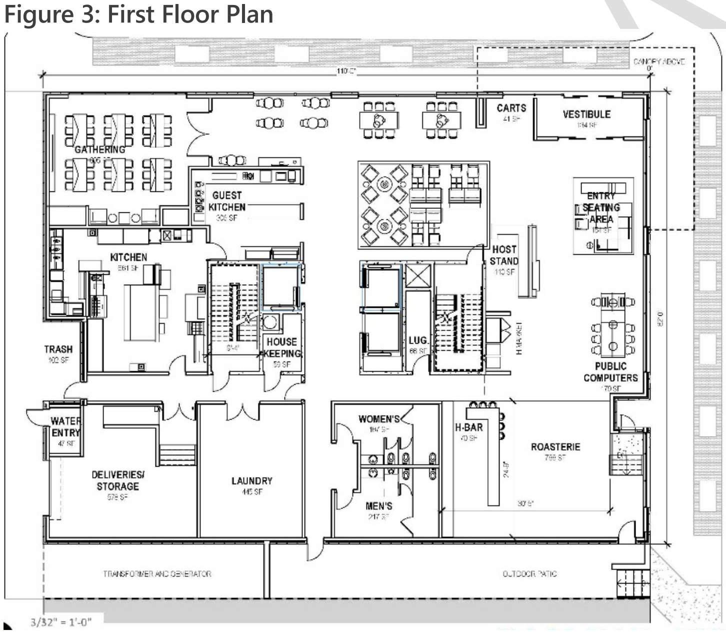
Source: Pedersen Development Company LLC, Google Earth, SB Friedman

In addition to guestrooms and common space, the Project is anticipated to include approximately 2,880 square feet (SF) of meeting space, a rooftop bar with a restaurant and outdoor terrace, first floor coffee-shop, market pantry, lobby workstation, fitness center, indoor whirlpool and guest laundry room. A Project rendering and first floor site plan are presented in **Figures 2** and **3**. The Developer anticipates approximately 40% of the hotel guest rooms will include kitchenettes for extended-stay hotel guests.

Figure 2: Project Rendering

Source: Pedersen Development Company LLC, Short Elliot Hendrickson, Inc., Larsson Design

Figure 3: First Floor Plan



Source: Pedersen Development Company LLC, Short Elliot Hendrickson, Inc., Larsson Design

Hyatt House is the upscale, select-service extended-stay brand that falls under the Hyatt Hotels flag. According to the HVS Market Study provided by the Developer, Hyatt House hotels typically feature contemporary, residentially inspired studios, one- and two- bedroom kitchen suites, and den-style guestrooms and the brand offers a variety of amenities and services. HVS also reports that the Hyatt Hotel system included 86 properties and over 12,000 guest rooms throughout the country in 2017. The Developer has experience working with Hyatt and previously developed a Hyatt Place Hotel in Boulder, Colorado.

The Developer has executed a third-party operating agreement with MJ KC Hotel Manager, LLC to operate the facility upon completion.

PROJECT SCHEDULE

Per the Developer, construction will begin in Spring 2019. The hotel is expected to open in June 2020 and reach stabilization in 2022. The Developer indicted their intent to hold the project over the near-term, but expressed a willingness to sell the stabilized Project if market factors and other development variables were favorable to a sale.

Developer Pro Forma Assumptions

SB Friedman reviewed the EDCKC application and supplemental materials submitted by the Developer, and engaged the Developer in subsequent conversations to obtain additional and updated information to best understand underlying Project assumptions. The Developer provided the following documents for review:

- EDCKC Redevelopment Project Application, received June 12, 2018;
- Project summary, architectural drawings, and preliminary Project schedule, received June 12, 2018;
- An initial draft HVS Market Study dated April 30, 2018, received June 12, 2018, and an updated HVS Market Study dated August 8, 2018, received August 9, 2018;
- 10-year pro forma including development budget, funding sources, cash flow (income and expenses) and other Project assumptions, received July 11, 2018;
- Buyer's closing statement for the Site (and the Google Fiber building) dated November 8, 2017, received August 2, 2018;
- Preliminary construction cost estimates from Brinkmann Constructors dated July 31, 2018 with updated construction costs, received August 2, 2018;
- A Hotel Management Agreement with MJ KC Hotel Manager, LLC dated May 24, 2018, received August 9, 2018;
- Pages from the Hyatt House 2018 Comprehensive Franchise Disclosure Agreement, received August 9, 2018;
- An assessed value calculation worksheet, received August 9, 2018;
- A Letter of Support from the Hyatt Hotels Corporation regional leadership dated September 25, 2018, received October 5, 2018; and
- Other supporting documentation.

PROJECT BUDGET

Figure 4 presents total development costs (TDC) from the Developer's preliminary Project pro forma and the construction costs estimated by Brinkmann Constructors. SB Friedman evaluated the Developer's budget line items on a per SF and per key basis and as a percentage of total costs using benchmarks from comparable Kansas City projects, industry data, and SB Friedman's past experience.

An explanation of key line items from the Developer's budget is provided on the next page. Detailed development costs are presented in **Table 1B** in **Appendix B**.

Figure 4: Development Budget Summary and Benchmarks (Before STECM)

Development Costs [1]	Developer Budget	SBF Adjusted Budget	% of Adjusted TDC	Adjusted $ per GSF/Key/Space	Benchmark or Notes [2]	Key Line Item
Acquisition Costs	$3,000,000	$2,326,000	6.1%	$15,200/key	$15,800/key	*
Hard Construction and Site Preparation Costs	$24,586,663	$24,586,663	64.7%	$160,700/key		*
Hotel	*$22,217,000*	*$22,217,000*	*58.5%*	*$145,200/key*	[4]	
Automatic Stackable Parking System	*$1,510,000*	*$1,510,000*	*4.0%*	*$31,500/space*		
Soft Costs	$1,322,500	$1,322,500	6.2%	$15,500/key	[5]	
Financing Costs	$1,041,544	$1,041,544				
FF&E	$5,348,000	$5,348,000	14.1%	$35,000/key	[4]	*
F&B Equipment	$205,000	$205,000	0.5%	$1,300/key	[5]	
Operating Costs	$1,065,000	$1,065,000	2.8%	$7,000/key	[5]	
Developer Fees	$1,288,500	$1,288,500	3.6% [6]	$8,400/key	1-4% [6]	*
Reserves and Other Costs	$1,245,000	$823,200	2.2%	$5,400/key	[5]	*
Total Development Costs	**$39,102,206**	**$38,006,406**	**100.0%**			

[1] Costs reflect Developer budget provided July 11, 2018, construction cost estimates provided August 2, 2018 and FF&E costs provided September 26, 2018
[2] Based on data from HVS, Real Capital Analytics, CoStar and comparable Kansas City project budgets
[3] Per SF of land
[4] Within range outlined in Hyatt House Franchise Disclosure Agreement
[5] Within reasonable range
[6] Percent of TDC, less acquisition
Source: Pedersen Development Company and SB Friedman

Key findings from our review of the Project budget include the following:

- **Land Acquisition.** The Developer provided a buyer's closing statement documenting their affiliate's purchase of the Project Site and the adjacent Google Fiber office building in November 2017 for approximately $5.2 million, including closing costs. The Developer purchased the overall site with the intent of developing the Project on the surface parking lot. The Site will be transferred from Depot Square Apartments LLC to Pedersen Development Company LLC, or a single-purpose affiliated entity. The Developer is contributing $3.0 million of the total sale price to the Project Site, or approximately $19,600/key and $136/SF of land. The Developer did not have an as-is appraisal completed for the portion of the overall site that will be developed as the hotel, but stated that, in their experience, hotels can typically carry up to $25,000/key in acquisition costs.

  SB Friedman evaluated the $3.0 million purchase price against comparable land sales for limited-service hotel projects in downtown Kansas City using Real Capital Analytics and information from previously reviewed projects. SB Friedman found sales prices ranging from $80-88/SF when adjusted for construction year, with an average acquisition price of approximately $15,800/key. Both benchmarks suggest the acquisition price for the Project may be above market. SB Friedman further benchmarked the allocated purchase price of the fully-occupied Google Fiber building, approximately $2.2 million, against recent asking prices for similarly sized (25,000-43,000 square foot) office properties in downtown Kansas City and the Crossroads. SB Friedman found asking prices average approximately $90/SF of building. Therefore, it appears the amount of the initial purchase price allocated to the Google Fiber building, which is approximately $69/SF, is below market.

The results of this analysis indicate that the Developer has allocated too little in acquisition costs for the Google Fiber building and too much for the hotel site. For the purposes of sizing public assistance for the Project, SB Friedman allocated $90/SF of building to the Google Fiber building, or $2.9 million total. The remaining portion of the total acquisition price ($2.3 million) was allocated to the hotel, resulting in acquisition costs of $15,200/key and $106/SF of land. The adjusted price is within range of recent hotel per key acquisition prices observed in Kansas City by SB Friedman.

- **Hard Construction and Site Preparation Costs.** The Developer provided construction cost estimates for the hotel and automatic parking components of the Project in their initial development budget. The Developer subsequently provided updated third-party hotel construction costs estimates from Brinkmann Constructors, which represented an increase of approximately $1.2 million. The increased costs were incorporated into our analysis. Key findings from our review of hard construction and site preparation costs are outlined below:

    - **Hotel.** The Developer is assuming hotel hard construction and site preparation costs of approximately $22.2 million before STECM assistance, or approximately $145,200/key. SB Friedman benchmarked this estimate against comparable Kansas City hotel projects, the HVS U.S. Hotel Development Cost Survey 2016/2017 and the Hyatt House Franchise Disclosure Document (FDD) provided by the Developer. The results of this analysis indicate that hard costs appear to be on the high-end of recently observed ranges for other comparable limited-service hotel projects, when adjusted for construction year ($134,500-145,200). The Hyatt House FDD provided by the Developer outlines a wide range of hard costs per key for a typical Hyatt House hotel (approximately $88,300-179,700). Project costs are in the upper 1/3 of the Hyatt-defined range. Cost estimates align with those provided by the third-party construction cost estimator and fall within range of information provided in the FDD and therefore appear appropriate. The Developer indicated the higher costs reflect the height and narrow floorplate of the Project, as well as the higher level of amenities included in the program compared to a typical Hyatt House hotel (i.e., rooftop bar, with a restaurant and outdoor terrace).

    - **Parking.** The Developer is assuming costs of approximately $1.5 million, or approximately $31,500/space, for a 6-story, 48-vehicle automatic stackable parking system. The Developer indicated that a stacked parking solution would be required to accommodate the number of parking spaces lost to development. SB Friedman benchmarked this estimate against publicly-available data on mechanical and automatic stackable parking systems and found a range of $20,000-31,500. Therefore, the Developer's assumption, while at the high end of the range, appears reasonable relative to available data.

    - **Sales Tax Exemption on Construction Materials (STECM).** The Developer applied an assumed 7.0% sales tax rate to the estimated hotel construction costs and assumed 50% of the estimated costs would be materials. With the increased hard costs, the Developer therefore values the STECM benefit at approximately $777,600. SB Friedman adjusted the Developer's STECM calculation to reflect EDCKC standards in which 40% of hard costs are assumed to be materials, and are taxed at the prevailing Kansas City sales tax rate of 8.6%. This decreased the STECM benefit slightly to approximately $764,300.

- **Furniture, Fixtures and Equipment (FF&E).** The Developer estimates FF&E costs to be approximately $5.3 million, or approximately $35,000/key. The Developer provided FF&E estimates in their initial development budget, and subsequently provided updated costs representing an increase of nearly $1.1 million. No third-party FF&E cost estimates were provided. SB Friedman evaluated the FF&E costs against comparable Kansas

City hotel projects and the HVS U.S. Hotel Development Cost Survey 2016/2017. The results of that analysis indicated that the FF&E estimate appears to be above the observed range for comparable limited-service hotel projects in Kansas City and elsewhere, when adjusted for construction year ($15,000-19,200/key).

Upon further discussion, the Developer indicated the higher than typical FF&E costs reflect Hyatt House brand requirements, as well as the non-prototypical design and finishes of the hotel. The Developer provided the Hyatt House FDD for review, which indicates average FF&E costs of $24,800-39,700/key for the Hyatt House brand; the Developer's updated estimate is near the middle of this range. The Developer also provided a Letter of Support in early October from the Hyatt Hotels Corporation stating that the larger size of the hotel and higher level of amenities contribute to above-average FF&E costs. Given that the FF&E cost estimate falls within the range identified by Hyatt, SB Friedman accepted this assumption, but is recommending a construction cost review upon completion, as described further in the **Conclusions and Recommendations** section.

- **Reserves and Other Costs.** The Developer is assuming pre-operating and pre-opening costs of approximately $1.3 million, or approximately $8,100/key. SB Friedman evaluated the estimate against the HVS U.S. Hotel Development Cost Survey 2016/2017, which identified an average pre-opening and working capital cost for upscale, extended-stay hotels of $4,100/key, when adjusted for construction year. SB Friedman also benchmarked the Developer's estimate against the Hyatt House FDD, which ranged from $3,200-4,400/key for the application fee, training fees and expenses, pre-opening and marketing expenses, miscellaneous opening costs and additional funds for start-up expenses. Based on this analysis, it appears the Developer's estimate for pre-operating and pre-opening costs is considerably above market. For the purposes of sizing public assistance, SB Friedman adjusted the figure downwards to the high-end of the Hyatt House FDD, $4,400/key. The Developer budget includes a $150,000 operating reserve, which is a requirement of the Developer's executed management agreement. The reduced pre-operating and pre-opening costs plus the operating reserve totals $823,200, for a difference of approximately $421,800.

FINANCING

Figure 5 presents preliminary anticipated financing sources for the Project, which the Developer anticipates will include a mix of conventional debt, cash equity and a deferred developer fee. Equity sources are assumed to be a combination of Developer land equity, Hyatt key money and investor equity. Developer land equity is a contribution of the portion of the November 2017 land purchase price attributed to the Site. The Developer also indicated that they have an alternative financing scenario that includes mezzanine debt, however additional details related to that scenario were not provided for the purposes of this analysis. Term sheets from potential lenders were not available to validate financing assumptions, as only preliminary discussions have occurred.

Figure 5: Preliminary Permanent Financing Sources

Development Sources [1]	Developer Sources	SBF Adjusted Sources	% of Total Sources	Benchmark [2]
Conventional Debt	$25,416,434	$24,704,164	65.0%	65-75%
Cash Equity	$13,357,314	$12,982,988	34.0%	30-35%
Deferred Developer Fee	$328,459	$319,254	1.0%	
TOTAL DEVELOPMENT SOURCES	**$39,102,206**	**$38,006,406**	**100.0%**	

[1] Sources reflect Developer sources provided July 11, 2018 and have been adjusted to reflect the construction cost estimates provided August 2, 2018 and updated FF&E costs provided September 26, 2018
[2] Based on data from RealtyRates and SB Friedman experience
Sources: Pedersen Development Company and SB Friedman

SB Friedman reviewed the financing assumptions, particularly in terms of the maximization of debt, the presence of a reasonable amount of equity, and adherence to market terms, using market data and information from recent comparable hotel projects in Kansas City. Key findings from our review of the Project sources include the following:

- **Conventional Debt.** The Developer is assuming 65% loan-to-cost (LTC) in permanent financing, with a 6.0% interest rate, 25-year amortization, and a 14-month interest-only period. The LTC, interest rate and amortization assumptions are in line with comparable projects reviewed by SB Friedman and market data, and therefore appear reasonable.

- **Cash Equity.** It is anticipated that Project equity will be provided by the Developer through Developer land equity, Hyatt key money, investor equity from a small investment group made up of family and friends and a deferred developer fee, comprising 35% of the Project's capital stack. The Developer does not include payment of the deferred developer fee within the Project cash flow; therefore, for the purposes of this analysis, it is treated as traditional equity. The percentage of TDC assumptions are in line with comparable projects reviewed by SB Friedman and market data, and therefore appear reasonable.

The 65% LTC ratio was maintained after the cost adjustments, with proportional reductions in equity and deferred developer fee.

CASH FLOW ASSUMPTIONS

SB Friedman analyzed cash flow assumptions in the Developer's pro forma against comparable hotel projects in Kansas City and industry data sources. Key assumptions from the Developer's pro forma are outlined below.

- **Average Daily Rate (ADR), Occupancy, and Revenue per Available Room (RevPAR).** The Developer provided a HVS market study for the Project, dated April 30, 2018. The competitive set that HVS used to derive ADR, occupancy and RevPAR includes: Residence and Courtyard Inns by Marriott Kansas City, Hampton Inn Kansas City Downtown, and Holiday Inn Kansas City Downtown (Aladdin). HVS indicates the average daily rate (ADR) and revenue per available room (RevPAR) for the competitive set were $150 and $103 in 2017, respectively. HVS inflated the competitive set data by varying rates to a recommended Project ADR of $160 in Year 1 (2020). HVS further recommended 3.0% annual inflation upon stabilization and a stabilized occupancy rate of 70%.

  The Developer pro forma reflects the HVS market study recommendations, resulting in an ADR of $177 at stabilization (Year 3/2022) with occupancy of 70%, and RevPAR of $124. The Developer also employed the recommended 3.0% ADR inflation after stabilization. These assumptions appear reasonable based on a review of the HVS market study details and comparable hotel projects in Kansas City.

  The Developer subsequently provided an updated HVS market study, dated August 8, 2018. In the updated market study, HVS adjusted their base assumptions for the Project downward to an ADR of $156 in 2020 and stabilized occupancy of 73%. HVS also adjusted the ADR growth assumptions to reflect a slight decline between 2017 and 2019, likely due to the anticipated increase in supply scheduled to come online in downtown Kansas City. The result is a stabilized ADR of $168 and a stabilized RevPAR of $123 in 2022. It did not fall within SB Friedman's scope to incorporate the updated HVS assumptions into the analysis. However, the decreased ADR and increased occupancy rate together had a minimal effect on stabilized RevPAR, and therefore cash flow. **Figure 6** presents the HVS market data provided by the Developer.

The Developer is assuming room revenues account for approximately 89% of stabilized hotel revenue. This is a lower percentage than the comparables in the HVS market study, which ranged from 92-99%. This likely reflects the higher level of food and beverage services in the Project and appears to be reasonable.

Figure 6. HVS Market Data: ADR, Occupancy, and RevPAR

<table>
<tr><th></th><th>Keys</th><th>ADR (2022$)</th><th>Stabilized Occupancy</th><th>RevPAR (2022$)</th></tr>
<tr><td>HVS Market Study Primary Competitive Set [1]</td><td>538</td><td>$173</td><td>69%</td><td>$120</td></tr>
<tr><td>HVS Market Study Project Recommendations, April 2018</td><td>144</td><td rowspan="2">$177</td><td rowspan="2">70%</td><td rowspan="2">$124</td></tr>
<tr><td>Developer Pro Forma Assumptions</td><td>153</td></tr>
<tr><td>HVS Market Study Project Recommendations, August 2018</td><td>153</td><td>$168</td><td>73%</td><td>$123</td></tr>
</table>

[1] Inflated to 2022 using Developer's 3.0% revenue growth assumption

Sources: HVS, Pedersen Development Company and SB Friedman

- **Parking Revenues.** The Developer is assuming parking revenues from 100 parking spaces that will be leased in nearby garage(s) and accessible to guests through curbside valet services. The Developer has assumed $20/space/night in 2020, which is inflated to $22/space/night in 2022 and again to $24/space/night in 2024, after which the parking revenues are held constant. This appears reasonable based on parking rates from other recent projects SB Friedman has reviewed in downtown Kansas City, as well as publicly available data.

- **Food and Beverage Revenues.** The Developer is assuming $426,000 in revenue from hotel food and beverage services, including the meeting rooms, rooftop bar and first-floor coffee shop, in Year 1 of operations and approximately $495,300 at stabilization. Revenue is expected to increase 3.5% in the first year after stabilization and then 3.0% annually thereafter. Assumed food and beverage revenues account for approximately 6.0% of total revenue at stabilization. Based on the benchmark range provided in the HVS market study, in which food and beverage account for 3.0-7.0% of total revenue, as well as data from comparable projects in Kansas City, this assumption appears to be reasonable.

- **Operating Expenses.** The Developer's assumed expenses for the hotel represent 61% of projected revenues, net of property taxes. This assumption is within the benchmark range provided in the HVS market study (56.2-62.2% of revenues, net of property taxes and insurance), and compared to comparable hotel projects reviewed by SB Friedman, which average 62.5% of revenues, net of taxes.

  The Developer assumes departmental expenses, including room expenses, food and beverage expenses, and parking expenses, grow at the same rate as their associated revenue source. The Developer also assumes overhead expenses, such as administrative and general expenses, franchise fees, sales and marketing, and utility costs grow at the same rate as total revenue, which is approximately 2.9% after stabilization. Lastly, the Developer assumes telecommunication expenses and repairs and maintenance are inflated at 2.0% and 3.5% after stabilization, respectively. SB Friedman benchmarked individual line item expenses as a percent of total revenues using the benchmark ranges provided in the HVS market study and comparable hotel projects reviewed by SB Friedman and found that they appear reasonable. Operating expense inflation rates were similarly found to be within range of market data and comparable hotel projects reviewed by SB Friedman.

- **Real Estate Tax Payments.** The Developer's assumed property tax payments reflect real estate tax payments of approximately $4,400/key and an assessed value of approximately $55,400/key in Year 1 through stabilization, which are then inflated by 2.0% annually thereafter. SB Friedman's engagement does not include estimating assessed value or property taxes; however, a review by EDCKC indicated that the assessed value of comparable hotels in downtown Kansas City range from $30,000-40,000/key. For the purposes of sizing public assistance, SB Friedman adjusted the assessed value of the Project to $40,000/key and applied the assumed commercial tax rate of 7.96%. This results in real estate tax payments of approximately $3,250/key at stabilization.

- **CID Sales Tax Reimbursement.** The Developer's pro forma assumes a 1.0% CID sales tax reimbursement on room revenue. EDCKC indicated the reimbursement should reflect a 1.0% reimbursement on room as well as food and beverage revenues. SB Friedman adjusted the calculation accordingly. The annual adjusted reimbursement value is approximately 7.0% greater.

- **Exit Capitalization Rate.** The Developer's pro forma assumes a hypothetical sale in Year 10 by applying a 9.5% terminal cap rate to Year 11 net operating income. Based on our review of market data, recently completed projects, and comparable hotel projects reviewed by SB Friedman, the exit cap rate assumption appears to be conservative and was adjusted to 9.0% for the purposes of sizing public assistance.

Need for Financial Assistance

SB Friedman analyzed the Project's need for financial assistance under the following scenarios:

1. **Without Assistance.** This scenario assumes the Project will not receive any EDCKC assistance.

2. **With Full Requested Assistance.** This scenario assumes the Project receives the requested STECM exemption, property tax abatement, and reimbursements from the CID Sales Tax.

SB Friedman typically evaluates a project's need for financial assistance using one or more of the following return metrics:

1. **Unleveraged Internal Rate of Return (IRR)**. This is the rate of return or discount rate for a project, accounting for initial expenditures to construct the Project (total project costs) and ongoing cash inflows (annual net operating income [NOI] before debt service), as well as a hypothetical sale of the Project at the end of the analysis period.

2. **Stabilized Yield on Cost.** This metric is calculated by dividing NOI before debt service in the first year of stabilized operations by total project costs, and is an indicator of the annual overall return on investment for the Project's financing structure.

3. **Leveraged Internal Rate of Return.** This is the annualized rate of return the Project's equity investors would be projected to realize over their full investment period, including an assumed hypothetical sale of the Project at the end of the analysis period.

4. **Stabilized Cash on Cash Return**. This metric indicates the annual cash return to equity investors once the Project reaches stabilization, and is calculated by dividing net cash flow (after debt service) in the first year of stabilized operations by the total initial equity investment.

SB Friedman evaluated the Project's need for assistance using unleveraged metrics, including stabilized yield on cost and unleveraged IRR. These metrics evaluate overall Project feasibility rather than returns to specific investors. Small changes in financing can have a substantial impact on leveraged returns; therefore, leveraged returns do not provide an accurate picture of the Project's need for assistance when financing assumptions are preliminary, as they are with this Project. We primarily evaluated yield on cost due to the Developer's intent to hold the Project upon stabilization until market factors and other development variables are favorable to sale.

SB Friedman made the following adjustments to the Developer's original pro forma to analyze returns:

- **Acquisition Costs.** The Developer is assuming $3.0 million in land acquisition costs, which is part of the total land acquisition price paid for the Project Site and the adjacent Google Fiber office building. For the purposes of this analysis, SB Friedman recognized $2.3 million in land acquisition costs attributed to the Project.

- **Hard Construction Costs.** The Developer provided construction cost estimates for the hotel from Brinkmann Constructors, which represented an increase of approximately $1.2 million compared to the hard construction costs provided in the Developer's initial proforma. SB Friedman adjusted the hard costs accordingly.

- **STECM Adjustment.** The Developer valued the STECM benefit at approximately $777,600 when accounting for the increased hard costs. SB Friedman values STECM using an equation provided by EDCKC, which assumes 40.0% of hard construction costs are materials and applies the current Kansas City sales tax rate. The results in STECM benefit of nearly $764,300, which is the value used by SB Friedman to analyze returns.

- **Reserves and Other Costs.** The Developer's pro forma includes approximately $1.3 million, or $8,100/key, for pre-operating and pre-opening costs. SB Friedman adjusted this assumption on a per-key basis to the high-end of the range identified in the Hyatt House FDD, which is $4,400/key, and added the $150,000 operating reserve required by the Developer's executed management agreement. The result, which SB Friedman used to analyze returns, is approximately $823,200.

- **Real Estate Tax Payments.** The Developer is assuming an assessed value of $55,400/key. Based on the assessed value range of comparable projects provided by EDCKC, SB Friedman adjusted this assumption downward to $40,000/key to analyze returns.

- **CID Sales Tax Reimbursement.** The Developer is assuming the reimbursement of a 1.0% sales tax on room revenue in their assistance scenario. Based on direction from EDCKC, SB Friedman adjusted this assumption to reflect the reimbursement of a 1.0% sales tax on room and food and beverage revenues.

- **Exit Capitalization Rate.** The Developer's exit cap rate assumption of 9.5% appears to be conservative based on available market data and recent projects and was therefore adjusted downward to 9.0%.

As presented in **Figure 7** and in further detail in **Appendix Tables 2B-3B**, SB Friedman estimates the Project, without assistance, would generate below market returns, with a stabilized yield on cost of 6.5%. Typically, projects of this type would expect to achieve a yield on cost ranging from 7.5-8.5%, with projects in established and core markets achieving at the lower end and riskier projects (based on program, location or other factors) achieving at the higher end. With the full requested assistance, the Project, as presented, would achieve a yield on cost of 8.1%, which is at the midpoint of market rates of return.

Conclusions and Recommendations

As presented and described above, the project appears to require the full amount of requested assistance to achieve market-acceptable rates of return, and to therefore be financially feasible. As shown in **Figure 7**, the Project is able to achieve returns in line with industry benchmarks and comparable projects that have moved forward with construction with the requested level of assistance that includes:

- Sales tax exemption on construction materials (STECM);
- Reimbursement of a 1% Community Improvement District (CID) sales tax for 25 years; and
- Abatement of property taxes (above current predevelopment taxes) generated by the Project for 15 years under the Land Clearance for Redevelopment Authority (LCRA) (100% abatement in Years 1-10, 37.5% abatement in Years 11-15).

The full requested level of assistance brings the Project's yield on cost to 8.1%, which is just above the midpoint of identified market-appropriate rates of return. With this level of assistance, the discounted value of total assistance is approximately $5.3 million, including STECM, or approximately 13.8% of TDC. The need for assistance appears to be driven by the inclusion of parking stackers, mid-rise construction design with a narrow floorplate, and design and finish requirements of the Hyatt House brand, which are not fully supported by achievable room revenues.

Figure 7. Projected Developer Financial Returns

Returns Metric	Without Assistance	With Full Requested Assistance	Industry Benchmark [2]
Stabilized Yield on Cost	6.5%	8.1%	7.5-8.5%
Unleveraged IRR	6.1%	8.3%	8.0-10.0%
Undiscounted Value of Total Assistance		$9.5 M	
Discounted Value of Assistance at 9.0%		$5.3 M	
Discounted Value of Assistance as a Percent of TDC		13.8%	
Undiscounted Taxing District Property Tax Collections Over the 25-Year Analysis Period		$8.8 M	

Source: Pedersen Development Company and SB Friedman

The Developer provided third-party hotel hard construction costs estimates from Brinkmann Constructors for the Project, but did not provide any third-party documentation for costs associated with the automatic stackable parking system or FF&E for the hotel. Given the conceptual status of the Project's design, and the lack of specificity regarding the use of the FF&E allowance, costs for these components could vary if changes are made to the development plans (e.g., changes to rooftop deck or other amenity spaces) or if the Developer undertakes cost engineering as design advances. SB Friedman therefore recommends a review of Project costs upon completion to evaluate final project costs relative to the pro forma estimates provided for this analysis. This true-up can be used to determine if the full requested level of assistance still appears to be required for the Project to achieve market-appropriate rates of return.

Appendix A

LIMITATIONS OF OUR ENGAGEMENT

Our deliverable is based on estimates, assumptions and other information developed from research of the market, knowledge of the industry, and meetings/teleconferences with the Economic Development Corporation of Kansas City, Missouri and the Developer during which we obtained certain information. The sources of information and bases of the estimates and assumptions are stated in the deliverable. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those described in our deliverable, and the variations may be material.

The terms of this engagement are such that we have no obligation to revise analyses or the deliverable to reflect events or conditions that occur subsequent to the date of the deliverable. These events or conditions include, without limitation, economic growth trends, governmental actions, changes in state statute, additional competitive developments, interest rates, and other market factors. However, we will be available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed project.

Our deliverable is intended solely for your information, for purposes of reviewing a request for financial assistance, and is not a recommendation to issue bonds or other securities. The deliverable should not be relied upon by any other person, firm or corporation, or for any other purposes. Neither the deliverable nor its contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan, or other agreement or document intended for use in obtaining funds from individual investors without our prior written consent.

We acknowledge that upon submission to EDCKC, the deliverable may become a public document within the meaning of the Freedom of Information Act. Nothing in these limitations is intended to block the disclosure of the documents under such Act.

Appendix B

Figure 1B. Detailed Development Costs

Development Costs	Developer Updated Assumption	SBF Adjustment	% of Total	$/SF of Land	$/Hotel Key	$/Pkg Space	$/SF of Bldg
Acquisition Costs							
Land	$3,000,000	$2,326,000					
Total Acquisition Costs	**$3,000,000**	**$2,326,000**	**6.1%**	**$106**			
Hard Construction Costs							
Hotel	$22,217,000	$22,217,000			$145,209		$190
Automated Parking	$1,510,000	$1,510,000				$31,458	
Permit Fees	$109,663	$109,663					
Utilities	$50,000	$50,000					
Tenant Improvement Allowance	$200,000	$200,000					
Contingency	$500,000	$500,000					
Total Hard Construction Costs	**$24,586,663**	**$24,586,663**	**64.7%**		**$160,697**		**$210**
Soft Costs							
Consultants	$957,500	$957,500					
Owner Legal	$200,000	$200,000					
Appraisal	$10,000	$10,000					
Phase 1	$5,000	$5,000					
Accounting	$50,000	$50,000					
Insurance	$100,000	$100,000					
Total Soft Costs	**$1,322,500**	**$1,322,500**	**3.5%**		**$8,644**		**$11**
FF&E							
Guestroom Ff&E	$3,080,000	$3,080,000					
Public Space Ff&E	$1,841,000	$1,841,000					
Ff&E Purhcasing Agent	$60,000	$60,000					
Ff&E Purhcasing Agnt Reimb	$2,000	$2,000					
Ff&E Install	$85,000	$85,000					
Ff&E Warehousing	$70,000	$70,000					
Ff&E Contingency	$50,000	$50,000					
Ff&E Tax	$15,000	$15,000					
Ff&E Freight	$75,000	$75,000					
Exterior Signage	$50,000	$50,000					
Interior Signage	$20,000	$20,000					
Total FF&E	**$5,348,000**	**$5,348,000**	**14.1%**		**$34,954**		**$46**
Equipment							
F&B Equipment	$200,000	$200,000					
F&B Freight	$5,000	$5,000					
Total Equipment	**$205,000**	**$205,000**	**0.5%**		**$1,340**		**$2**

Figure 1B. Detailed Development Costs (cont.)

Development Costs	Developer Updated Assumption	SBF Adjustment	% of Total	$/SF of Land	$/Hotel Key	$/Pkg Space	$/SF of Bldg
Operating Costs							
Operating Supplies & Equipment (OSE)	$755,000	$755,000					
Brand Training	$50,000	$50,000					
Pms System	$100,000	$100,000					
It Management Brand	$25,000	$25,000					
It Project Manager	$25,000	$25,000					
It Project Manager Travel	$10,000	$10,000					
Operations Contingency	$100,000	$100,000					
Total Operating Costs	**$1,065,000**	**$1,065,000**	2.8%		$6,961		$9
Financing Costs							
Lender Legal	$20,000	$20,000					
Mortgage Broker	$0	$0					
Point Fee Construction	$179,470	$179,470					
Point Fee Perm	$119,646	$119,646					
Lender Inspector	$12,000	$12,000					
Title Insurance	$15,000	$15,000					
Recording Cost	$1,000	$1,000					
Construction Property Tax	$0	$0					
Construction Interest	$694,428	$694,428					
Total Financing Costs	**$1,041,544**	**$1,041,544**	2.7%		$6,807		$9
Developer Fees							
Development Fee	$1,288,500	$1,288,500					
Total Developer Fees	**$1,288,500**	**$1,288,500**	3.4%		$8,422		$11
Reserves and Other Costs							
Pre-Operating Costs	$1,195,000	$773,200					
Marketing	*$20,000*						
Start-Up	*$1,100,000*						
Hotel App Fee	*$75,000*						
Preopening/Training	$50,000	$50,000					
Total Reserves and Other Costs	**$1,245,000**	**$823,200**	2.2%		$5,380		$7
TOTAL DEVELOPMENT COSTS	**$39,102,206**	**$38,006,406**	100.0%		$248,408		$325

Source: Pedersen Development Company, SB Friedman

Figure 2B. Cash Flow Pro Forma: No Assistance

				STABILIZATION							
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
NO ASSISTANCE	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
DEVELOPMENT SOURCES											
Permanent Financing	-$24,704,164										
Deferred Developer Fee	-$319,254										
Developer or Investor Equity	-$12,982,988										
STECM	$0										
Net Operating Income		$1,998,963	$2,355,162	$2,473,050	$2,550,463	$2,634,922	$2,716,720	$2,807,196	$2,894,606	$2,984,717	$3,077,319
Payout of Capitalized Reserves		$100,000									
Reversion Proceeds (Year 10)											$34,195,462
TOTAL		**$2,098,963**	**$2,355,162**	**$2,473,050**	**$2,550,463**	**$2,634,922**	**$2,716,720**	**$2,807,196**	**$2,894,606**	**$2,984,717**	**$37,272,781**
DEVELOPMENT USES											
Permanent Debt Service		$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031
Permanent Debt Repayment (Year 10)											$18,862,118
Equity Distribution		$188,932	$445,131	$563,019	$640,432	$724,891	$806,689	$897,164	$984,574	$1,074,685	$16,500,631
TOTAL		**$2,098,963**	**$2,355,162**	**$2,473,050**	**$2,550,463**	**$2,634,922**	**$2,716,720**	**$2,807,196**	**$2,894,606**	**$2,984,717**	**$37,272,781**
Debt Coverage Ratio		*0.00*	*1.23*	*1.29*	*1.34*	*1.38*	*1.42*	*1.47*	*1.52*	*1.56*	*1.61*
LEVERAGED CASH FLOW - NO ASSISTANCE											
Equity Contribution	-$12,982,988										
Deferred Developer Fee	-$319,254										
Less STECM	$0										
Equity Distribution		$188,932	$445,131	$563,019	$640,432	$724,891	$806,689	$897,164	$984,574	$1,074,685	$16,500,631
TOTAL	-$13,302,242	$188,932	$445,131	$563,019	$640,432	$724,891	$806,689	$897,164	$984,574	$1,074,685	$16,500,631
Annual Cash-on-Cash Return		*1.4%*	*3.3%*	*4.2%*	*4.8%*	*5.4%*	*6.1%*	*6.7%*	*7.4%*	*8.1%*	*8.8%*
Leveraged IRR - No Assistance	**6.4%**										
UNLEVERAGED CASH FLOW - NO ASSISTANCE											
Net Operating Income	$0	$2,098,963	$2,355,162	$2,473,050	$2,550,463	$2,634,922	$2,716,720	$2,807,196	$2,894,606	$2,984,717	$3,077,319
Reversion Proceeds (Year 10)											$34,195,462
Total Project Costs	-$38,006,406										
STECM	$0										
TOTAL	-$38,006,406	$2,098,963	$2,355,162	$2,473,050	$2,550,463	$2,634,922	$2,716,720	$2,807,196	$2,894,606	$2,984,717	$37,272,781
Annual Yield on Cost		*5.5%*	*6.2%*	*6.5%*	*6.7%*	*6.9%*	*7.1%*	*7.4%*	*7.6%*	*7.9%*	*8.1%*
Unleveraged IRR - No Assistance	**6.1%**										

Source: Pedersen Development Company, SB Friedman

Figure 3B. Cash Flow Pro Forma: Full Assistance

				STABILIZATION							
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
FULL ASSISTANCE	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
DEVELOPMENT SOURCES											
Permanent Financing	-$24,704,164										
Deferred Developer Fee	-$319,254										
Developer or Investor Equity	-$12,982,988										
STECM	$764,265										
Net Operating Income		$1,998,963	$2,355,162	$2,473,050	$2,550,463	$2,634,922	$2,716,720	$2,807,196	$2,894,606	$2,984,717	$3,077,319
Payout of Capitalized Reserves		*$100,000*									
Savings from Property Tax Assistance		$482,913	$482,913	$482,913	$492,656	$502,594	$512,731	$523,070	$533,617	$544,374	$555,346
Community Improvement District Revenues		$61,544	$68,488	$72,915	$75,126	$77,380	$79,701	$82,092	$84,555	$87,092	$89,705
PV of Remaining Assistance (Year 11+)											$1,738,871
Reversion Proceeds (Year 10)											$34,195,462
TOTAL		**$2,643,421**	**$2,906,564**	**$3,028,878**	**$3,118,246**	**$3,214,896**	**$3,309,153**	**$3,412,358**	**$3,512,777**	**$3,616,182**	**$39,656,703**
DEVELOPMENT USES											
Permanent Debt Service		$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031	$1,910,031
Permanent Debt Repayment (Year 10)											$18,862,118
Equity Distribution		$733,389	$996,532	$1,118,847	$1,208,215	$1,304,865	$1,399,121	$1,502,327	$1,602,746	$1,706,151	$18,884,553
TOTAL		**$2,643,421**	**$2,906,564**	**$3,028,878**	**$3,118,246**	**$3,214,896**	**$3,309,153**	**$3,412,358**	**$3,512,777**	**$3,616,182**	**$39,656,703**
Debt Coverage Ratio		*1.33*	*1.52*	*1.59*	*1.63*	*1.68*	*1.73*	*1.79*	*1.84*	*1.89*	*1.95*
LEVERAGED CASH FLOW - FULL ASSISTANCE											
Equity Contribution	-$12,982,988										
Deferred Developer Fee	-$319,254										
Less STECM	$764,265										
Equity Distribution	$0	$733,389	$996,532	$1,118,847	$1,208,215	$1,304,865	$1,399,121	$1,502,327	$1,602,746	$1,706,151	$18,884,553
TOTAL	-$12,537,977	$733,389	$996,532	$1,118,847	$1,208,215	$1,304,865	$1,399,121	$1,502,327	$1,602,746	$1,706,151	$18,884,553
Annual Cash-on-Cash Return		*5.8%*	*7.9%*	*8.9%*	*9.6%*	*10.4%*	*11.2%*	*12.0%*	*12.8%*	*13.6%*	*14.5%*
Leveraged IRR - Full Assistance	**11.9%**										
UNLEVERAGED CASH FLOW - FULL ASSISTANCE											
Net Operating Income	$0	$2,098,963	$2,355,162	$2,473,050	$2,550,463	$2,634,922	$2,716,720	$2,807,196	$2,894,606	$2,984,717	$3,077,319
Savings from Property Tax Assistance		$482,913	$482,913	$482,913	$492,656	$502,594	$512,731	$523,070	$533,617	$544,374	$555,346
Community Improvement District Revenues		$61,544	$68,488	$72,915	$75,126	$77,380	$79,701	$82,092	$84,555	$87,092	$89,705
PV of Remaining Assistance (Year 11+)											$1,738,871
Reversion Proceeds											$34,195,462
Total Project Costs	-$38,006,406										
STECM	$764,265										
TOTAL	-$37,242,141	$2,643,421	$2,906,564	$3,028,878	$3,118,246	$3,214,896	$3,309,153	$3,412,358	$3,512,777	$3,616,182	$39,656,703
Annual Yield on Cost		*7.1%*	*7.8%*	*8.1%*	*8.4%*	*8.6%*	*8.9%*	*9.2%*	*9.4%*	*9.7%*	*10.0%*
Unleveraged IRR - Full Assistance	**8.3%**										

Source: Pedersen Development Company, SB Friedman

Appendix C

Figure 1C. Assessed Value Schedule

Abatement Year	Calendar Year	Projected Assessed Value [1][2]	Property Taxes Before Abatement [3]	Abatement %	Property Taxes After Abatement [Paid to Taxing Jurisdictions]	Estimated LCRA Benefit to Project
0	2019	$53,216	$4,239 [4]			
1	2020	$6,120,000	$487,152	100.0%	$4,239	$482,913
2	2021	$7,489,278	$487,152	100.0%	$4,239	$482,913
3	2022	$7,713,956	$487,152	100.0%	$4,239	$482,913
4	2023	$7,713,956	$496,895	100.0%	$4,239	$492,656
5	2024	$7,945,375	$506,833	100.0%	$4,239	$502,594
6	2025	$7,945,375	$516,970	100.0%	$4,239	$512,731
7	2026	$8,183,736	$527,309	100.0%	$4,239	$523,070
8	2027	$8,183,736	$537,855	100.0%	$4,239	$533,617
9	2028	$8,429,248	$548,612	100.0%	$4,239	$544,374
10	2029	$8,429,248	$559,585	100.0%	$4,239	$555,346
11	2030	$8,682,126	$570,776	37.5%	$358,325	$212,452
12	2031	$8,682,126	$582,192	37.5%	$365,459	$216,732
13	2032	$8,942,589	$593,836	37.5%	$372,737	$221,099
14	2033	$8,942,589	$605,712	37.5%	$380,160	$225,553
15	2034	$9,210,867	$617,827	37.5%	$387,731	$230,095
16	2035	$9,210,867	$630,183	0.0%	$630,183	$0
17	2036	$9,487,193	$642,787	0.0%	$642,787	$0
18	2037	$9,487,193	$655,642	0.0%	$655,642	$0
19	2038	$9,771,809	$668,755	0.0%	$668,755	$0
20	2039	$9,771,809	$682,130	0.0%	$682,130	$0
21	2040	$10,064,963	$695,773	0.0%	$695,773	$0
22	2041	$10,064,963	$709,688	0.0%	$709,688	$0
23	2042	$10,366,912	$723,882	0.0%	$723,882	$0
24	2043	$10,366,912	$738,360	0.0%	$738,360	$0
25	2044	$10,677,919	$753,127	0.0%	$753,127	$0
TOTAL, Years 1-25 (Undiscounted)			**$15,026,186**		**$8,807,125**	**$6,219,060**
Years 1-10			**$5,155,515**		**$42,385**	**$5,113,129**
Years 11-25			**$9,870,671**		**$8,764,740**	**$1,105,931**

[1] Assessed value assumes $40,000/key upon completion, as indicated by a EDCKC review of comparable hotels in downtown Kansas City

[2] Developer assumed a 2% annual increase in assessed value following stabilization in Year 3

[4] Assumed 2017 tax rate, 7.96%, as indicated by EDCKC

[3] Base taxes, per 2017 assessed value and tax rates

Source: EDCKC, SB Friedman