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DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



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I. EXECUTIVE SUMMARY

The proposed development project focuses on The Gulch neighborhood as part of the downtown submarket in the heart of the Nashville MSA, one of the top-25 hotel markets in the US. The Gulch encompasses a land area of approximately 60 acres, about half of which is controlled by a single real estate company based in Nashville, MarketStreet Enterprises.

MarketStreet Enterprises is a local real estate development and investment firm that has operated in Nashville for nearly a decade. The company was designated as the official master redeveloper of The Gulch area by the City of Nashville in 2001 based on the firm's investment and vision for the area. One of MarketStreet's responsibilities in this role was the creation of a comprehensive master plan for The Gulch as a governing document for future property development, which has been updated periodically over time. Currently, MarketStreet is in the process of a 2009 update to the master plan that includes both greater density and a wider variety of new product types than originally anticipated. As supported by the underlying zoning of The Gulch development district, a great diversity of commercial and residential buildings may potentially be constructed.

Of particular interest to MarketStreet has been the process of updating the master plan with the potential to focus on parcels that present unique challenges to future development. Some parcels, and indeed entire blocks, are wholly owned by the firm and are of a size, dimension and orientation that make planning straightforward. Other parcels and blocks are oddly configured for buildings and/or parking, or contain multiple separate parcels with different owners.

Therefore, some of these sites have been difficult to program in previous iterations of the master plan and currently appear underdeveloped, given the renewed focus on greater density and a diversity of product type contemplated in the new plans. The uniqueness of these sites presents a challenge for devising plans that utilize the sites in a manner that constitutes their "highest and best use", and perhaps in a way that was not previously thought feasible.

A prime example of this is a parcel referred to as the "triangle site" situated in the heart of The Gulch at the intersection of 12th Avenue South, Pine Street and 11th Avenue South. Immediately across from high-rise and mid-rise condominiums, apartments,



Figure 1

Nashville Regional Map

Source: Nashville Area Chamber of Commerce



Figure 2

Gulch Master Plan, 2009 update

Source: MarketStreet Enterprises

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restaurants and retail, the triangle site is truly the “hub” of The Gulch and located at the crossroads of all current development activity in the area.

Approximately one acre in size, the block on which the site sits is modestly sized to begin with, but is further divided into five separate parcels. Three parcels are not owned by MarketStreet and are unlikely to be acquired in the near term. The two remaining parcels that are owned by the firm are contiguous and comprise 0.64 acres, or roughly two-thirds of the total site. These parcels are arranged in a way that creates an oddly shaped site that is narrow in the middle. The firm has used the site as a valet parking lot servicing restaurants across the street for the past several years and has no current development plans for the site.

The dimensional characteristics of the property play a large role in its development opportunities. At its narrowest point the subject site measures 72 feet in width. This dimension effectively rules out commercial office development, which is typically 100 to 120 feet wide, but has the potential to accommodate retail, multifamily residential or hospitality uses. In addition, if the property is executed as a “zero lot line” development which is typical for The Gulch area, there would be essentially no ability to create parking on site that would accommodate the demand created by a relatively intense, vertical development.

Due to the site's configuration, underground parking is both physically infeasible and not cost effective. For this reason, a multifamily building, for example, with off-site parking would be a difficult sell. Certain types of hotels and retail uses, particularly restaurants, in the area utilize valet parking as those uses have less sensitivity to on-site parking needs. In the downtown area, valet parking for hotels and restaurant has become an expected amenity. This model has been used successfully in other projects, including the majority of the restaurants currently in The Gulch.

The subject site has access to ample off-site parking in three separate surface parking lots owned by MarketStreet within 300 feet of the subject site, and more in the “off-peak” hours overnight. The apartments and condominiums in the Gulch, both existing and under-construction, all feature dedicated parking for tenants or unit owners in either structured garages or surface lots. The existing office building tenants and retailers either have dedicated on-site parking or use existing surface lots for overflow needs. For the restaurants and entertainment

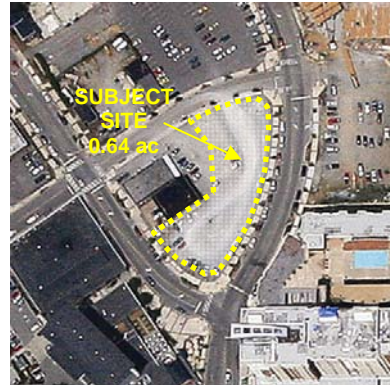


Figure 3

Aerial View of Subject Site

Source: MarketStreet Enterprises

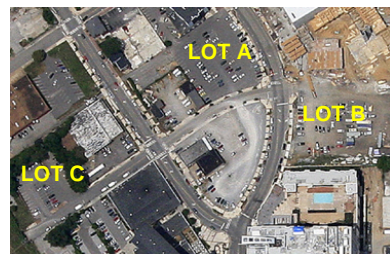


Figure 4

Surface Parking Lot Availability

Source: MarketStreet Enterprises

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venues in The Gulch, the parking demand created is counter-cyclical to the majority of office building tenants and retailers.

Similarly, if there were any hotels in The Gulch, generally that type of use would also have the heaviest parking demand during the evening and overnight hours and could utilize existing parking garages and surface lots. As there are no hotels in The Gulch currently, there is potential to combine that product type with a ground floor retail/restaurant use as a mixed-use development.

Aside from the opportunity to efficiently utilize the site, the prospect of new hotels as a development opportunity has garnered considerable attention in downtown Nashville since the announcement of the Music City Center, the proposed replacement facility for the old, obsolete Nashville Convention Center located downtown that dates back to 1987. The future 1.2 million-square-foot, \$650 Million center will be located only three blocks from The Gulch and five blocks from the subject site.

By a unanimous voice vote on February 5, 2008, the Metropolitan City Council approved moving forward with pre-development activities so that a design and final budget could be created for the facility. In a subsequent meeting with City Council on April 13, 2009, additional approvals were obtained for moving the project forward. Planning is also underway on a potential 1,000-room convention headquarters hotel, however even a facility of that size is unlikely to accommodate the total anticipated demand generated by the Music City Center project and any other related projects that may come behind it.



Figure 5

Proposed Music City Center

Source: Metropolitan Development & Housing Agency

In addition to the increase in room-night demand the Music City Center will generate, the Nashville market of almost 35,000 hotel rooms is largely dominated by Marriott and Hilton corporate family hotel brands. This is especially true in the Downtown, Midtown and West End submarket that includes The Gulch and the subject site. There would be little competition for a new upscale, unique-to-Nashville hotel brand situated in a vibrant urban neighborhood with fine dining and entertainment destinations such as The Gulch.

An urban hotel with a distinct vibe consistent with the energy of The Gulch district would offer a unique option for business and leisure travelers coming to Nashville. Combined with a destination retail/restaurant concept that could complement the other venues in the mixed-use neighborhood, a new hotel could be an excellent contribution to the environment that MarketStreet is creating for The Gulch as a whole.

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Critically important to the competitive edge that The Gulch enjoys is the ability to bring new concepts to the neighborhood that are not just new-to-Nashville, but often new-to-Tennessee as well. The Gulch is the home of Tennessee's first Urban Outfitters retail store and many independent and small chain restaurants that have no other presence in the market. The opportunity for a new hotel project presents an opportunity to further differentiate The Gulch as a unique destination within the broader Nashville market.

Aside from being unique to the market, the hotel would need to appeal to the target Gulch demographic of young and hip professionals by providing a lifestyle-oriented concept with a sophisticated appearance, style and amenity base unlike anything else in town. One such concept in the upscale "lifestyle/boutique" hospitality sector is the brand NYLO Hotels.

Headquartered in Atlanta, GA, NYLO was founded in 2004 by seasoned industry executives who assembled a team comprising individuals with diverse experiences at hotel companies such as Starwood, Cendant, Sheraton and Hyatt. The company is in the process of self-developing a handful of corporate prototype properties in markets across the US, and is launching a full-scale franchise program to spread the NYLO brand in strong primary and secondary markets throughout the country.

As a top-25 US hotel market by room count, Nashville spans the gap between being a primary and secondary market. Nashville has been identified by NYLO as a target city for franchise expansion. The lack of current or planned competitive supply in the sector, combined with strong fundamentals in the local hotel market, is appealing to the brand. The Gulch area in particular shares NYLO's target demographic focus as well as the brand's underlying concept vision for appearance, style and amenities.



Figure 6

NYLO Hotel Brand Concept

Source: NYLO Hotels

Zoning and entitlements for hotels in the downtown area and in The Gulch are relatively straightforward. Hotels as a product type are allowed "by right" under the local zoning code for the subject site, which is the city's Core Frame (CF) designation. A hotel can be designed on the site that complies with city requirements for floor area ratio, setbacks, and access and loading. Off-site parking can be approved with a plan request to the zoning administrator. If the hotel is taller than five stories, the issue of maximum height will likely need to be addressed with a variance for the local Height Control Plane ordinance under a variance process. Otherwise, the project may proceed to permits.

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The schematic design for a NYLO hotel on the subject site shows that the hotel footprint and “tower” of guest rooms can be accommodated efficiently on the parcel. As designed, the building features 184 guest rooms (14 of which are suites) if a six-story diagram is pursued. The total building is 103,000 square feet (SF), including a 9,000 SF restaurant space on the ground level that would be separate from the hotel. The hotel would feature its own 4,000 SF restaurant and lounge/bar, 3,000 SF of meeting space, and the requisite lobby area, fitness room and other amenities typical to the NYLO brand.

The exterior appearance of the hotel would be consistent with NYLO’s prototype properties, as the brand’s architectural aesthetic is consistent with both the scale and appearance of the glass, brick and concrete buildings surrounding the site on all sides.

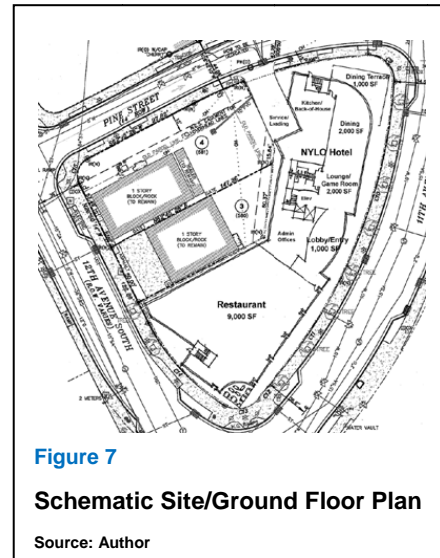


Figure 7

Schematic Site/Ground Floor Plan

Source: Author

After consultation with the Nashville market’s most experienced hotel contractor, it appears that the project can be constructed at a cost that is in line with the NYLO prototype properties, and on a similar construction schedule. Out of total project costs of \$28.7 million, “hard” costs for the project are \$13.8 million or \$75,200 per key including the shell construction of the attached restaurant. The tenant buildout of the restaurant space and the contractor’s cost to procure and install the hotel’s furnishings, fixtures and equipment project adds another \$5.8 million or \$31,400 per key. The total of these contractor costs equals approximately 69% of the total project costs.

After hard costs, the most significant cost categories by dollar volume are those for land and parking. The land valuation of \$1.7 million or \$61.88 per land square foot, was determined via consultation with a local land appraiser with recent work in the immediate vicinity. In addition, a pro-rated “parking burden” cost of \$3.1 million was estimated by calculating the anticipate expense to provide off-site structured parking for the project’s parking demand, in the event the available surface parking lots were ever put into production as development projects.

PROJECT COST SUMMARY			
ITEM/CATEGORY	COST	COST/KEY	COST/SF
Land	\$ 1,724,976	\$ 9,375	\$ 16.75
Hard Construction	\$ 15,433,482	\$ 83,878	\$ 149.84
FF&E, OS&E, IT	\$ 4,428,145	\$ 24,066	\$ 42.99
Financing	\$ 685,225	\$ 3,724	\$ 6.65
Soft Costs	\$ 2,387,904	\$ 12,978	\$ 23.18
Contingency	\$ 1,004,304	\$ 5,458	\$ 9.75
Off-site Parking Burden	\$ 3,067,536	\$ 16,671	\$ 29.78
Totals	\$ 28,731,572	\$ 156,150	\$ 278.95

Figure 8

Project Cost Summary

Source: Author

The schedule to construct the proposed NYLO hotel would run approximately 12 months from start to finish. For the prospective project it is anticipated that construction would begin in January 2010 and conclude in December 2010, allowing the balance of 2009 to be allocated for building design and engineering, zoning variances (to the extent required) and securing necessary project financing and building permits.

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A NYLO hotel would be competitive at this location in terms of projected operating performance versus its “competitive set” in the market. While the current national economic downturn has had a profound impact on the hospitality industry, Nashville seems to be holding its own in comparison to other markets. In particular, average daily rate (ADR) was down only 4.1% through March 2009 over the same period last year, as compared with a 9.1% decline nationally. ADR, more so than occupancy (which was down somewhat more so than the national average), is an indication of the market's strength and benefits the revenue per available room (RevPAR) metric, for which Nashville performed more than two percentage points higher than the national average.

Hotel forecasters anticipate a return of demand in the market around early 2010, and a local hotel coming to market during an upswing will take advantage of the turnaround. If the NYLO hotel were to deliver at the end of 2010, it would enjoy a market position with few competitive lifestyle/boutique hotels in inventory and next to none in the pipeline for its submarket. The total set of hotels in the upscale and upper upscale sectors that would be comparable to a NYLO hotel totals 980 rooms in five existing properties in the Downtown/Midtown/West End submarket. An additional 791 rooms have either been recently delivered, are now under construction or are in final planning to begin construction, for a total of 1,771 or 5.1% of the total Nashville hotel market.

Over 72% of the rooms in the existing inventory and planned pipeline are mainstream flags associated with Hilton or Marriott corporate family brands. Of the total, lifestyle/boutique properties comprise only three properties totaling 494 rooms or 1.4% of the total local market. A NYLO hotel adding 184 rooms to the total inventory would still comprise less than 2% of the overall market. Of the total in the submarket, there is only one hotel in final planning and no others in the near-term pipeline. Given the strength of the local market in terms of ADR, a NYLO hotel in the pipeline over the next 18 months stands to benefit from its market position in the face of little pending competition.

COMPETITIVE SET - EXISTING > 1 YEAR HISTORY

#	HOTEL	ROOMS	MEETING SF
1	Wyndham Union Station	125	12,000
2	Courtyard by Marriott Downtown	192	2,520
3	Embassy Suites Vanderbilt	208	2,679
4	Marriott Vanderbilt	301	11,000
5	Hampton Inn & Suites Downtown	154	1,248
Total Inventory		980	29,447
Average of Inventory		196	5,889

COMPETITIVE SET - NEW + PIPELINE

#	HOTEL	ROOMS	MEETING SF
1	Indigo West End	139	1,995
2	Hotel Hutton West End	248	13,600
3	Hilton Garden Inn Vanderbilt	194	6,000
4	Indigo Downtown	107	-
5	Springhill Suites Vanderbilt	103	-
Total Pipeline		791	21,595
Average of Pipeline		158	4,319
Total Inventory & Pipeline		1,771	51,042
Average of Inventory & Pipeline		177	5,104

Figure 9

Competitive Hotels in Submarket

Source: STR Global & Author

Notwithstanding the potential for a strong market presence for a NYLO hotel in the local submarket, financing has become increasingly difficult to obtain during the global economic downturn, with few commercial banks expressing interest in hotel financing on reasonable terms. Provisions for loan-to-cost (LTC) ratios, interest rate spreads, reserves and guarantees are substantially more stringent than they were even 18 months ago. NYLO is having relative success in financing their corporate prototype properties in the current market, and the general underwriting for the most recent of those properties is utilized in the debt financing for the proposed project in Nashville.

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The end result of modeling the loan, along with a conceptual equity scenario, results in a substantial requirement for equity, approaching an effective 60/40 debt-to-equity ratio after reserves and escrows are taken into account. The total equity requirement, including reserves and escrows, of \$12 million is so significant that this factor supersedes all other considerations in the finance and investment analysis. Because this equity requirement would have been as low as \$6 million a mere 18 to 24 months ago, the deployment of this much capital toward a single project is a daunting prospect.

The LTC ratio drives the project and investor returns more so than any other factor in the development proforma, the reason being whatever project cost not covered by the loan is funded with partner equity that runs at a high preferred return relative to the loan interest rate. In this case, the ability to improve the capital stack, primarily in loan LTC, means the difference between creating a reasonable return on investment and creating an outstanding one.

IRR at Various LTC Ratios			
INVESTOR IRR	65% LTC	75% LTC	85% LTC
Equity Partner IRR	18.0%	23.4%	32.0%
Development Partner IRR	22.9%	34.0%	48.1%
Total Deal IRR	18.6%	24.8%	34.3%

Figure 10

IRR Comparison vs. LTC Ratio

Source: Author

It may be possible to convince an equity investor to accept a lower preferred return ("pref") in exchange for a lower initial capital requirement, as it is modeled here as a 90/10 going-in split (equity/developer), or in exchange for a larger piece of the project's promotional interest ("promote") upon sale/disposition, modeled here as a 70/40 split (equity/developer). Changes to these assumptions have the potential to reduce the significance on pref in the project, but the impact to the developer, either in terms of greater initial equity or less of a back-end split, results in a bit of a shell game with respect to the developer's ability to generate a good return on investment versus the equity partner.

In conclusion, the proposed NYLO hotel project is a good development opportunity in search of a better capital stack. A high-teens IRR may have been good enough to generate investor interest in the heady days of the past few years, but the large boost in equity required per deal and the increasing availability of "value added" acquisitions of existing stabilized product will make attracting interest in a ground-up development a major challenge. When the credit markets revive and commercial banks begin to return to more modest equity requirements, the NYLO project becomes more attractive.

Exit Proceeds - 2015	
Current Year NOI	\$ 3,592,594
Exit CAP rate	10.0
Asset Value	\$ 35,925,938
Asset Value per Key	\$ 195,250
Disposition Expenses	2.5%
Net Proceeds	\$ 18,122,607
Partner Returns - Incl. Cash Flow & After Debt	
Equity Partner Return	\$ 16,871,277
Development Partner Return	\$ 3,400,003

Figure 11

Project Returns at Disposition

Source: Author

Given that there is a three year window until the proposed Music City Center delivers, coupled with MarketStreet's ownership of the land and long-term investment approach, there may be good opportunities for a project such as this to materialize over the next year or two. Until then, initiating pre-development efforts and seasoning the opportunity would be a prudent approach in order to be ready when financing conditions improve.

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II. REGIONAL PROFILE

Metropolitan Nashville was ranked Number One – “America’s Hottest City” – for Expansions and Relocations two consecutive years (2005, 2006) by *Expansion Management*, and it also appeared on their unranked list of “America’s Top 50 Hottest Cities” in 2007. Nashville ranks as the 4th best city for jobs according to *Forbes* magazine (January 2008), and the 15th “best city for business and careers based on job and income growth, as well as migration trends” by *Forbes* (February 2008). Nashville ranks as the 6th “best city to do business” by *MarketWatch.com* (September 2007) because of robust industry sectors ranging from music to health care. The area ranks as one of the top 100 places to live in America by *Relocate-America* (2008) based on education, employment, economy, crime, parks, recreation and housing. The Nashville metropolitan area was ranked the top city to live in the US by *Kiplinger’s Personal Finance* magazine in 2006.

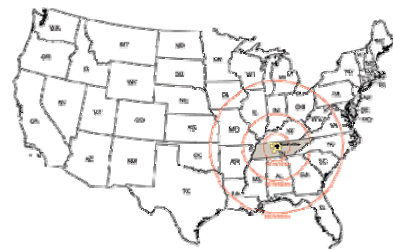


Figure 12

50% of the US population lives within 650 miles of Nashville.

Source: Nashville Area Chamber of Commerce

Nashville is the capital of Tennessee and a major transportation, business and tourism center for the country. The Nashville MSA, geographically located in the center of the state, is made up of 10 counties with a total population of approximately 1.7 million people.

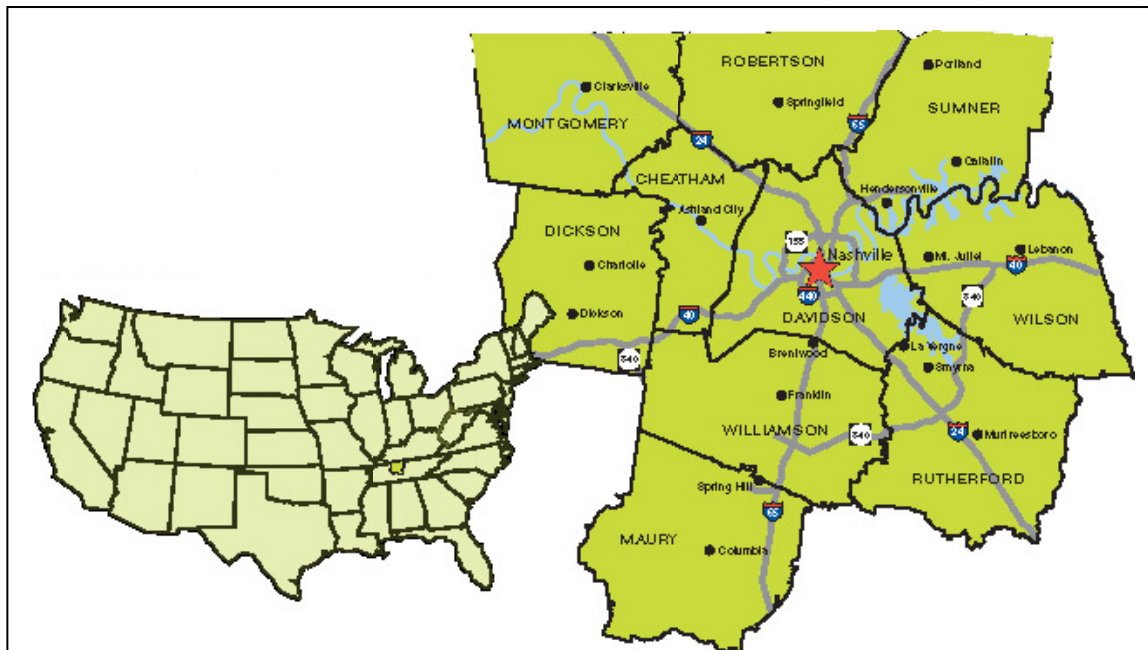


Figure 13

Nashville MSA counties: Cheatham, Davidson, Dickson, Maury, Montgomery, Robertson, Rutherford, Sumner, Williamson & Wilson

Source: Nashville Area Chamber of Commerce

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Nashville-Davidson County features a consolidated city-county government and is highly urbanized, with a vibrant downtown area and strong residential growth. Transportation advantages, labor supply, and 14 colleges and universities are all major drivers of growth in the county.

Nashville Economic Market

The Nashville Economic Market includes ten counties in its statistical area: Cheatham, Davidson, Dickson, Maury, Montgomery, Robertson, Rutherford, Sumner, Williamson, and Wilson. The entire economic market has a population of 1.67 million people as of year-end 2007. The Nashville market is the largest in the state of Tennessee, which has a population of 6.16 million. More than a quarter of Tennesseans reside in the Nashville area. The Nashville market has grown at a much faster pace than the state as a whole since 2000, boasting a 14.9 percent increase in population compared with 8.2 percent for Tennessee.

Nashville's economy is diverse. Job creation is the result of a variety of growing industries such as Retail, Professional and Business Services, Education, Health Care, Leisure and Hospitality, Transportation and Construction. The area benefits from low unemployment, substantial international investment, continual expansion, and a well-trained labor force undergoing constant renewal through its colleges and universities.

Demographics

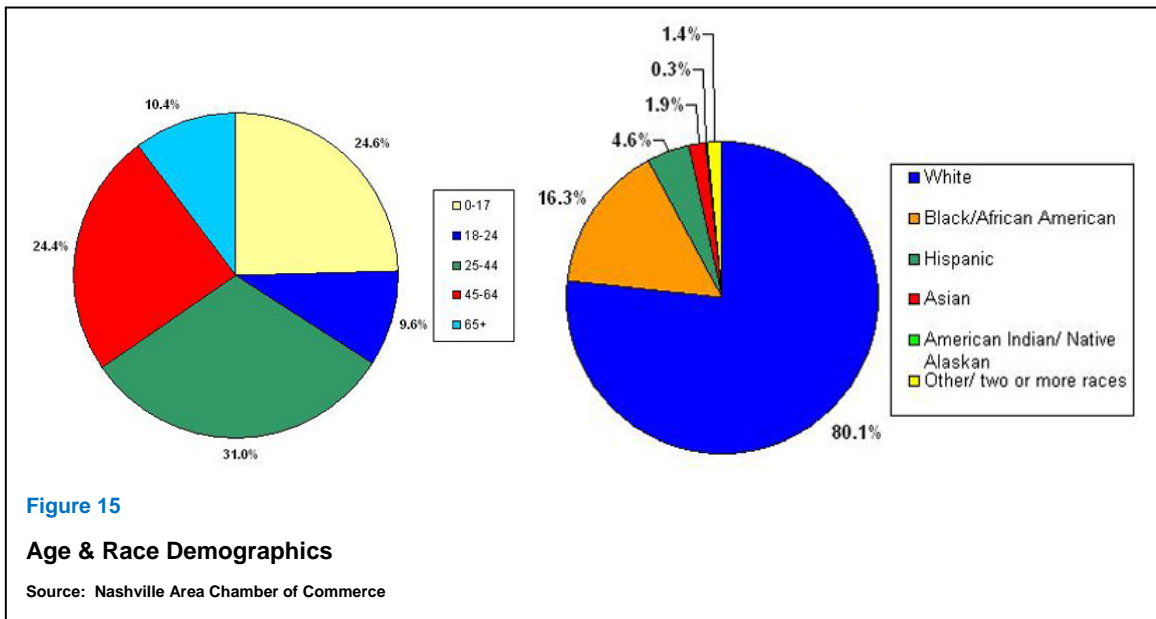
Residents in the Nashville market are relatively young, with over 65 percent of its population under the age of 45. The racial makeup is 80.1 percent White, 16.3 percent Black/African-American, 4.6 percent Hispanic/Latino, and 1.9 percent Asian.

Population By County				
County	2000	2007	% Change	
Cheatham	35,912	39,112	8.9%	
Davidson	569,891	619,626	8.7%	
Dickson	43,156	47,366	9.8%	
Maury	74,845	79,966	6.8%	
Montgomery	146,353	154,460	5.5%	
Robertson	54,433	63,333	16.4%	
Rutherford	182,023	241,462	32.7%	
Sumner	130,449	152,721	17.1%	
Williamson	126,638	166,128	31.2%	
Wilson	88,809	106,356	19.8%	
Nashville Economic Market	1,453,577	1,670,530	14.9%	
Tennessee	5,689,283	6,156,719	8.2%	

Figure 14
Nashville MSA Population Growth by County
Source: Nashville Area Chamber of Commerce

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Transportation

The Nashville market possesses an excellent transportation network for the purposes of business travel, tourism and the movement of freight and goods.

- Air:** The 4,500 acre Nashville International Airport (BNA) is located eight miles, or approximately 11 minutes southeast of downtown. BNA is widely considered one of the easiest airports to fly in and out of in the United States. The airport is listed in the Top 150 World Airports by *Aviation Weekly Airports*, and ranks #6 in Customer Airport Satisfaction for its size category by *J.D. Power & Associates*. A \$50 million, multi-year terminal renovation is now underway. BNA handles over 8.6 million passengers annually, with nearly 400 average daily flights to 89 direct-service and 48 nonstop markets in North America.

In addition, BNA airport handles 75,000 tons of cargo annually. Southwest is the primary air carrier by passenger volume, and although that airline does not have regional “hubs”, Nashville is considered a hub in industry circles due to the volume of flights and the number of nonstop cities serviced by Southwest out of Nashville. As part of the downtown area, BNA is 8.9 miles from the subject site in The Gulch.

Nashville’s second airport, John C. Tune (JWN), caters to corporate and personal aircraft users and operates 24 hours a day, 7 days per week.

MAJOR AIR CARRIERS

Air Canada
American
American Connection
American Eagle
Comair
Continental
Delta
Frontier
Midwest/Skyway
Northwest
RegionsAir
Southwest
United Express
US Airways
US Airways Express

Figure 16

Major Air Carriers

Source: Metropolitan Nashville
Airport Authority

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Figure 17

Transportation Map of Nashville MSA – Airports & Highways

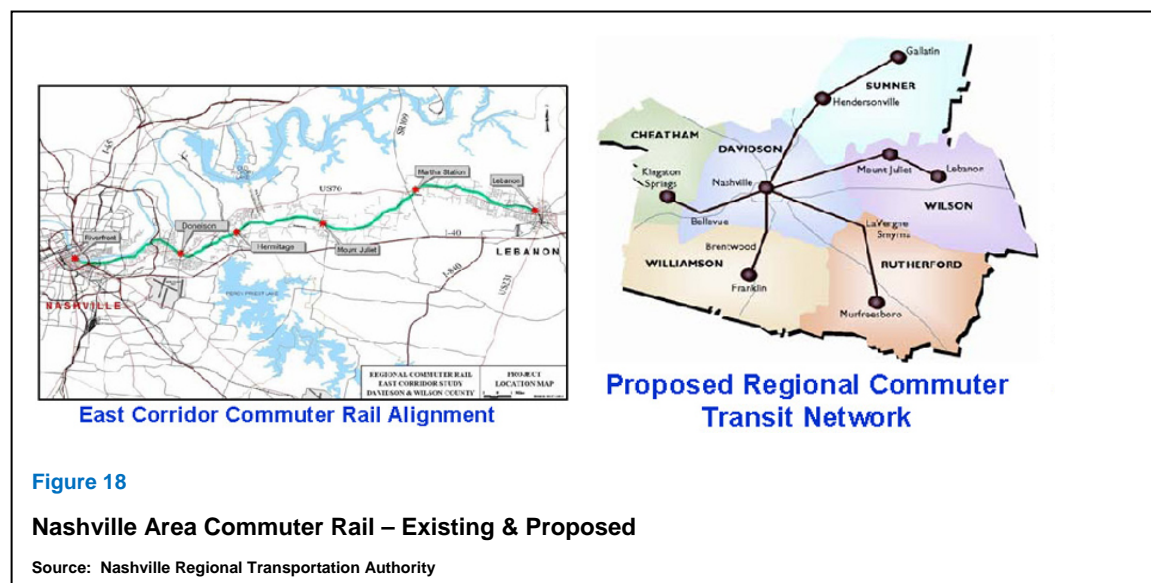
Source: Nashville Area Chamber of Commerce

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- **Road:** Nashville is located at the convergence of three major interstate highways: I-40 to the east and west, I-24 running southeast/northwest and I-65 to the north and south. The 440 Parkway, the I-40 “inner loop” and the Briley Parkway all link the urbanized areas within Davidson County. Route 840 forms an “outer loop” and connects four counties: Wilson, Rutherford, Williamson and Dickson. There are approximately 140 freight carriers and 150 truck terminals operating out of the Nashville area. Part of the I-40 “inner loop” runs immediately adjacent to the Gulch, and in fact forms the neighborhood’s western boundary.
- **Rail:** Nashville is served by two short-line railroads: the Nashville Eastern and the Nashville Western, along with the Class I Carrier, CSX Transportation, offering rail service connecting the Nashville area to the nation’s marketplace. CSX Transportation’s Nashville yard is a major hub for the Southeast, connecting other CSX lines from Atlanta, Birmingham, Evansville, Louisville and Memphis. CSX Transportation links 20 states and operates a major intermodal yard for the Southeast with an average 90 trains per day. The intermodal yard is 3.7 miles from The Gulch, the active main tracks to which run immediately adjacent to the neighborhood, forming the eastern boundary to The Gulch.
- **Water:** The Port of Nashville on the Cumberland River possesses a 9-foot navigation channel accessible to the Ohio River, the Mississippi River and the Gulf of Mexico. The Cumberland River and Nashville’s downtown waterfront or approximately 10 blocks to the east of the subject site in The Gulch.
- **Mass Transit:** The Music City Star is the regional commuter rail system started in 2006 and operated by the Regional Transportation Authority. The Music city Star operates from downtown Nashville to suburban Wilson County to the east, including Mt. Juliet and Lebanon, TN. The train depot is approximately 10 blocks



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from The Gulch, although a shuttle bus services The Gulch with 5 daily stops during weekdays. In the long-term, The Gulch has been identified as a location for another potential commuter rail location three blocks from the subject site.

The Metropolitan Transit Authority also operates an extensive bus network throughout Nashville and Davidson County, with 35 routes servicing 10 million riders annually. The MTA now operates out of a new \$54 million transit center in the heart of downtown, with transfer options and customer amenities. There are 1,123 daily bus stops within the boundaries of The Gulch.

Employment

There are 10 *Fortune 1,000* companies with headquarters in the Nashville area. There are 40 publicly traded companies with headquarters in Nashville, with 32 on the NYSE or NASDAQ exchanges. The largest non-governmental employers in the Nashville area include Vanderbilt University & Medical Center (18,968), Nissan North America (10,000), Healthcare Corporation of America (8,703), St. Thomas Health Services (8,200), Bridgestone Americas Holding (4,900), Ingram Industries (4,900) and Dell Computers (4,500).

The employed workforce in the Nashville MSA was 760,258 in 2007, an annualized increase of 13.1% over the previous 5 years.

Employed Workforce - Nashville MSA (Non-Agricultural)						
Industry	2002	2003	2004	2005	2006	2007
Education & Health Services	88,700	93,100	93,081	96,606	104,539	105,383
Financial Activities	43,000	44,300	44,247	44,539	46,323	46,308
Government	87,700	89,400	95,472	95,639	98,040	99,183
Information	21,200	19,600	19,181	19,015	20,172	19,692
Leisure & Hospitality	68,700	71,000	72,081	73,339	78,247	78,317
Manufacturing	79,900	78,400	83,739	84,198	84,523	82,658
Professional & Business Services	86,600	82,400	91,090	96,606	100,473	99,425
Trade, Transportation, Utilities	134,900	139,000	145,122	148,348	154,082	156,028
Total Non-Agriculture Employment	672,300	680,800	715,548	725,096	753,039	760,258

Figure 19
Nashville Area Employed Workforce
Source: Nashville Area Chamber of Commerce

Fort Campbell, one of the largest US military bases, borders both Tennessee and Kentucky, approximately 40 miles northwest of Nashville. Fort Campbell has a population of 23,000 soldiers and 40,000 family members. The installation manages records of some 4,000 civilians, with approximately \$2.5 billion per year, making it the largest employer in both Tennessee and Kentucky.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Tax Policies

The following summarizes the tax policies as it applies to the Nashville MSA:

- *Personal Income Tax*: None on wages and salaries; 6% on certain types of dividends and interest income
- *Sales & use Tax*: State 7%; local option 2.25% with maximum \$1,600 per single article of tangible personal property. Combined 9.25% rate applies in the 10 counties.
- *Corporate Excise Tax*: 6% on net earnings.
- *Franchise Tax*: \$0.25 per \$100, or major fraction thereof, of the issued and outstanding capital stock surplus and undivided profits; minimum \$10.
- *Inventory Tax*: None on finished goods sold.
- *Unemployment Compensation Tax*: 0.15% to 10% of first \$7,000 in wages paid to each employee in calendar year. Rate is 0% for employees with reserve ratio of 20% or more. The rate for new employers is 6.5% for first three completed calendar years.
- *Local Gross Receipts Tax*: Varies from 0.125% to 0.16% of 1%. Exempts manufacturers and certain professionals.

The tax burden of living in the Nashville area is quite low as compared with other metropolitan areas of similar size. Per \$100,000 of household income, it is estimated that the tax burden to a Nashville household is \$4,301. This burden is less than other cities of similar size such as Birmingham (\$7,746), Kansas City (\$8,868), Charlotte (\$9,481), Louisville (\$9,889) and Indianapolis (\$10,096).

Income & Cost of Living

The average household income in the Nashville economic market was \$47,908 as of 2007. Davidson County's household income is moderately lower at \$43,392.

Per capita income of the Nashville MSA is 106.0% of U.S. per capita income as of 2007, up from 96.2% in 1990. Per capita income for Davidson County is \$42,092, compared with \$32,172 for Tennessee and \$36,714 for the United States.

The cost of living in the area compares very favorably to other cities around the country and other markets of similar size and demographics, with Nashville having a CLI index of 88.1, the national average established at 100.

Median Household Income

County	MHI
Cheatham	\$50,284
Davidson	\$43,392
Dickson	\$42,837
Maury	\$45,697
Montgomery	\$42,654
Robertson	\$47,005
Rutherford	\$50,352
Sumner	\$50,069
Williamson	\$76,723
Wilson	\$54,172
Nashville Economic Market	\$47,908

Figure 20

Nashville Median Household Incomes, 2007

Source: Nashville Area Chamber of Commerce

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Higher Education

One of the Nashville area's greatest strengths is in the abundance of educational opportunities on the post-secondary level. In the metro area there are 14 accredited four-year and postgraduate institutions with a total enrollment of 77,038, and eight two-year institutions and technical schools with a total enrollment of 25,409. Total enrollment among all post-secondary schools is 102,447.

Climate & Settings

Middle Tennessee enjoys a mild, temperate climate with four distinct seasons. The temperature averages for the area in degrees are as follows:

- Annual Average: 58.8
- January High: 46.9
- January Low: 28.4
- June High: 86.4
- June Low: 65.1

Higher Education		
Institution	City	Enrollment
Accredited four-year and postgraduate institutions		
Austin Peay State University	Clarksville	9,207
Belmont University	Nashville	4,481
Cumberland University	Lebanon	1,345
Fisk University	Nashville	953
Lipscomb University	Nashville	2,565
Meharry Medical College	Nashville	730
Middle Tennessee State University	Murfreesboro	22,863
Nashville School of Law	Nashville	536
Tennessee State University	Nashville	9,038
Tennessee Technological University	Cookeville	9,733
Trevecca Nazarene University	Nashville	2,217
University of the South	Sewanee	1,611
University of Tennessee Space Institute	Tullahoma	152
Vanderbilt University	Nashville	11,607
		77,038
Accredited two-year institutions and technical schools		
Aquinas College	Nashville	829
Columbia State Community College	Columbia	4,525
Motlow State Community College	Lynchburg	3,833
Nashville State Community College	Nashville	7,192
Tennessee Technology Center - Nashville	Nashville	848
Tennessee Technology Center - Dickson	Dickson	566
Tennessee Technology Center - Murfreesboro	Murfreesboro	246
Volunteer State Community College	Gallatin	7,370
		25,409
	Total	102,447

Figure 21

Nashville Higher Education – Accredited Institutions

Source: Nashville Area Chamber of Commerce

The average annual precipitation for the area is 59.5 inches, with an average relative humidity of 70%. The elevation of the area is 550 feet above sea level among the 5,225 square miles that constitute the metropolitan statistical area.

Recreation & Entertainment

The Nashville area has 76 parks and playgrounds, and 13 public swimming pools. There are 160 tennis courts and 42 golf courses in the area. The area has 30,000 acres of inland lakes for fishing, boating and waterskiing. The Centennial Sportsplex features swimming, tennis, and ice skating. Nashville is home to the Adventure Science Center, the Nashville Zoo, and Cheekwood, Nashville's home of art and gardens. Sports and entertainment venues include LP Field, the Sommet Center and the Grand Ole Opry. Museums include the Frist Center for the Visual Arts and the Tennessee State Museum, among others.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



III. MARKET & SITE SELECTION ANALYSIS

Profile of Jurisdiction and Local Submarket

Downtown Nashville, Tennessee is the geographic and population center point of the metropolitan area. Downtown Nashville features a mix of government and businesses, with a daytime population of about 46,000 employees. The downtown is the center of Nashville's state and local government, as well as the center of legal, financial and public relations services in the city.

Downtown Nashville has an educated workforce, with 61 percent possessing college degrees and an additional 25 percent possessing post-graduate or professional degrees. With over 145 restaurants, 17 art galleries, a variety of shopping options, a compact, walkable community and world-class events, downtown Nashville offers quality of life for employees and residents.

The greater downtown area has over 4,000 residents and by 2010 expects to have close to 6,000 according to the Nashville Downtown Partnership. Until late 2008 with the onset of the national economic recession, apartment occupancy rates were at 93% or above for the past 5 years. Six new residential buildings will be completed by the end of 2009, delivering 923 new units to the downtown inventory. The vast majority of these units are being constructed within The Gulch area or adjacent to the neighborhood.

Downtown Nashville has an exciting and varied offering of museums, galleries, theaters, and performing arts venues. *BizJournals.com* ranked Nashville as the 3rd best city in the country for cultural amenities, behind New York City and San Francisco. *Business Week* named Nashville 7th on the list of "Best Places for Artists in the US", and Nashville ranked 22nd in *American Style* magazine's 2008 "Top 25 Arts Destinations" reader poll.

Downtown is home to five performing arts organizations covering more than 10,000 theater seats: The Nashville Symphony, Nashville Ballet, Nashville Opera, Nashville repertory Theatre and



Figure 22

Downtown Nashville Photographs

Source: Nashville Downtown Partnership

DOWNTOWN ARTS & CULTURE

Frist Center for the Visual Arts
Country Music Hall of Fame & Museum
Musicians Hall of Fame & Museum
Ryman Auditorium
Schmerhorn Symphony Center
Sommet Center
Tennessee Performing Arts Center
Tennessee State Museum
Tennessee Sports Hall of Fame

Figure 23

Nashville Downtown Arts & Culture

Source: Nashville Convention & Visitors Bureau

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NYLO Hotel in The Gulch
Nashville, Tennessee



Nashville Children's Theater, which was on *Time* magazine's list of top five children's theaters in the country. Downtown Nashville is the heart of Music City, with over 30 live music venues offering country, jazz, bluegrass, Irish and blues every night. Five of these venues are located within The Gulch, including the "mother church of Bluegrass", the Station Inn. Most of downtown Nashville's nightlife and club scene is proximate to The Gulch area.

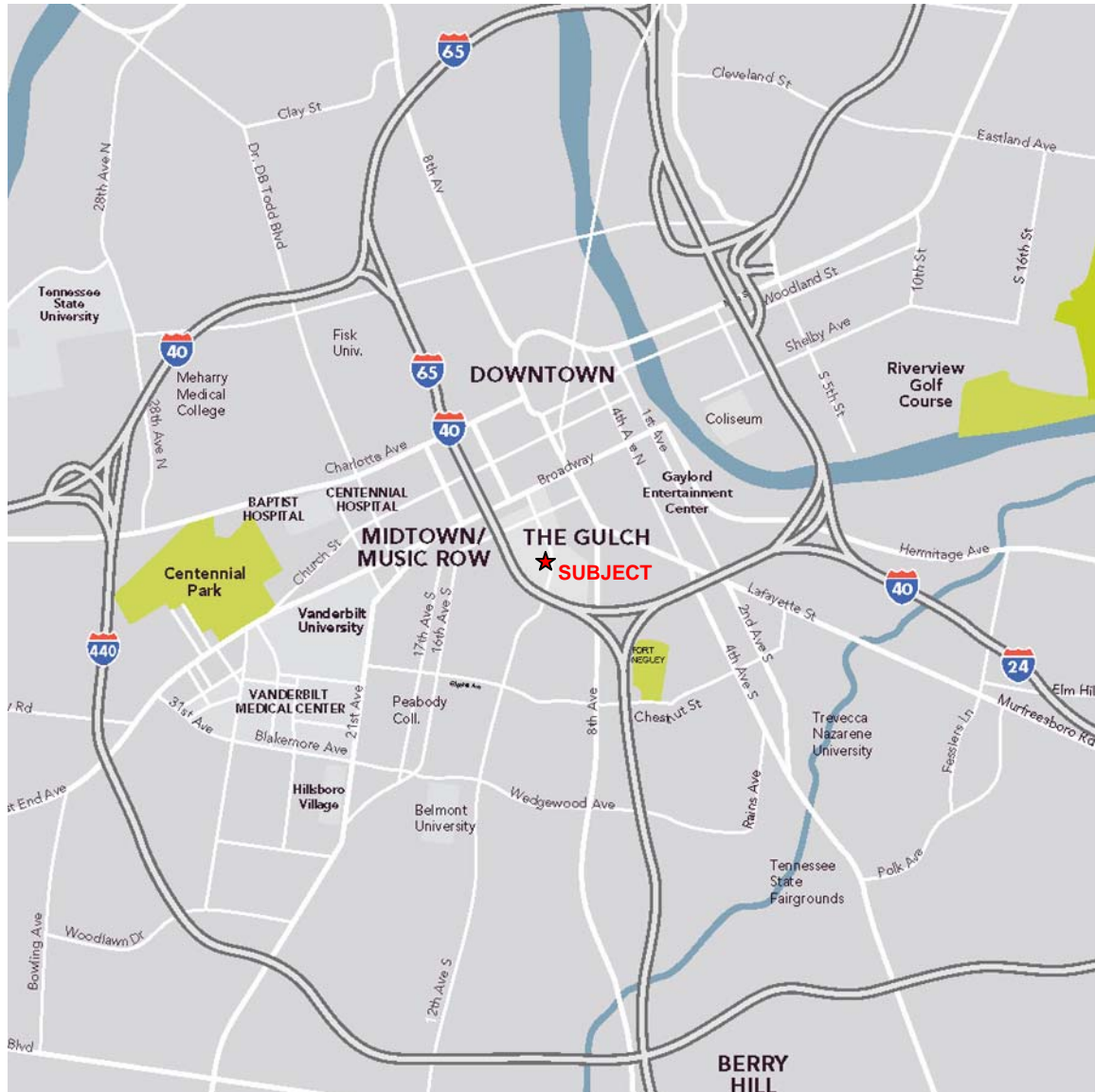


Figure 24

Nashville Area Map – 1-40/1-440 Loop

Source: MarketStreet Enterprises

The map displays the Nashville, Tennessee, area with a focus on the Gulch. Key features include:

- Highways:** I-40 and I-65 are shown as major thoroughfares.
- Landmarks:** The State Capitol, Ryman Auditorium, Frist Center for the Visual Arts, and the Schermerhorn Symphony Center are labeled.
- Streets:** Major streets like Broadway, Division Street, and Charlotte Avenue are clearly marked.
- Neighborhoods:** The Gulch, Music Row, and West End are identified.
- Subject Location:** A red star labeled "SUBJECT" is located on Division Street, south of the Gulch area.

Source: MarketStreet Enterprises

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Downtown businesses offer convenient access to city, state and federal agencies, services and courts. Downtown Nashville contains over 7 million square feet of office space, with 55% of it comprising Class A space for businesses such as major banks and law firms. New buildings coming online feature world-class amenities, and some are LEED certified. Investors in major capital markets consider downtown Nashville's commercial properties an excellent investment for purchase and development.

Downtown Nashville features approximately 3,000 hotel rooms. The local Hermitage Hotel is the only Mobil Five Star and AAA Five Diamond hotel in Tennessee and five of its contiguous states. The Hilton Downtown and Renaissance Nashville Hotel are AAA 4-diamond hotels.

Meeting space is currently available at over a dozen downtown facilities. The Nashville Convention Center, with 119,000 square feet of exhibit space, 25 meeting rooms and an 11,000 square foot ballroom, brings more than \$11 million to downtown annually for conventions and trade shows. The existing convention center is 6 blocks northeast of the subject site within The Gulch.

Since the construction of the Nashville Convention Center in 1987, more than 160 new convention centers have been built in the US and Canada, and there have been more than 200 major expansions to existing convention centers. Over this period of time the amount of convention center space has doubled in North America. Nashville currently ranks 115th in terms of size and is moving lower, losing more than 240 events in the last 5 years due to the current facility's small size and age. A new facility is clearly needed.

Music City Center, a new downtown state-of-the-art 1.2 million square foot convention center breaking ground in late 2009, will include 375,000 square feet of exhibit space, putting it in the top 40 cities in the US in terms of space. With a completion date of early 2013, the \$635 million convention center project will create 36,000 new jobs and generate \$700 million in new annual spending by attracting one million additional visitors annually, according to the Nashville Convention & Visitors Bureau. The site for the new Music City Center is less than three blocks from The Gulch and approximately five blocks from the subject site.



Figure 26

**Nashville Convention Center
Sommet Center
Municipal Auditorium
Country Music Hall of Fame**

Source: Nashville Area Chamber of Commerce

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



“The construction of the Music City Center in downtown Nashville is critical to the future economic development of Nashville for a number of direct and indirect reasons,” says Janet Miller, chief economic development and marketing officer for the Nashville Area Chamber of Commerce. “The Center will allow the city to continue to draw large convention and tourist traffic to the city, which provides a significant bottom-line direct impact to the economic health of downtown and the entire county through tax generation.”

Miller continues, “The indirect benefits are even more compelling. A recent national survey of CEO’s in America showed that ‘business travel’ was one of the top generators of interest in cities for economic development investment, relocation and expansion – directly linking the convention business to economic development job generation efforts for the region. The Music City Center will also assure that downtown’s vision of being the vibrant core of the region with opportunities to live, work, shop and play continues to be realized. This vibrancy impacts an area beyond the immediate footprint of the center, reaching out to other already successful urban neighborhoods.” The Gulch, being proximate to the Music City Center Site within mere blocks, would hope to benefit from the added momentum created by the new facility.

Terry Clements, vice president for government and community for the Nashville Convention and Visitors Bureau, likens the development of Music City Center to the redevelopment that occurred downtown when the existing convention center opened more than 20 years ago. “Before the current Nashville Convention Center was built, Broadway and the immediate area consisted of pawn shops, adult movies, brothels and some tired furniture stores. Those “businesses” caused the owner of the Grand Ole Opry to build a facility 12 miles away to insulate their customers from the atmosphere. The then-new convention center was an economic engine of change that began a transformation of the area. It is possible that some of the changes would have occurred without the center but a close look at barren downtowns around the country suggest that redevelopment is not a given.”

“The downtown entertainment district, renovated Ryman Auditorium, Hard Rock Cafe, Wildhorse Saloon, Arena, Country Music Hall of Fame and Symphony Hall are a few of the post convention center changes that revitalized the area. The new Music City Center will not have as dramatic effect because most of the redevelopment has been done in the 2nd Avenue/Broadway area. However, the area south of Broadway is still underdeveloped and nowhere near its highest and best use.”

“The mere increase in size of the exhibit hall from 118,675 square feet to 375,000 square feet really doesn’t convey the magnitude of flexibility the new center will offer,” Clements added. “The luxury of being able to host a large meeting or multiple smaller meetings will generate new demand our restaurants and hotels have never experienced. The number of meeting planners that have already contracted to meet in a building that has not even broken ground is a testament to the appeal of Nashville. This is not a case of build it and they will come; they want to come before it’s even built.”

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NYLO Hotel in The Gulch
Nashville, Tennessee



Description of Site and Surrounding Neighborhood

The subject development site is proximate to the new Music City Center by being five blocks away and is located in the heart of The Gulch neighborhood. The Gulch is the first and largest area of downtown covered by a comprehensive Master Plan that has governed the development of the urban revitalization district area for nearly ten years.



Figure 27

Aerial View of Gulch, June 2008

Source: MarketStreet Enterprises

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Adjacent to the heart of downtown Nashville and part of the Arts Redevelopment District, The Gulch encompasses approximately 60 acres of land lying west of the CSX Railway, and is generally bordered by McGavock Street on the north, 8th Avenue on the east and I-40/I-65 on the west and south. In conjunction with MDHA the entire Gulch project is being developed under a comprehensive Master Plan originated by founding developer MarketStreet Enterprises beginning in 2001. The Gulch Master Plan is now in its fourth update and the 2009 version increases area density to more than 6.5 million square feet.



Figure 28

Gulch Master Plan, 2009 update

Source: MarketStreet Enterprises

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NYLO Hotel in The Gulch
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This once-blighted area of Nashville has led the way in igniting the redevelopment of Nashville's urban core. Today MarketStreet Enterprises and other development firms are transforming The Gulch into a new urban experience where it is truly possible to live, work, and play among a host of shops, businesses, residences, restaurants and entertainment venues that give life to the city.

In 2006, local development firms and area businesses have joined together to form The Gulch Business Improvement District (GBID). The GBID is managed by an association of property owners in The Gulch working to promote a viable Urban Community in the Nashville Urban Core and is governed by a volunteer board of Gulch property owners and residents. Day-to-day management for the GBID is contracted to the Nashville Downtown Partnership and includes initiatives such as neighborhood signage and identification, a comprehensive Clean & Safe program, and streetscape and landscape maintenance.



Figure 29

**Gulch Subject Site Photographs from
ICON & Velocity Condominium Units**

Source: Author



Figure 30

Gulch Area Photograph: Subject Site in Bottom Right

Source: MarketStreet Enterprises

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NYLO Hotel in The Gulch
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The subject site is in the geographic center of The Gulch area, and is surrounded on all sides by past and current building rehabilitations and new building developments. Over \$200 million worth of development activity has taken place directly across from the subject site in all directions. The boundaries of the site, along with the rest of The Gulch, were subject to an infrastructure improvement campaign led by the city, which invested over \$7 million to realign streets, underground utilities, improve sidewalks, streetscape, landscaping and street fixtures such as light poles, benches and waste receptacles.

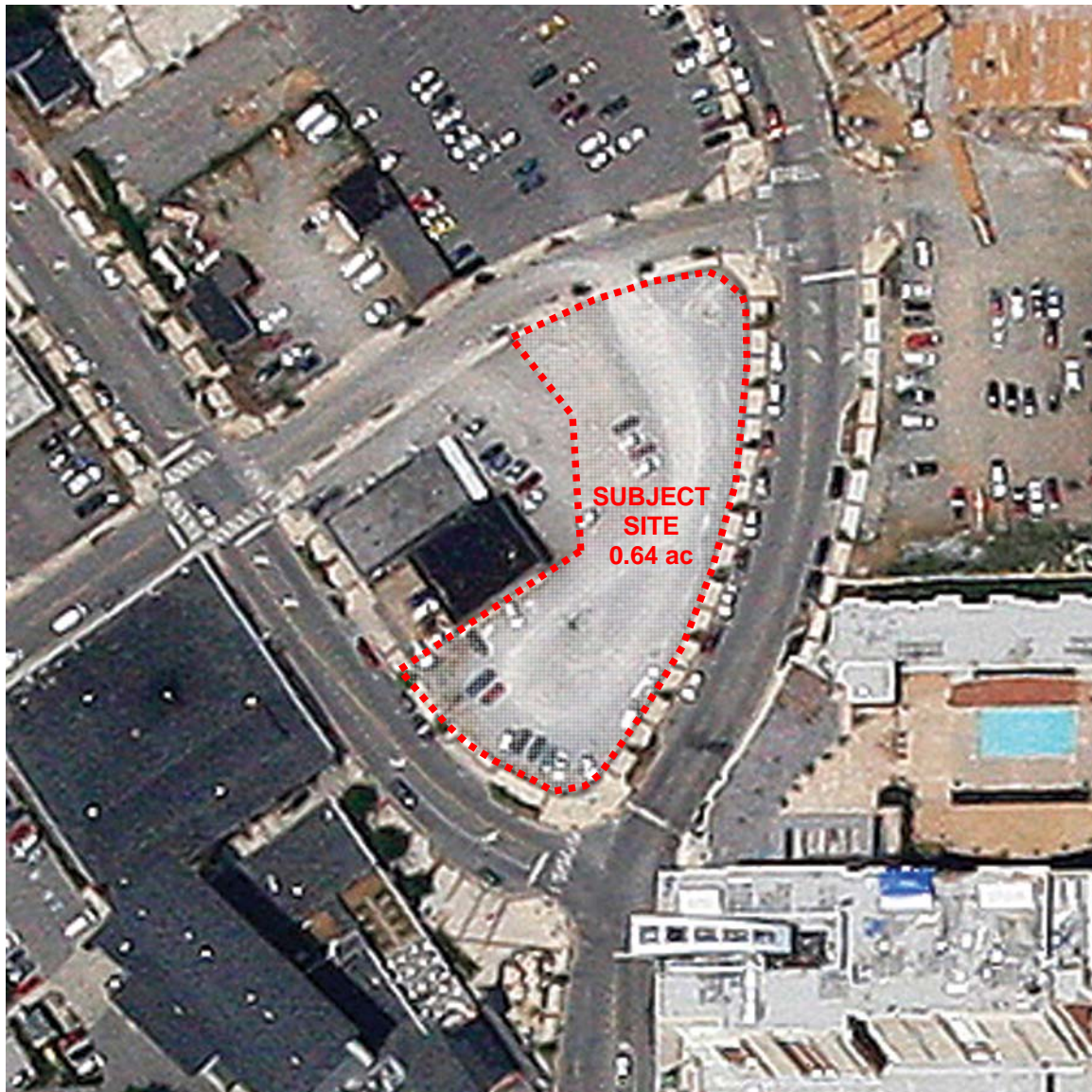


Figure 31

Aerial View of Subject Site, June 2008

Source: MarketStreet Enterprises

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NYLO Hotel in The Gulch
Nashville, Tennessee



Site Ownership and Valuation

The subject site is 27,824 square feet or approximately 0.64 acres in size. The site has been owned by MarketStreet Enterprises since 2004. It is important to note that the subject does not comprise the entire block and there exists other property owners on the block that prevents the immediate development of the entire block.

LAND OWNERSHIP SUMMARY

#	ENTITY	PARTY	PARCEL(S)	AREA (SF)	ACRES	% TOTAL
1	Nashville Urban Ventures, LLC	MarketStreet	1 & 2	27,824	0.64	61.1%
2	Charles T. Wehby, Trustee et al	Charlie Wehby	3	6,531	0.15	14.3%
3	Sally J Wehby, Trustee	Sally Wehby	4 & 5	11,161	0.26	24.5%
Totals				45,516	1.04	100.0%

Figure 32

Subject Site – Block Ownership

Source: Nashville Metro Public Records

Attempts by MarketStreet Enterprises to acquire the balance of the parcels on the block, either via fee simple transfer or ground lease, have not been successful over the last three years. Therefore, for the purposes of the development program it is assumed that the MarketStreet-controlled portion of the site will comprise the total development footprint available. The largest implication as a result of this situation is that available parking on-site will be limited, if it is indeed available at all. The prospective use will need to utilize off-site parking options or a valet service for it to be viable in this location.

Valuation of the site is difficult due to the fact that few fee simple real estate transactions have occurred in the last 12 to 18 months in the immediate vicinity. The weighted average of the parcels that have transacted over the past four years is \$55.25 per land square foot, and ranging from a low of \$27.14 to a high of \$85.92 per land square foot. An appraisal on an adjacent 3.16-acre property directly across the street from the subject site indicated a value of \$49.50 per land square foot on August 5, 2008.

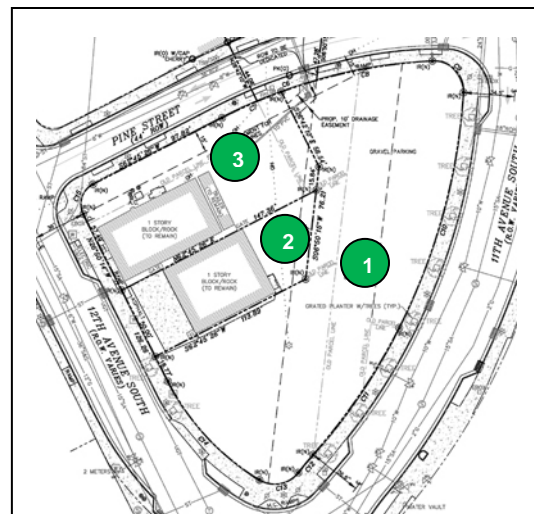


Figure 33

Block Ownership Diagram

Source: Littlejohn Engineering Associates, Inc.

An interview with the appraiser from that report, Jimmy Lamb with Huber & Lamb Appraisal Group, Inc., was conducted to determine what adjustments should be made

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NYLO Hotel in The Gulch
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for the much smaller site of the subject site, in addition to the general market conditions as they affect land prices in the general area. Mr. Lamb confirmed that no transactions had taken place since the August 2008 appraisal was conducted, and that land prices in other desirable urban infill locations remain strong. Furthermore, the subject property should be able to support a higher price per square foot due to its small size and superior location at the “hub” of the Gulch.

It was recommended that the land price be increased by 20% on a cost per square foot basis, which would equal \$61.88 a square foot or \$1,724,976 for the 0.64 acres comprising the subject site.

LAND VALUATION SUMMARY

#	SALE DATE	PROJECT NAME	OWNERSHIP	PRICE	ACRES	PRICE/SF
1	2/14/2008	Wehby Plumbing - Griffin #2	Crosland	\$ 1,300,000	0.43	\$ 69.40
2	7/31/2007	Ash-McNeil Site	MarketStreet	\$ 1,750,000	0.70	\$ 57.39
3	3/28/2007	Hilton Garden Inn Vanderbilt	Patel	\$ 6,250,000	1.67	\$ 85.92
4	8/10/2006	Madame X site	Crosland	\$ 712,500	0.45	\$ 36.35
5	5/26/2006	ICON in the Gulch	MarketStreet	\$ 4,480,559	3.79	\$ 27.14
6	3/31/2006	Rhythm at Music Row	Caden	\$ 1,664,362	0.57	\$ 67.03
7	3/15/2006	Lionstone Roundabout	Lionstone	\$ 9,150,000	3.06	\$ 68.65
8	2/27/2006	Griffin Plaza	Crosland	\$ 2,150,000	0.83	\$ 59.47
9	2/17/2006	Demonbreun Gateway	Eakin	\$ 6,250,854	3.46	\$ 41.47
10	6/30/2005	Terrazzo	Crosland	\$ 2,300,000	1.33	\$ 39.70
Averages				\$ 3,600,828	1.63	\$ 55.25
Last Appraisal 8/5/2008				\$ 6,813,655	3.16	\$ 49.50
Appraiser Adjustment for Size + 20%				\$ 1,724,976	0.64	\$ 61.88

Figure 34

Land Price Comparables

Source: Nashville Metro Public Records

It is important to note that the land price comparables shown above cover transaction history over a long period of time, back to June 2005. For the purposes of establishing an approximate current market value, a commercial appraiser is not likely to consider transactions that offered less than 18 months ago. Unfortunately, that methodology would preclude all but one of these properties and would require going further back in time, adjusting the valuation criteria or expanding the geographic area covered.

Using a weighted average of transactions that occurred only over the last two years yields an average price of \$70.90 per land square foot, a value that is probably not supported in the current market environment.

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NYLO Hotel in The Gulch
Nashville, Tennessee



Figure 35

Land Sales Locator Map

Source: Nashville Metro Public Records

Proximate Competitive Projects

The most significant reason for optimism in terms of the potential for new product in the Nashville market is the conspicuous absence in the category of “lifestyle/boutique” properties in the local hotel pipeline. This one factor creates an entirely new dynamic with regard to potential competition from existing and pipeline projects, particularly in the Downtown/Midtown/West End submarket where the subject property exists. This sector of hotels is relatively new to the Nashville market, consisting of only two existing properties in the subject submarket and only three properties in the entire MSA.

The definition of “boutique/lifestyle” requires further explanation, as the differentiation between a property in this sector and more typical corporate “chain” hotels is not often clear. Boutique hotels usually include intimate, luxurious or unique hotel environments that differentiate themselves from larger chain/branded hotels by providing a personalized level of services and facilities such as top-rated food and beverage operations featuring unique cuisine offerings, for example. By definition these hotels are either in the Luxury, Upper Upscale or Upscale hotel sectors as categorized by market analytics firms such as STR Global.

The terms “design hotels” and “lifestyle hotels” have been attached to the boutique concept, and the term “boutique” is now usually reserved for properties that are truly independent in terms of operation and are not affiliated with a corporate chain or franchise brand. The term “lifestyle” has been adopted to include properties associated with brands or chains, the largest benefit being that a chain hotel is supported by the corporate brand's worldwide reservation system to generate demand.

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NYLO Hotel in The Gulch
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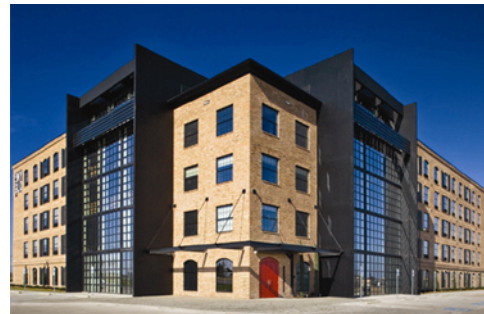


The most notable lifestyle hotel brand is Starwood Hotels and Resorts' W Hotels, although other chains have begun to catch on to the opportunities inherent to these types of properties. Lifestyle hotels can differentiate themselves in local markets that are otherwise dominated by corporate chains, and often enjoy enhanced performance relative to traditional properties. One upstart company has taken the concept of a lifestyle hotel and created an entire brand around the idea is NYLO Hotels, headquartered in Atlanta, GA.

NYLO was founded in 2004 by seasoned industry executives who assembled a team comprising individuals with diverse experiences at hotel companies such as Starwood, Cendant, Sheraton and Hyatt. The company is in the process of self-developing a handful of corporate prototype properties in markets across the US, and is launching a full-scale franchise program to spread the NYLO brand in strong primary and secondary markets throughout the country. The NYLO concept is considered in the Upscale sector and features a strong food and beverage operation in its hotels.

As a top-25 US hotel market by room count, Nashville spans the gap between being a primary and secondary market. Nashville has been identified by NYLO as a target city for franchise expansion. The lack of current or planned competitive supply in the sector, combined with strong fundamentals in the local hotel market, is appealing to the brand. The Gulch area in particular shares NYLO's target demographic focus as well as the brand's underlying vision for appearance, style and amenities.

NYLO has identified The Gulch as a potential location to pursue a new franchise hotel in the coming years. "NYLO Hotels is very excited about a NYLO Nashville in The Gulch," said



"Atlanta-based NYLO Hotels offers a new class of hotels that combines the dynamic qualities of urban residential loft-style living with the best-of-the-industry features of leading hotel brands. The properties feature bright, spacious loft accommodations; state-of-the-art business center; gym, and 24-hour, healthy alternative restaurant and bar. They cater to travelers seeking an energized alternative to the bland, one size-fits-all experience typically found in mid-priced lodgings."

Figure 36

NYLO Concept Description

Source: NYLO Hotels.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Chick Armstrong, vice president of franchise development for NYLO. “As a new brand with a strong identity we look for markets where our target consumer travels and where the hotels design matches the neighborhood. We feel The Gulch development matches both very well. The Nashville location would join four corporate locations; Plano, TX; Warwick, RI; Los Colinas, TX and Overland Park, KS as well as franchisee commitments in Chicago’s west Loop, Frisco, TX and New York City’s Financial District.”

In addition to the potential to open an operation in a neighborhood that shares the brand’s target demographic, NYLO recognizes that a hotel in The Gulch would enjoy a unique competitive advantage in the local submarket. As the only true mixed-use urban redevelopment district in Nashville, The Gulch offers an amenity-rich, walkable environment for retail shopping, dining and nightlife that no other area, or competitive property, would be able to match.

The closest local competition in terms of a retail/restaurant environment to the prospective project would be the 307-room Marriott Nashville Vanderbilt Hotel constructed in 2001 on West End Avenue, as it is part of mixed-use office complex with shopping and dining opportunities, albeit with less diversity and character as The Gulch. Located adjacent to the Vanderbilt University campus, the Marriott is a four-star Upper Upscale hotel that performs very well in the market due to its amenity base versus the local competition, and NYLO’s expectation is that a hotel in The Gulch would enjoy the same advantage if constructed.

Hotels within proximity to the subject are numerous within the Downtown/Midtown/West End hotel submarket. While there are several properties in the submarket, only a handful would be considered competitive to the proposed in the “lifestyle/boutique” upscale sector appropriate to The Gulch due to the following factors:

1. *Much of existing hotel inventory is not competitive.*

The majority of the existing hotel inventory in the vicinity is not competitive in terms of hotel sector or is simply product with obsolescence issues. This situation affects properties that are not Upscale or Upper-Upscale consistent with the proposed hotel and are not full-service, i.e. with on-site food and beverage operations. All Mid-price, Economy and Independent sector hotels in the submarket fall within this category. Likewise, all Luxury sector hotels are excluded, as those ultra high-end sector projects are not competitive with the proposed project.

2. *New hotels with short (or no) operating histories are difficult to judge.*

New hotels that have appeared in the market in recent months do not have at least one year’s worth of operating history and therefore will not have a “trailing 12 month” operating history in order to help establish reliable demand-side metrics such as average daily rate (ADR), occupancy percentages, or revenue per available room (RevPAR). This is because new hotels typically suffer from lack of occupancy in the initial year or two of operations and often sacrifice room rates to build up occupancy to desired levels over this initial term.

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NYLO Hotel in The Gulch
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This situation affects the following properties that have inadequate operating history but will constitute competitive product:

- Hotel Hutton
- Hotel Indigo West End
- Hilton Garden Inn West End, under construction for May 2009 delivery
- Hotel Indigo Downtown, under construction for June 2009 delivery

It is important to note that the Hotel Indigo West End should be added to the pipeline property set in this analysis. While the property opened in October 2007 and therefore has an operating history greater than one year, current operating data was not available for this property. Regardless of when full operating data becomes available, the property would be considered competitive with the proposed project. Both Indigo hotels are included in the pipeline competitive set of properties later in this section.

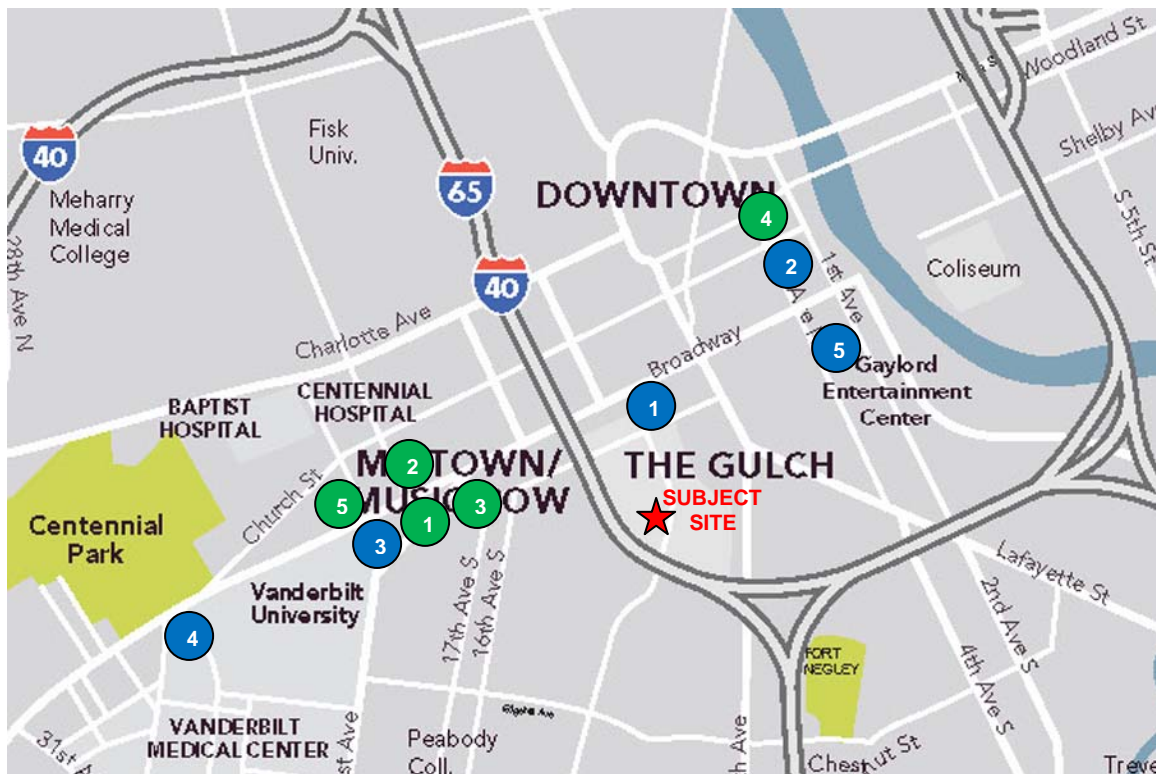


Figure 37

Locator Map for Existing and Pipeline Competitive Set Hotels

Blue: Existing

Green: Pipeline

Numbers match descriptions to follow

Source: MarketStreet Enterprises & Author

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



3. *A concentration of Hilton and Marriott brands dominate the market.*

When ordering a “Star” report from STR Global, the leading hotel performance data aggregator in the market, it is not possible to “bunch” too many similar hotels together from the same family of corporate hotel brands. For example, STR will not allow the ordering of a competitive set report for hotels that are mostly Marriott or Hilton family brands.

This is done in order to prevent users from determining performance trends for a particular brand of properties, such as a collection of Hilton Garden Inn hotels in a major city within a ten mile radius. Hotels provide data to STR Global with the understanding that their operating data will be aggregated with other types of properties in the same sector or geographical area, and that users will not be able to zero in on their specific hotel for performance numbers. As a result, it was necessary to order a combination of two Hilton and two Marriott brand hotels (in addition to the one Wyndham hotel) in order for the report to run properly.

COMPETITIVE SET - EXISTING > 1 YEAR HISTORY

#	HOTEL	LOCATION	YEAR BUILT	ROOMS	MEETING SF	SECTOR
1	Wyndham Union Station	1001 Broadway	Jun 1986	125	12,000	Upscale
2	Courtyard by Marriott Downtown	170 4th Ave	Jun 1998	192	2,520	Upscale
3	Embassy Suites Vanderbilt	1811 Broadway	Jul 2001	208	2,679	Upper Upscale
4	Marriott Vanderbilt	2525 West End Ave	Nov 2001	301	11,000	Upper Upscale
5	Hampton Inn & Suites Downtown	310 4th Ave	May 2007	154	1,248	Upscale
Total Inventory				980	29,447	
Average of Inventory				196	5,889	

COMPETITIVE SET - NEW + PIPELINE

#	HOTEL	LOCATION	DELIVERY	ROOMS	MEETING SF	SECTOR
1	Indigo West End	1719 West End Ave	Oct 2007	139	1,995	Upscale
2	Hotel Hutton West End	1808 West End Ave	Mar 2009	248	13,600	Upper Upscale
3	Hilton Garden Inn Vanderbilt	1713 Broadway	May 2009	194	6,000	Upscale
4	Indigo Downtown	301 Union St	Jun 2009	107	-	Upscale
5	Springhill Suites Vanderbilt	West End & 18th St	Mar 2010	103	-	Upscale
Total Pipeline				791	21,595	
Average of Pipeline				158	4,319	
Total Inventory & Pipeline				1,771	51,042	
Average of Inventory & Pipeline				177	5,104	

Figure 38

Competitive Set Hotels for Prospective Project

Source: STR Global & Author

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Notwithstanding the challenge of establishing the competitive properties for the prospective project, there does exist a good selection of hotels with which the proposed hotel would compete. A competitive set of five properties was established in consultation with NYLO Hotels, who was able to provide a custom STR report based on an opinion of the existing hotels most likely to be competitive to the subject property. Of the five, the Wyndham Union Station in particular was selected due to its similar price point and significant proximity to the subject property, which is about three blocks away.

In addition to the competitive set of existing properties, a selection of properties was identified that would potentially compete with the proposed project but for whom operating data is either unavailable or unreliable because of short operating histories. There are five such properties, including two that are currently open, two that are under construction and nearing delivery, and one that is in planning for a 2010 completion.

The total inventory of existing and pipeline projects is 1,771 rooms, with 1,119 complete and 652 either under construction or planned. The total of these rooms on the ground or in the pipeline represents 5.1% of the total Nashville hotel market of 34,851 rooms.

Over 72% of the rooms in the existing inventory and planned pipeline are mainstream flags associated with Hilton or Marriott corporate family brands. Of the total, lifestyle/boutique properties comprise only three properties totaling 494 rooms or 1.4% of the total local market. Another lifestyle/boutique hotel adding 184 rooms to the total inventory, as proposed, would still comprise less than 2% of the overall Nashville hotel market. Of the lifestyle/boutique sector total, there is only one hotel in final planning and no others in the near-term pipeline.

Given the strength of the local market in terms of ADR and by extension RevPAR, a hotel in that sector in the pipeline over the next 18 months stands to benefit from its market position in the face of little pending competition. The potential for new product to appear surrounding the opening of the Music City Center in 2013 would be a consideration, however the current downturn in the hospitality industry and the scarce availability of project financing has put a damper on the exuberance one might expect to see surrounding the announcement of a new convention center in a market such as Nashville.

In fact, since the Music City Center approval process has picked up steam for the new facility to move forward since February 2009 with various levels of governmental approvals, no hotel projects have been announced that would support the room demand created by the convention center. Certainly there would be more activity if the market were as robust as it has been over the past few years. As it stands today, there is a thin pipeline of product on the horizon that would be competitive to the proposed project, all but one of which will be completed and delivered over the next three months. The one that remains is lacking the brand, features and amenities of the proposed project. All things considered, there has never been a period in the past several years with so little competition in the works to compete with a new project.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



The competitive set existing hotel properties are explained in more detail as follows:

1. Wyndham Union Station Nashville Hotel

Union Station, adjacent to The Gulch, features a tall barrel vaulted ceiling of Tiffany stained glass, gold leaf mirrors, and bas-relief sculptures in the lobby. The landmark hotel was built in the Richardsonian Romanesque architectural style.

Address: 1001 Broadway
Nashville, TN 37203

Distance: 3 blocks from subject site

Date Opened: Renovation complete June 1986

AAA Rating: 3 diamonds

Rooms: 124

Suites: 13

Conference: 12,000 square feet of meeting space in six conference rooms accommodating 10-500 persons, audio visual services, catering.

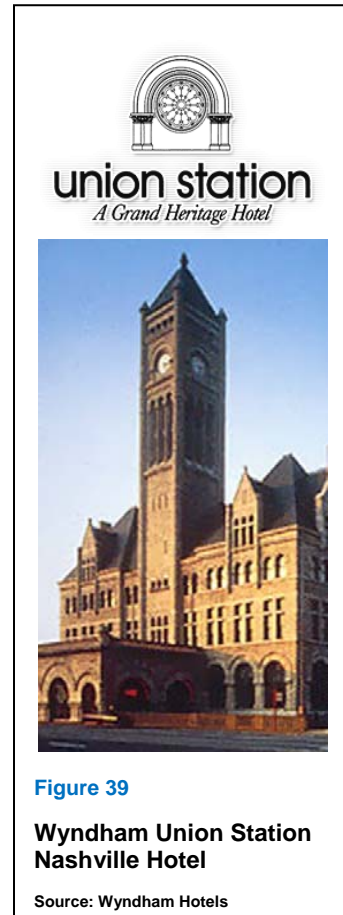
Business: Mail service, fax capabilities

Amenities: Bath and Body Works toiletries, robes, hair dryers, iron, ironing boards, coffee, coffee maker, down comforter.

Restaurants: Arthur's is a fine dining restaurant. The Broadway Bistro is a casual dining, American restaurant. The Gallery is a breakfast buffet.

Fitness: Complimentary access to a gym off-property, free shuttle service

Comment: This property is included in the competitive set primarily due to its proximity to the subject site, as the hotel is adjacent to the Gulch's eastern boundary. The hotel only features 124 rooms which would be significantly below the proposed project, and most of them are somewhat dated despite recent updates to the building. The hotel's available meeting space greatly exceeds the amount contemplated by the new project.



DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



2. *Courtyard by Marriott Downtown Nashville Hotel*

The Downtown Courtyard is located in the historic Third National Bank Building, constructed in 1905. Keeping with the integrity of the original design, the property features mahogany detailing, historical iron gates, frosted glass windows and two fireplaces in the lobby area.

Address: 170 Fourth Avenue North
Nashville, TN 37219

Distance: 10 blocks from subject site

Date Opened: June 1998

AAA Rating: 3 diamonds

Rooms: 192

Suites: 12

Amenities: USA Today newspaper delivered to room, complimentary morning coffee in lobby, Courtyard Café dinner delivery service, safety deposit box, wake-up calls, voice mail, data ports on phone, work desk with lamp, in room coffee service, iron and ironing board in all rooms, roll-away beds and cribs. Free high speed internet in all rooms and meeting space.

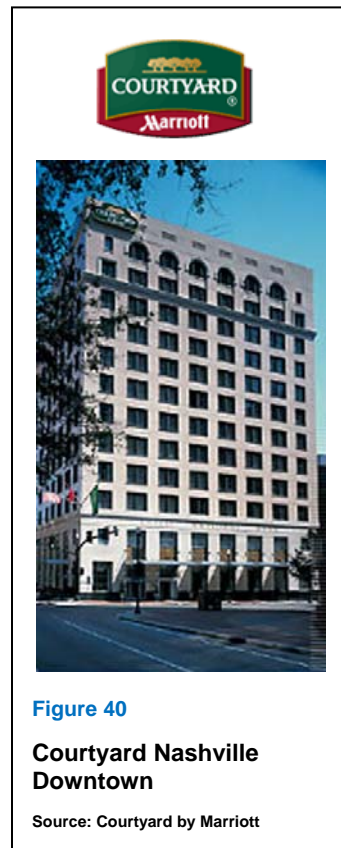
Conference: Eight available meeting rooms totaling 2,520 square feet

Business: Laser printer, copy and fax services

Restaurants: Courtyard Café Breakfast - American Cuisine

Fitness: Fitness room and spa/whirlpool

Comment: This property is has similar room count and meeting space provisions relative to the proposed project. The food and beverage operation is lacking compared with that contemplated for the proposed project. The hotel was completed almost 11 years ago and is starting to show some age relative to the various furnishings and fixtures in the guest rooms and common areas.



DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



3. *Embassy Suites Nashville at Vanderbilt University Hotel*

Located in the West End/Vanderbilt area of Nashville, the Embassy Suites Nashville at Vanderbilt hotel is situated at the edge of historic Music Row, Vanderbilt University and Medical Center, approximately one mile from downtown Nashville.

Address: 1811 Broadway
Nashville, TN 37203

Distance: 10 blocks from subject site

Date Opened: July 2001

AAA Rating: 3 diamonds

Rooms: 0

Suites: 208

Amenities: Coffee maker, data port, local transportation, hair dryer, iron & board, lounge, newspaper, room service, welcome reception, wireless Internet available.

Conference: 2,679 square feet of meeting facilities

Business: Business center open 24 hours

Restaurants: Omaha Steakhouse restaurant on site; cooked-to-order daily breakfast

Fitness: Fitness center, free passes to nearby Centennial Sportsplex for pool

Comment: This property is slightly larger than the proposed project and is an all-suite property as well. The meeting space program is similar to the proposed project. This property is an Upper Upscale sector hotel according to STR Global, although the AAA rating is similar to all others except the Marriott. The property is similar in age to the Marriott. Embassy Suites is similar to the Marriott in that the brand is considered by NYLO to be a primary competitor hotel.



DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



4. *Marriott Nashville at Vanderbilt University Hotel*

The Marriott Vanderbilt is part of a successful mixed-use office/retail/hotel project called 2525 West End Avenue. The hotel overlooks Nashville's Centennial Park to the north and the Vanderbilt Commodores football stadium to the south. The hotel is adjacent to numerous retailers and restaurants that provide a strong amenity base for hotel guests.

Address: 2525 West End Avenue
Nashville, TN 37203

Distance: 17 blocks from subject site

Date Opened: November 2001

AAA Rating: 4 diamonds

Rooms: 301

Suites: 6

Amenities: Coffee makers, Internet service, iron and ironing board, down comforters, bathrobes, hair dryers, safe deposit boxes

Conference: 11,000 square feet of meeting facilities in 10 meeting rooms

Business: Full service business center

Restaurants: Latitude restaurant, Longitude lounge, Grab n' Go service, coffee shop

Fitness: Fitness center and indoor swimming pool

Comment: Marriott is a primary competitor to the NYLO brand, even though this property is much larger than the proposed hotel and features large conference spaces compared with those contemplated for the proposed project. This hotel is the only one in the competitive set with a 4-diamond AAA rating. This property was selected because it is in an amenity-rich, mixed-use environment, and has strong operating performance compared to its peers as a result. The Gulch possesses numerous amenities within similar proximity, and a hotel in that location would be expected to drive strong performance as this property does.



Figure 42

**Marriott Nashville at
Vanderbilt University
Hotel**

Source: Marriott

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



5. *Hampton Inn & Suites Nashville-Downtown Hotel*

The downtown Nashville Hampton Inn & Suites, less than two years old, was a newly-constructed development project in an urban infill site. It is one of the only hotels in the SoBro (south of Broadway) district, and is in close proximity to the proposed Music City Center convention facility.

Address: 310 4th Avenue South
Nashville, TN 37201

Distance 8 blocks to subject site

Date Opened: May 2007

AAA Rating: 3 diamond

Rooms: 154

Suites: 24

Amenities: Automated teller machine, baggage storage, beverage area, breakfast area, coin laundry, laundry/valet service, local area transportation, on-site convenience store, safety deposit boxes, coffeemakers, refrigerators, microwave ovens, irons, hair dryers, work desks, cable TV and high-speed internet access.

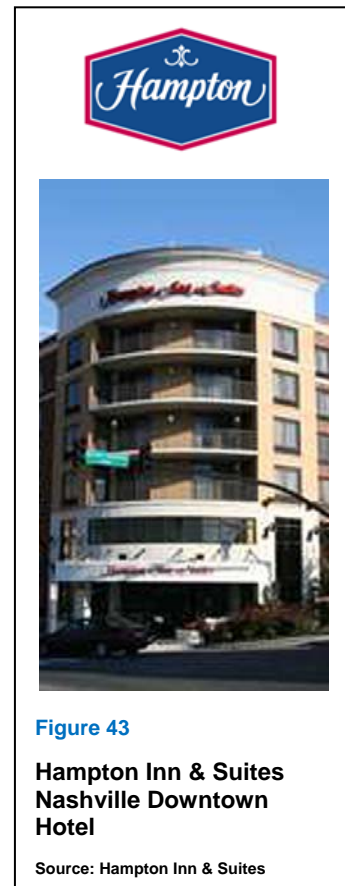
Conference: 1,248 square feet of meeting facilities

Business: Audio/visual equipment, business center, business phone service, printing service, express mail, fax, modem, photo copying service

Restaurants: On-site breakfast area, limited service

Fitness: Swimming pool and exercise room

Comment: According to STR Global, this property fits in the Mid-scale sector, although it is a 3-diamond AAA rated hotel. The property does not have food and beverage operations outside of a small breakfast offering. It is included because of its urban infill location and proximity to the subject site, both of which help it drive rate due to nearby, walkable amenities.



DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
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The competitive set of recently delivered and pipeline hotel properties are explained in more detail as follows:

1. *Hotel Indigo Nashville West End Hotel*

The upscale Indigo West End opened in October 2007 and is located at 1719 West End Avenue. The hotel, one of two Indigo properties in the Nashville market, contains 139 rooms and 1,995 SF of meeting space. The hotel was not ground-up construction but was rather converted to a hotel from an obsolete office building constructed in the 1950's. As a result, the guest room floors have an extremely large core-to window depth which makes the guest room layout somewhat awkward. The hotel features a relatively unobstructed view of the downtown skyline from its rooftop deck on the east side of the building. Food service includes The Golden Bean, a fast-casual coffeehouse and Phi Bar, the hotel bar.



Figure 44

Hotel Indigo Nashville West End

Source: Indigo Hotels

2. *Hutton Hotel*

The newly-opened Hutton Hotel opened in March 2009 and is located at 1808 West End Avenue, nearly across the street from the Hotel Indigo West End. The hotel features 248 guest rooms and 13,600 SF of meeting space. This hotel, like the Indigo, was a conversion of an old office building into a hotel use. Unlike the Indigo, the construction of the Hutton involves stripping the office building down to the structure as opposed to reusing the existing facade cladding as the Indigo had done. As part of the project, a structured parking garage was constructed in the rear of the hotel, upon which sits a large conference facility that is accessible from the interior of the hotel. Foodservice includes 1808 Grille, a fine dining establishment, in addition to a coffee bar.



Figure 45

Hutton Hotel

Source: Hutton Hotel

3. *Hilton Garden Inn Nashville Vanderbilt Hotel*

The newest Hilton Garden Inn in Nashville is under construction and is scheduled to deliver in May 2009. The hotel is located at 1713 Broadway, not far from the West End Indigo and Hutton Properties, but slightly more proximate to the Vanderbilt University campus. This ground-up hotel features 194 rooms and 6,000 SF of meeting space. Typical of Hilton Garden Inn properties, food service is limited to the



Figure 46

Hilton Garden Inn Nashville Vanderbilt

Source: Hilton Garden Inn

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Great American Grill serving breakfast, lunch and dinner. The restaurant also houses the hotel bar.

4. *Hotel Indigo Nashville Downtown Hotel*

The second and most recent Hotel Indigo in the Nashville market is downtown in the central business district, located at 301 Union Street. The hotel is scheduled for completion in June 2009, and features 107 guest rooms. An estimate of total meeting space was unavailable. The downtown Indigo is a historic rehabilitation of the American Trust Building, originally constructed in the 1920's. The franchise Phi Bar will be constructed in the bank's old vault. The development of this hotel has undergone numerous delays due to the difficulty in working with the historic building, and in fact was originally scheduled to open in early 2008. The pending June delivery would make the Indigo the first new hotel to open in the central business district in eleven years.



Figure 47

Hotel Indigo Nashville Downtown

Source: Hotel Indigo

5. *Springhill Suites Nashville Vanderbilt*

The status of this project is planned, meaning that it has been announced but construction has not yet commenced. The hotel is still in the predevelopment phases, but if constructed could deliver as early as March 2010. The hotel is planned for 103 rooms and a to-be-determined amount of meeting space. Typically Springhill Suites hotel have very small conferencing areas. While this hotel would be considered upscale, of the competitive set hotels in the pipeline it is the least proximate in terms of location and least similar in terms of appearance, style and amenities. In addition, by its nature the hotel is an all-suites product. Depending on if and when it starts construction, the Springhill Suites is the only upscale hotel in the competitive pipeline.



Figure 48

Springhill Suites Nashville Vanderbilt (prototype pictured, not actual hotel)

Source: Springhill Suites

Supply and Demand Considerations

In the hospitality industry there exists an abundance of supply/demand data and analytics for properties. Two primary data providers track hotels exclusively: STR Global (formerly Smith Travel Research), which tracks detailed performance and pipeline data for individual properties, and Lodging Econometrics, which tracks pipeline trends in the overall industry around the world.

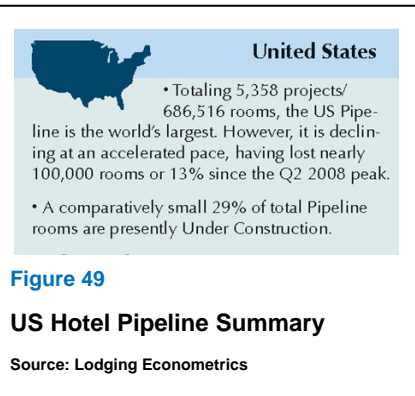
DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



The STR Global supply/demand data is used extensively for underwriting purposes for new hotel projects, and the data used to support that underwriting is provided in more detail in the Marketing Strategy section.

Lodging Econometrics reports are useful in analyzing trends in the overall hospitality industry, as the firm tracks key metrics such as construction starts, cancellations and new project announcements. The US construction pipeline totaled 5,358 projects, totaling 686,516 rooms at the end of 2008. This represents a 9% decline by projects and a 13% decline by rooms compared with the peak of the cycle in mid-2008.



Compared with the US overall, the Nashville market has 39 projects totaling 3,807 rooms – in both cases well less than 1% of the overall national supply. Even though Nashville is a top-25 market by number of hotel rooms, the area avoided the large-scale building that occurred in other markets over the last few years and therefore has a smaller than proportionate share of current supply in the pipeline relative to other markets in the country.

With most individuals recognizing that the nation's economic and financial downturn will be prolonged, consumer and business sentiment has worsened considerably over the past nine to twelve months. Hotel performance, both on an individual property level and as a whole industry, tends to track directly with the overall US economy. As a result, guestroom demand has turned negative, resulting in occupancy, ADR and RevPAR declines across all sectors in the market. Nashville has not escaped this reality but the downturns in performance metrics have not been as pronounced in the local market as opposed to other markets and national averages.

Total Pipeline by Construction Stage	Q4 2008		Q3 2008		Q2 2008		% Change Q4 over Q2	
	Projs	Rms	Projs	Rms	Projs	Rms	Projs	Rms
Under Construction	1,550	209,208	1,716	233,407	1,723	242,229	-10%	-14%
Starts Next 12 Mos	2,544	289,450	2,543	303,172	2,737	327,920	-7%	-12%
Early Planning	1,264	187,858	1,393	203,693	1,423	215,398	-11%	-13%
Total Pipeline	5,358	686,516	5,652	740,272	5,883	785,547	-9%	-13%

Figure 50

Total US Hotel Pipeline – Q2 to Q4 2008

Source: Lodging Econometrics

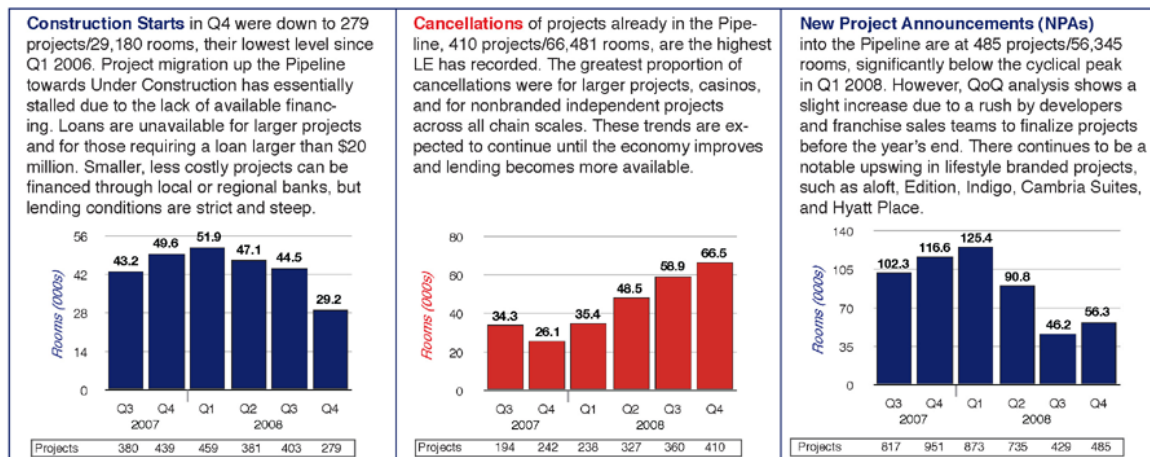


Figure 51

Key US Hotel Pipeline Metrics

Source: Lodging Econometrics

As per the Lodging Econometrics data covering new project announcements, the announcements being made in the last six months of 2008 have been way below previous cyclical peaks. Some developers rushed to get projects started before the capital markets froze entirely, which lead to a slight uptick in activity near the end of the year as the last projects to get financed actually broke ground.

This pace is expected to decline considerably now that those projects are in the construction pipeline, given the difficulty for newly conceived projects to attain financing on reasonable terms. Most of the projects that started construction in the last two fiscal quarters will take between 12 and 24 months to fully deliver.

Given the anticipated number of projects leaving the pipeline due to viability issues, combined with a lack of new product being conceptualized due to the current financial conditions, two scenarios are likely as follows:

1. There will be a tangible lack of product coming to the Nashville market after 2010. Estimates for total deliveries in 2009 and 2010 call for 1,431 hotels (165,927 rooms)

LE's Forecast for New Hotel Openings

"New openings are expected to reach a cyclical high in the next two years, as projects that were able to secure financing before lending closed down come online. The speed with which Under Construction projects are moving to completion has ramped up now that logistical pressures have eased. As a result, LE has adjusted its forecast higher, as it is now likely that new openings will be greater than initially expected. LE's new Forecast for 2009 now calls for 1,431 hotels/165,927 rooms to open, a gross growth rate of 3.4%.

In 2010, an additional 1,370 hotels/160,885 rooms will come online, a gross growth 3.2%. Net growth rates will end approximately $\pm 0.2\%$ lower after hotel closings and other removals from current supply are compiled. LE's forecast for new hotel openings is based on current development trends as of the end of Q4 2008. The forecast does not account for other unforeseen changes in economic or lodging operating fundamentals that would alter these trends going forward."

Figure 52

Forecast for New Hotel Openings

Source: Lodging Econometrics

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
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- and 1,370 hotels (160,885 rooms), respectively. The vast majority of these pipeline projects, or 2,544 projects totaling 289,450 rooms, are expected to start construction over the next 12 months. Many of the 1,264 projects in early planning, representing 187,858 rooms, will simply fail to materialize in these tough market conditions.
2. The lack of product after 2010 could mean very little competition for a hotel that aims to open slightly in advance of the delivery of a new convention center in early 2013. Given a modest 12-month delivery window (start-to-finish) for a typical mid-rise hotel property, the opportunity exists to be one of very few projects moving forward in advance of this major demand driver. For this product in this market, this scenario could be a major competitive advantage. The construction costs to deliver product in that timeframe could also be very favorable, due to lack of product in the pipeline feeding the contractors and subcontractors in the market.

If financing can be attained for the new project in favorable terms, the potential exists to be in the pipeline in the middle of a perfect storm of lack of product, increased local demand drivers, and low cost of delivery. The combination of those factors makes for a compelling argument for planning a project to start construction in two years, if not now.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



IV. LAND USE REGULATION AND PUBLIC POLICY ISSUES

The subject site is currently zoned CF (Core Frame), a designation by the Nashville Metropolitan Zoning Department, in conjunction with Metro Council and the Board of Zoning Appeals. Core Frame zoning is a commercial designation intended for a wide range of parking and commercial service support uses for the central business district, including hotel uses.



Figure 53

Gulch Zoning Map

Source: Metro Planning Department, Online Mapping

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



The following represents detailed parcel data for the subject site:

Property ID:	Parcel 2, minor subdivision of Nashville Urban Venture Section 1 <i>Reflects property ID once new plat application approved</i>
Parcel IDs:	09309033400 & 09313009700 <i>New Parcel 2 is combination of these existing parcels</i>
Parcel Info:	Tax Map 93-13, Parcel No. 98
Acreage:	0.64 (27,824 square feet)
Property Address:	0 11 th Avenue South & 406 12 th Avenue South Nashville, TN 37203 <i>Combined address will be applied for once plat approved</i>
Owner Information:	Nashville Urban Venture, LLC 138 2 nd Avenue North, Suite 300 Nashville, TN 37201
Dates Acquired:	August 10, 2000 (Parcel 09313009700) October 30, 2007 (Parcel 09309033400)
Census Tract:	14500 (Parcel 09313009700) 14600 (Parcel 09309033400)
Council District:	19

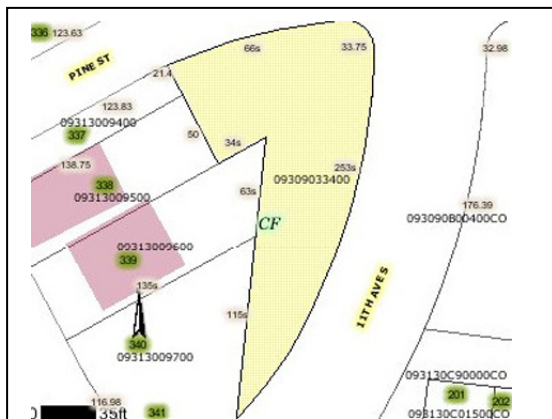


Figure 54

Parcel 09309033400, portion of new Parcel 2

Source: Metro Planning Department, Online Mapping

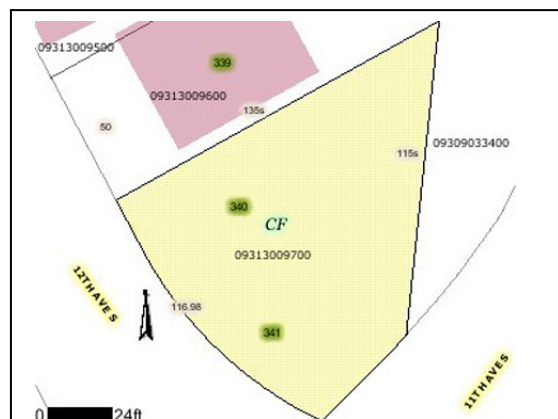


Figure 55

Parcel 09313009700, portion of new Parcel 2

Source: Metro Planning Department, Online Mapping

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Land Use: 020, Vacant Commercial Land

Zoning Data: Zoning: CF, Commercial, Core Frame.
Part of MDHA-AC, Arts Center Redevelopment District
Effective Date: June 20, 2002
Case Number: 2002Z-056U-09
Bill Number: BL2002-1063

Overlays: Overlay District: OV-UZO, Urban Zoning Overlay
Effective Date: December 2, 2000
Case Number: 2000Z-094U-00
Bill Number: BL2000-476

Assessment Data: Parcel 09309033400:
Sale Price: \$0.00
Date Assessed: January 1, 2007
Classes: C
Land Appraised Value: \$59,500.00
Improvement Appraised Value: \$0.00
Total Appraised Value: \$59,500.00

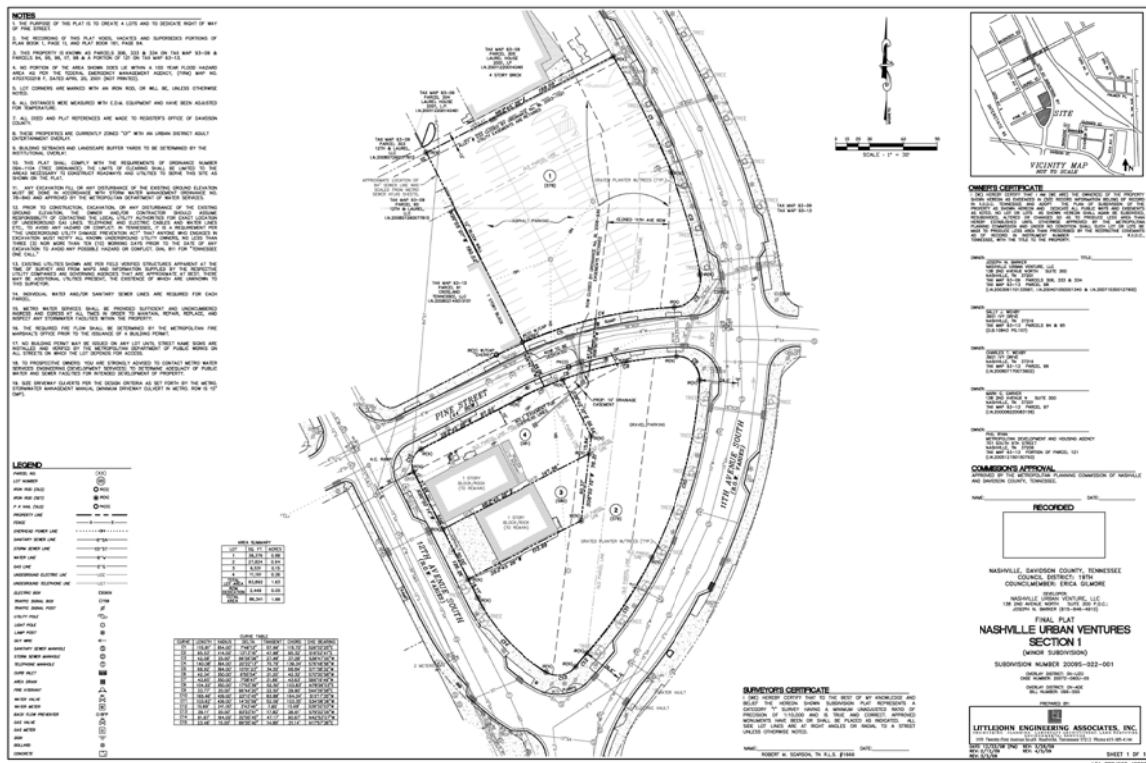


Figure 56

New Plat of Parcels 1-4 (subject is #2)

Source: Littlejohn Engineering Associates

[illegible]

Source: Littlejohn Engineering Associates



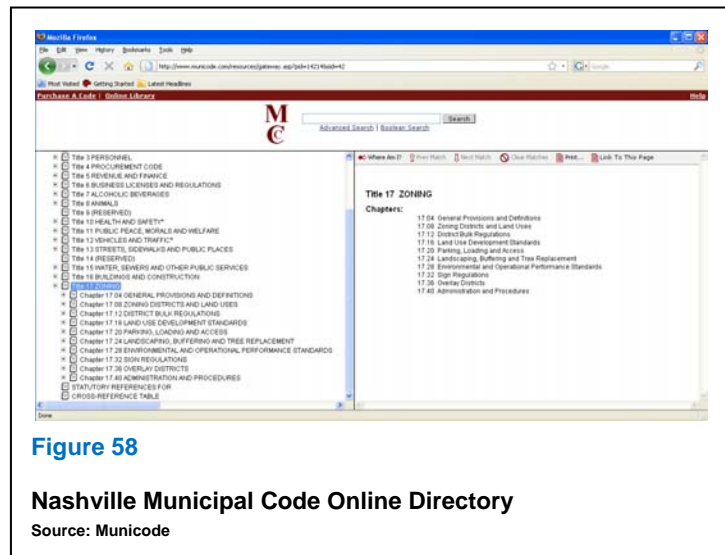
Existing Zoning Regulations

The zoning code affecting the subject site is governed by the Code of the Metropolitan Government of Nashville and Davidson County Municipal Code. The zoning code is listed under Title 17, and is available for review or download online through the Municode code directory.

A detailed excerpt of the Title 17 of the zoning code is featured in the Appendix, which describes the sections of the zoning code that apply to the subject site and proposed use.

Site Limitations and Restrictions

The following is a summary of the limitations and restrictions for the future development of the subject site:



Zoning Entitlements:	Hotel use permitted “by right”
Maximum FAR:	5.0 (139,120 SF based on 27,824 SF site area)
Maximum ISR:	1.0 Impervious Surface Ratio
Minimum Setbacks:	Front varies vs. sidewalk, none to rear, none to side
Maximum Height:	65 feet at property line, then subject to Height Control Plane (step back 1 ft horizontal for every 1.5 ft vertical)
Parking Standards:	One (1) parking space per hotel rooming unit, plus one (1) parking space per two (2) employees Parking standards subject to maximum 10% downward adjustment based on criteria met by subject site. Up to 100% off-site and/or shared parking permissible via approval via Zoning Administrator or Planning Commission
Loading Standards:	Two (2) 10 ft x 50 ft loading spaces required for buildings over 25,000 SF
Traffic Study:	Traffic study requirements waived within downtown loop

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Land use issues are primarily controlled by the Metropolitan Planning Department, headed by Rick Bernhardt, and the Metropolitan Planning Commission, headed by James McLean. The Planning Department and Planning Commission both control the zoning code in coordination with the Metropolitan Codes and Building Safety Department. Codes & Safety contains the offices of the Zoning Administrator, headed by Lon “Sonny” West, and the related Board of Zoning Appeals (BZA).

Any development application that features issues that are not “by right” must be handled either administratively by the Zoning Administrator or via hearing before the BZA, for example where special exceptions, variances, and zoning changes are requested. As the subject parcel is entitled “by right”, it is unlikely that there are any development issues that cannot be handled administratively (such as off-site parking).

In addition, the Metropolitan Development & Housing Authority (MDHA) has jurisdiction over the subject property as it relates to the administration of the Redevelopment Districts within the city. MDHA is a public housing authority, primarily responsible for housing, urban and community development programs, and other related programs. Nashville’s redevelopment districts are established to ensure the use and long-term viability of the urban areas that they encompass. The Arts Center Redevelopment District was established in 1998 for redevelopment activities along portions of Demonbreun Street and The Gulch, and includes the subject site.

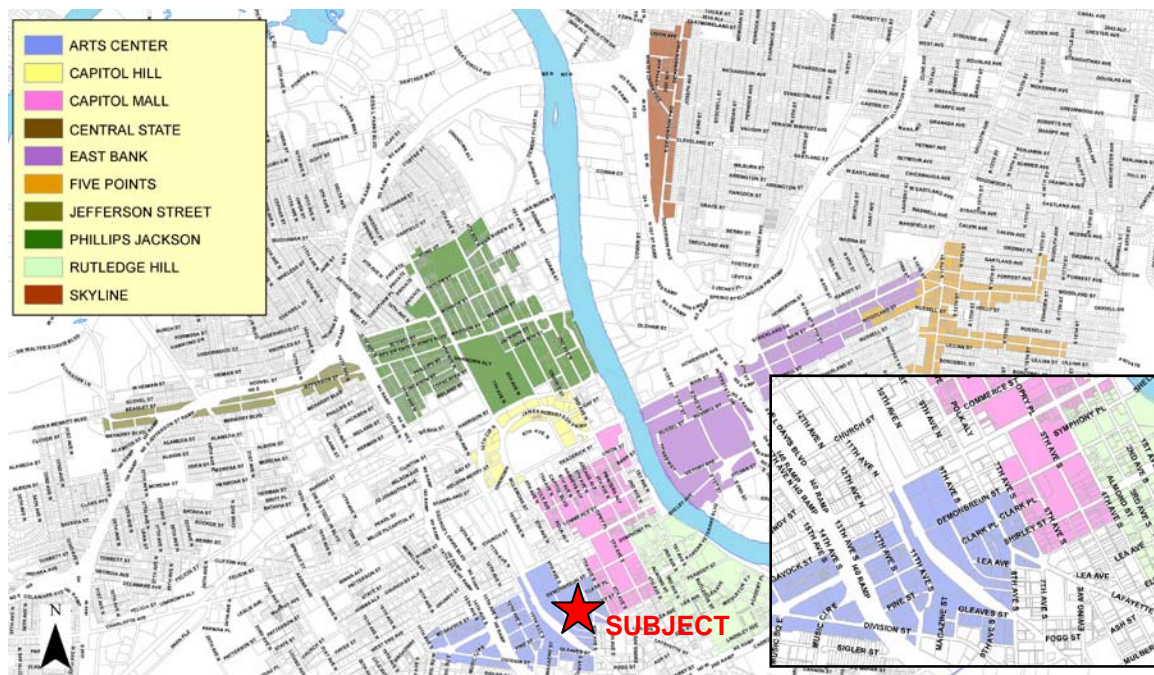


Figure 59

Redevelopment District Map, with inset of The Gulch

Source: Metro Development & Housing Agency

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NYLO Hotel in The Gulch
Nashville, Tennessee

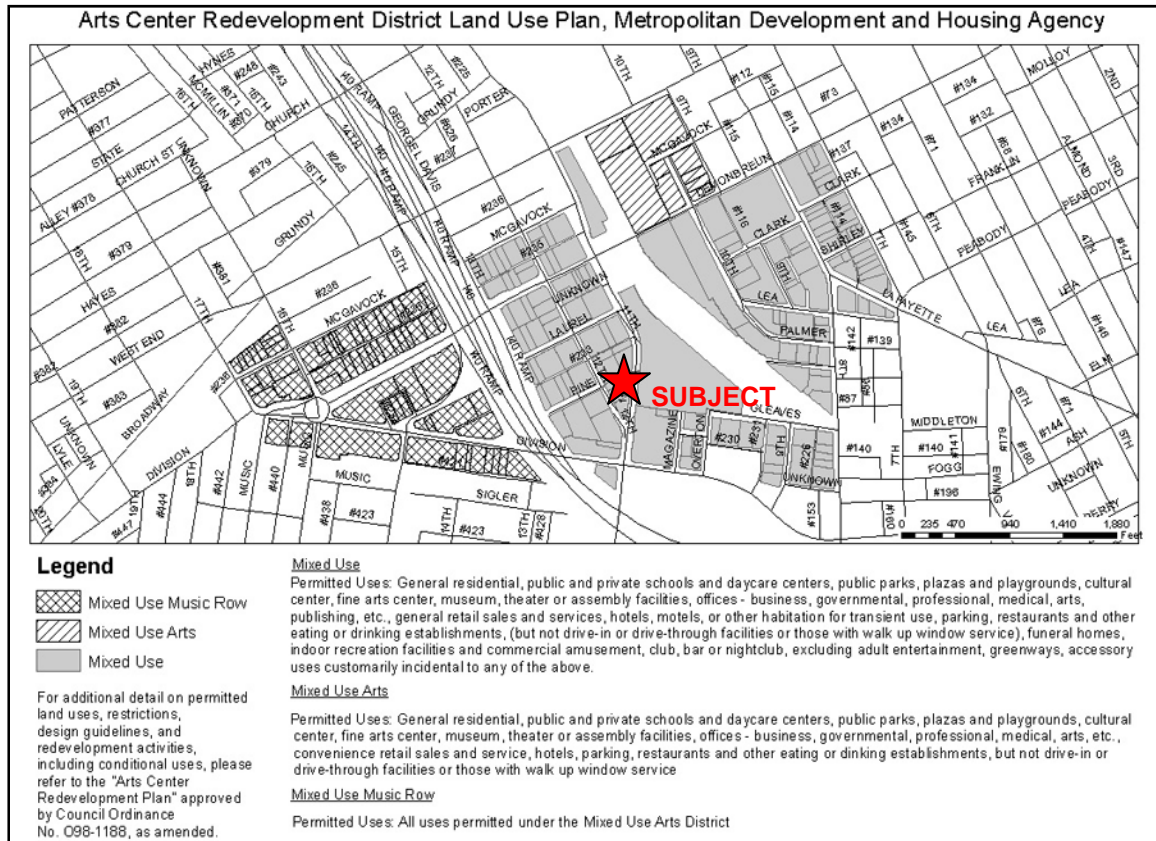


Figure 60

Arts Center Redevelopment District Land Use Plan

Source: Metro Development & Housing Agency

One of the primary ways by which MDHA stabilizes property values in redevelopment districts and ensures a high standard of quality for new development is through design review. MDHA's Design Review Committees meet to review projects ranging from signage and home renovation to new high-rise construction. The committees ensure that any new development complements its context, employs durable building materials, preserves Nashville's history, and fosters a sense of urban community. MDHA reviews exterior building elevations and site plans, but not interior work.

For each redevelopment district, the Design Review Committee (DRC) follows a set of basic principles to determine the appropriateness of a development project. These principles are as follows:

- Principle 1: Buildings should be sited on their respective parcels in ways that are appropriate to their context.

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- Principle 2: The ground floors of new buildings should be designed to encourage pedestrian activity.
- Principle 3: The architectural styles and forms of new buildings should be appropriate to their context.
- Principle 4: The architectural integrity of existing historic buildings should be preserved and respected.
- Principle 5: Building materials should be durable and aesthetically appropriate to their context.

MDHA provides these principles for property owners to follow for potential renovation and building projects within the Arts Redevelopment District. The goal for the development of the subject site should be to create a project that will be in material compliance with these standards and easily pass through the DRC process.

Zoning and Entitlement Opportunities

The primary zoning and entitlement opportunities inherent to the development of the subject site for a hotel use are as follows:

1. *Potential for Bonus Density*

While the Zoning Ordinance does contain provisions for bonus density if a project meets certain criteria, the proposed project would not take advantage of that opportunity. The total height and room count dictated by the NYLO franchise would not fully utilize the 139,120 FAR SF available based on the size of the development parcel. For the same reason, the opportunity for Transferable Development Rights (TDRs) that are available in the downtown area would not benefit the project due to its under-utilization of the available FAR already on site.

2. *Potential for Maximum Height*

The maximum available building height on the subject site is 65 feet, or approximately 5 occupied levels above grade for a hotel use. This height is consistent with the standards of several mid-rise hotels by the major national brands, which are five stories in height. The potential exists to exceed the 65-foot height limit and add another story to the building, which would require stepping the facade back to meet the requirements of the Height Control Plane. This scenario is unlikely because of the hotel typical floors require “stacking” to maintain room count and efficiency.

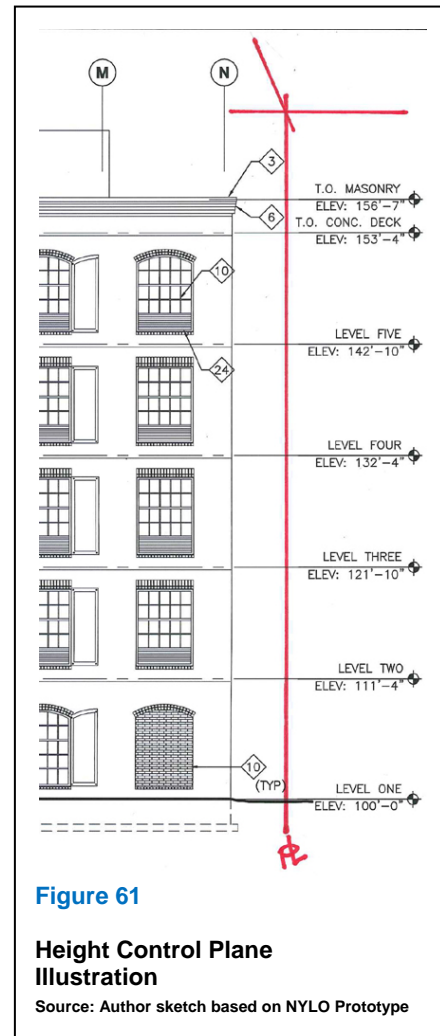
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Alternatively, the developer can apply for either a special exception or a variance to the BZA and have a hearing to determine whether additional height will be permitted. The primary difference between the two methods is that with a variance the developer must prove that the regulation in question creates a “hardship” for the development of the property. This would be difficult to argue because in the BZA’s opinion, additional density and therefore developer revenue/profit is not a hardship. If the increase in height is only one story, the special exception route is preferred and would likely be approved.

The BZA process (and therefore a hearing before the BZA) can be avoided if the project is rezoned as a Specific Plan (SP), which is similar to a Planned Unit Development (PUD), but the SP process, as with all zoning changes, requires both Planning Commission Metro Council approval and is not appropriate in this instance due to the complexity and cost involved in the process.



3. Potential for Off-Site and/or Shared Parking.

Given the small dimensions of the site and the expense associated with below-grade parking, off-site and/or shared parking will be necessary for the development program for a hotel use to be viable. The underlying requirement for parking outlined in the Zoning Ordinance is too great to be accommodated on site, but there are no fewer than three surface parking lots available to be utilized within 300 feet of the subject site.

An off-site and/or shared parking plan will need to be created for the development of the hotel, identifying available surface parking lots with valet and self-park counts for each one, distance to the subject site, hours of operations, and a commitment to make the lots (or ones with similar proximity) available indefinitely to support the proposed project.

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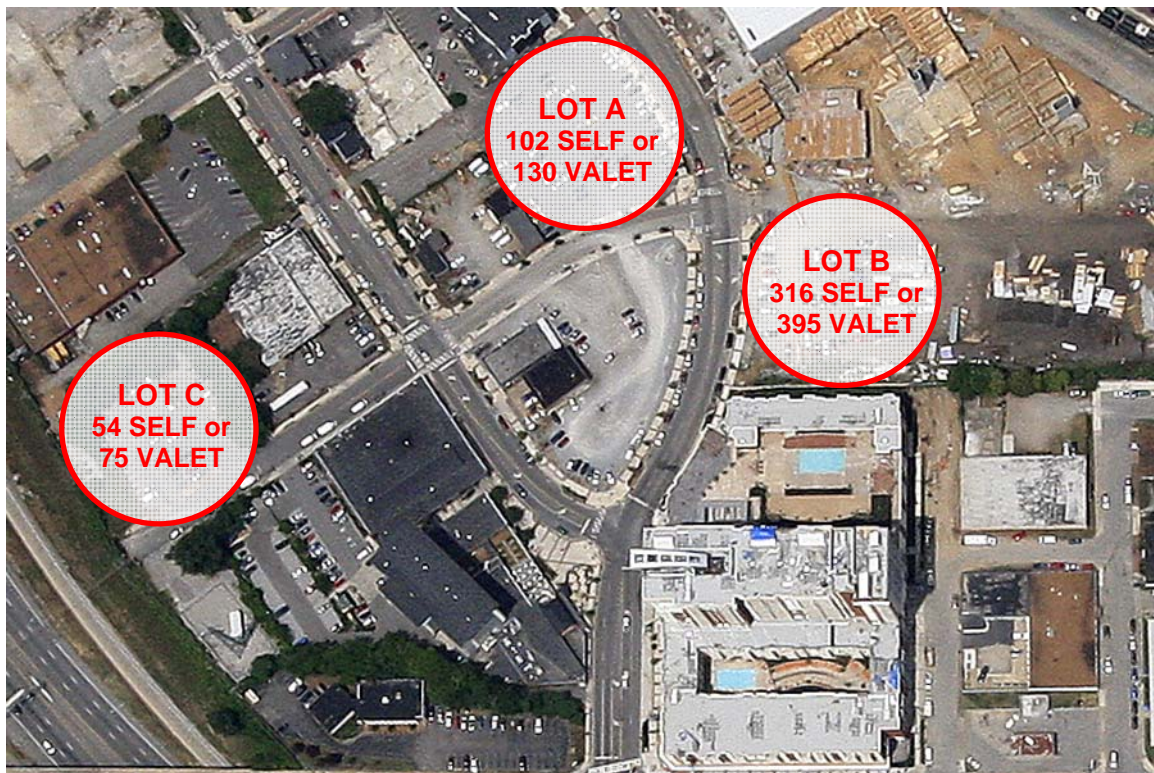


Figure 62

Available Surface Parking Lots within 300 feet of subject property

Source: MarketStreet Enterprises

Community Proffers and Jurisdictional Issues

Because the proposed project is entitled “by right”, there are no proffers, contributions or other enticements required with the local jurisdiction, community groups, or other entities required to apply for permits and proceed with the development of the project.

There are, however, considerations with regard to the governing authorities and local utilities with regard to physical improvements in the public realm outside the boundaries of the property line. These considerations can be summarized as follows:

1. *Electric Utilities*

An existing overhead utility line is present along the north boundary of the site running in an east-west direction along Pine Street. The local electric utility, Nashville Electric Service (NES), is likely to require that the line be diverted or undergrounded as part of the development of the property. Electric lines have already been undergrounded along the other two frontages to the property, 12th Avenue South and 11th Avenue South

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2. *Streetscape, Landscape and Public Space Fixtures*

The Gulch was the recipient of a \$7 million infrastructure upgrade program in 2004-05 and the streetscape, landscaping and public space fixtures (e.g. light poles, benches, waste receptacles) were substantially improved along two building frontages on the subject site, 11th Avenue South and 12th Avenue South. To the extent future development disturbs these improvements, they will have to be repaired or replaced. The Pine Street frontage on the north boundary of the site is largely unimproved and will need to be upgraded as part of the development of the project. Both MDHA and the Department of Public Works should be engaged early in the predevelopment process to work through any issues related to these improvements.

3. *MHDA Design Review Process*

The MDHA DRC process is relatively straightforward and other projects in The Gulch have successfully navigated the process. Close attention must be paid to the guiding principles of the Arts Redevelopment District and the standards in place for the district. “Courtesy reviews” with MDHA staff should be scheduled early and often during the predevelopment process to ensure buy-in from all parties involved and limit surprises during the permitting process.

Political Considerations

A “by right” project avoids most of the political pitfalls associated with development in downtown Nashville, and the path to permits and construction is a relatively straightforward process. That being the case, early awareness and buy-in from the local governing authorities is essential to ensure that surprises don’t present themselves later in the development process. In addition, awareness with the local economic development, commerce and convention entities would be advised given the hotel product type.

Development of a new boutique hotel in the downtown area will garner considerable attention. Therefore, outreach to the following entities to be engaged at the beginning of the process will encourage additional support:

- Office of the Mayor (Paul Ney, Economic Development Chief)
- Metro Council (Erica Gilmore, Councilwoman District 19)
- Metro Planning Commission (James McLean, Chairman)
- Metro Planning Department (Rick Bernhardt, Executive Director)
- Metro Development & Housing Authority (Phil Ryan, Executive Director)
- Metro Department of Public Works (Mark Macy, Director of Engineering)
- Nashville Area Chamber of Commerce (Ralph Schultz, President/CEO)
- Nashville Convention & Visitors Bureau (Butch Spyridon, Exec Vice President)
- Nashville Downtown Partnership (Tom Turner, President)

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All of these challenges are mitigated somewhat by the proposed hotel use as follows:

1. The small site could be designed for a vertical development with ground floor retail and hotel lobby use, with a slender typical hotel floor “tower” above of three (3) or more stories. Opportunities for parking, the greatest obstacle the development of the parcel, must be addressed off-site.
2. The irregular shape features a “pinch point” of 72 feet at the narrowest location of the site, approximately located at the middle of the 311-foot length of the site along 11th Avenue South. This orientation forms an “elbow” around which the project must bend. From the standpoint of vertical development, this pinch point is accommodated easily by a typical hotel tower width, or approximately 60 to 65 feet for a double-loaded room corridor.
3. The largest challenge by far is that of a potential lack of parking, which plays into a number of zoning issues as explained above. Most of the comparable hotels in the vicinity utilize valet parking either heavily or exclusively to serve their “drive-to” guests, as is expected in this market for four-star or above properties. The situation is identical for high-end restaurants in Nashville, one of which may locate in the ground floor retail space in the building. These two uses may be the only ones able to utilize valet parking so heavily, with little to no ill effects on potential hotel guest or restaurant users.

The height of the building is not a concern if the project is 5 levels above-grade or less. Expanding to a 6-story diagram has the potential to conflict with the Height Control Plane, which would require a special exception before the BZA. The NYLO hotel development staff has indicated that the “sweet spot” for room count in the prototype hotels is in the 160- to 200-key range, and that count will be a factor in the design.

The density of the project is not a concern due to the fact that the available square footage based on FAR is 139,120 SF at the 5.0 ratio permitted by right. Assuming the project does not utilize the entire buildable footprint for each floor of the building, the hotel would have to grow to 7 stories or more to exceed the available FAR. This scenario would likely exceed both the preferences for the NYLO franchise and the ideal room count for the property, assuming that about 40 keys per floor is achievable.

Locational Externalities and Considerations

The subject site lies in the heart of the Gulch, with many design influences present from existing, rehabilitated (adaptive reuse) and newly constructed buildings. The adjacent land uses in all directions from the subject site are as follows:

To the North:

- Vacant lot, future site of *Griffin Plaza* apartment and retail project, start date TBD
- Parking lot adjacent to *Laurel House Lofts*, including offices for *Nashville Housing Fund* and retail showroom for *Kenny & Company*

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NYLO Hotel in The Gulch
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To the East:

- Future *Velocity in the Gulch* condominiums & retail use, delivering Summer 2009
- Future *Pine Street Flats* apartment & retail project, start date TBD

To the South:

- *ICON in the Gulch* condominiums & retail use, completed in Fall 2008 and featuring restaurants *Cantina Laredo*, *Casablanca Coffee* and *Urban Flats*
- Existing *Javanco* building, featuring *Mercury View Loft* apartments and restaurants/entertainment venues including *Sambuca* and *Watermark*

To the West:

- Existing *Station Inn* music venue and *Auto Garage*, on the same block
- Existing *Farber* building, featuring *Urban Outfitters* retail store and *Provence* bakery
- Existing *Ash-McNeil* showroom/warehouse building, currently vacant

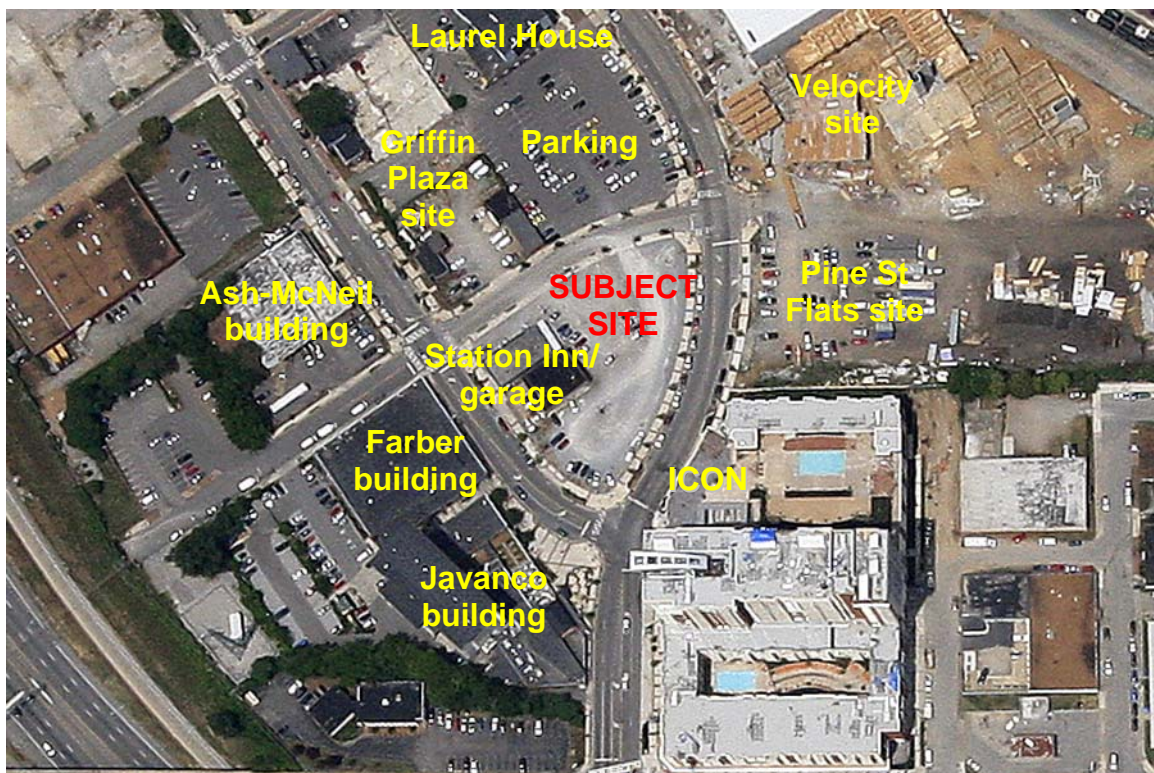


Figure 64

Adjacent Land Uses

Source: Author & MarketStreet Enterprises

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
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Griffin Plaza is a future apartment and retail project being developed by Crosland Tennessee, LLC, a local division of the North Carolina-based developer. Originally the project was planned for 150 luxury apartment units, approximately 30,000 SF of ground-floor retail, and below-grade structured parking. The project is now being redesigned due to the company's acquisition of an immediately adjacent parcel on the northeast corner of 12th Avenue South and Pine Street. Once redesigned, the project has the potential to accommodate about 250 units.



Figure 65
Griffin Plaza apartment rendering

Source: Crosland Tennessee, LLC

Laurel House Lofts is an existing affordable housing apartment project in The Gulch with 48 apartment units along with ground floor office and retail space. The apartment units are (available to individuals and households earning less than 80% of Median Family Income limits for Nashville/Davidson County). The Nashville Housing Fund, the agency that administers the affordable housing program, maintains its offices in the building. Kenny & Company is a kitchen and bath retailer that has a retail showroom on the ground floor also.

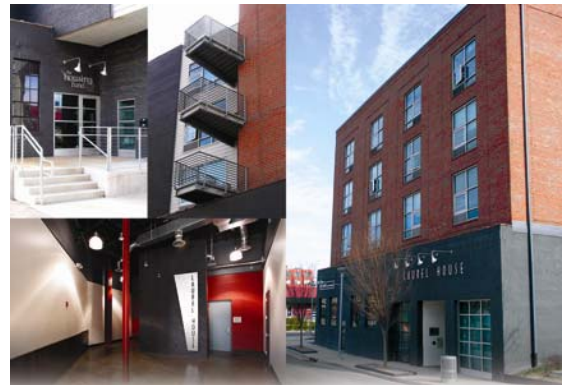


Figure 66
Laurel House Lofts, office, retail & parking

Source: Nashville Housing Fund

Velocity in the Gulch is a new condominium project featuring 265 condo units, 21,000 square feet of ground floor retail use and associated above-grade structured parking. The project will be completed in Summer 2009 with first unit deliveries occurring in early June. Offering one- and two-bedroom units, the building's market differentiator is efficient units that average 725 SF and are as small as 418 SF on one floor plan. Every unit in the building is priced less than \$300,000. The building's amenities include a sky lounge with downtown views, a European courtyard and a park.



Figure 67
Velocity in the Gulch condominiums & retail

Source: KA Architects, Inc.

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Pine Street Flats is a proposed market-rate apartment project, featuring 271 one- and two-bedroom apartment units, 16,000 SF of ground floor retail use, and associated above-grade structured parking on 3.25 acres. The building is 7 stories tall on the 11th Avenue South frontage, stepping back to 5 stories in the rear of the building. The project is a potential joint venture between MarketStreet Enterprises and Julian LeCraw & Company, LLC of Atlanta, GA. The project is currently in predevelopment and schematic design phase, and a start date has not been announced.



Figure 68
Pine Street Flats apartment rendering

Source: Preston Partnership

ICON in the Gulch condominiums is a luxury condo project featuring 418 units above 26,000 SF of ground floor retail use and associated above-grade structured parking. The project was completed in Fall 2008. The retail component for the project features three restaurants unique to Tennessee: *Urban Flats Flatbread & Wine Co.*, *Cantina Laredo*, and *Casablanca Coffee* which is opening in June. The project is highly amenitized and features a rooftop pool deck with panoramic views of downtown with adjacent indoor “ultralounge” that can accommodate parties of up to 500 guests.



Figure 69
ICON in the Gulch condominium & retail

Source: KA Architects, Inc.

The *Javanco* building was the first large-scale adaptive reuse project in The Gulch, featuring 32 loft apartments over restaurants and entertainment venues. The redevelopment required the interior demolition of the former use, in addition to the construction of a 6-story apartment on top of the existing improvements. Restaurants include *Watermark*, *Ru Sans* and *Sambuca*, which is also a live music venue. Wine bar and restaurant *The Wine Loft* recently signed a lease for the former Bar23 space in the building, with the tenant scheduled to open in June.

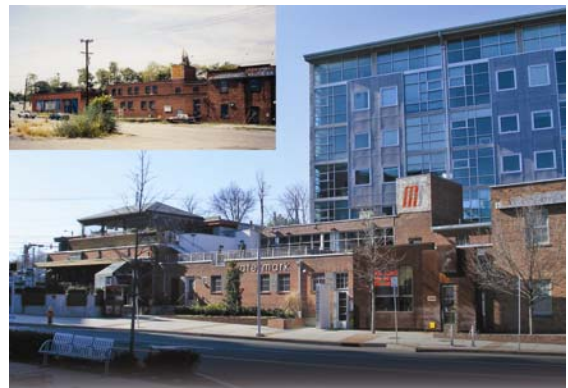


Figure 70
Javanco Building

Source: MarketStreet Enterprises

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
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The *Station Inn* and *Auto Garage* are situated adjacent to, and on the same block as, the subject site, and comprise 17,692 SF of site area (0.41 acres). The *Station Inn* building, while shabby in appearance, is commonly referred to as “the mother church of Bluegrass music” and as a result is a local institution. The *Auto Garage* has no significance other than its role as an automobile repair shop. There is common ownership of both parcels, although it is not anticipated that the current ownership will entertain a sale or ground lease of the underlying property anytime soon.



Figure 71
Station Inn and Auto Garage

Source: MarketStreet Enterprises

The *Farber* building was rehabilitated simultaneously with the *Javanco* building on the same block, and contains the larger of the retail spaces in the *Farber/Javanco* complex shared with *Mercury View Loft* apartments. *Urban Outfitters* opened its first Tennessee clothing store in 12,000 SF of the *Farber* building in March, in a space formerly occupied by the City Hall music venue. Next door, *Provence Breads* operates a commercial bakery from their 8,500 SF space, which serves their retail outlets throughout Nashville. A retail use is contemplated to replace *Provence*.



Figure 72
Farber Building

Source: MarketStreet Enterprises

The *Ash-McNeil* building was formerly utilized by a gas wholesaler/retailer named AirGas until last year when the tenant relocated. The building is currently vacant. There is no architectural significance to the building, but there is potential for adaptive reuse among a variety of retail and/or warehousing uses given its size of over 15,000 SF and readily accessible parking on site. There are no current plans for the building but it is presently being marketed for retail or warehousing opportunities.



Figure 73
Ash-McNeil Building

Source: MarketStreet Enterprises

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NYLO Hotel in The Gulch
Nashville, Tennessee



Schematic Site Design

The design for an upscale, boutique hotel in The Gulch must meet some key design criteria in order to be successfully integrated into the neighborhood. These criteria are as follows:

1. *Uniqueness.* Most of the retailers and restaurants in The Gulch are either new-to-Nashville or new-to-Tennessee concepts. A new hotel in The Gulch should come from a unique brand or franchise that offers a unique concept that differentiates itself in Nashville's competitive hospitality market. The hotel should become a destination and be unlike any other product available in the market at its price point.
2. *Compatibility.* The project should possess a "feel" that works with the existing buildings in The Gulch not only in terms of appearance but also in terms of demographic appeal. The majority of the shops, restaurants and music venues are geared toward urban professionals with sophisticated tastes and disposable income for dining and entertainment pursuits. The hotel should cater to those individuals as well as business and leisure travelers visiting downtown.
3. *Style.* The hotel should stand alone as a unique local attraction, but it should also blend in to the architectural vernacular that has been established in The Gulch over many years. In The Gulch, decades-old brick buildings blend with gleaming glass and steel towers, creating an architectural palette that offers a great deal of variety, yet an element of consistency that is pleasing to the senses.
4. *Activation.* Open and active retail and restaurant uses on the ground level along the sidewalk are a critical feature for the pedestrian experience in The Gulch. There should be no "dead" areas facing the street, and restaurants should offer outdoor dining opportunities wherever possible. Storefronts should create interest and delight.

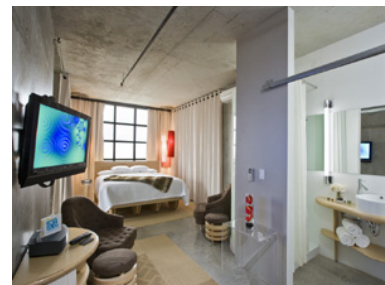
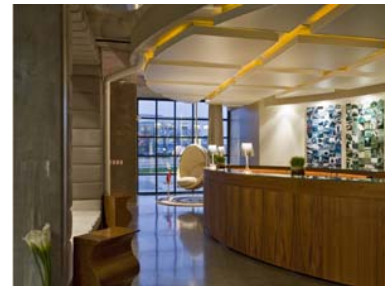


Figure 74
NYLO Design Influences

Source: NYLO Hotels

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NYLO Hotel in The Gulch
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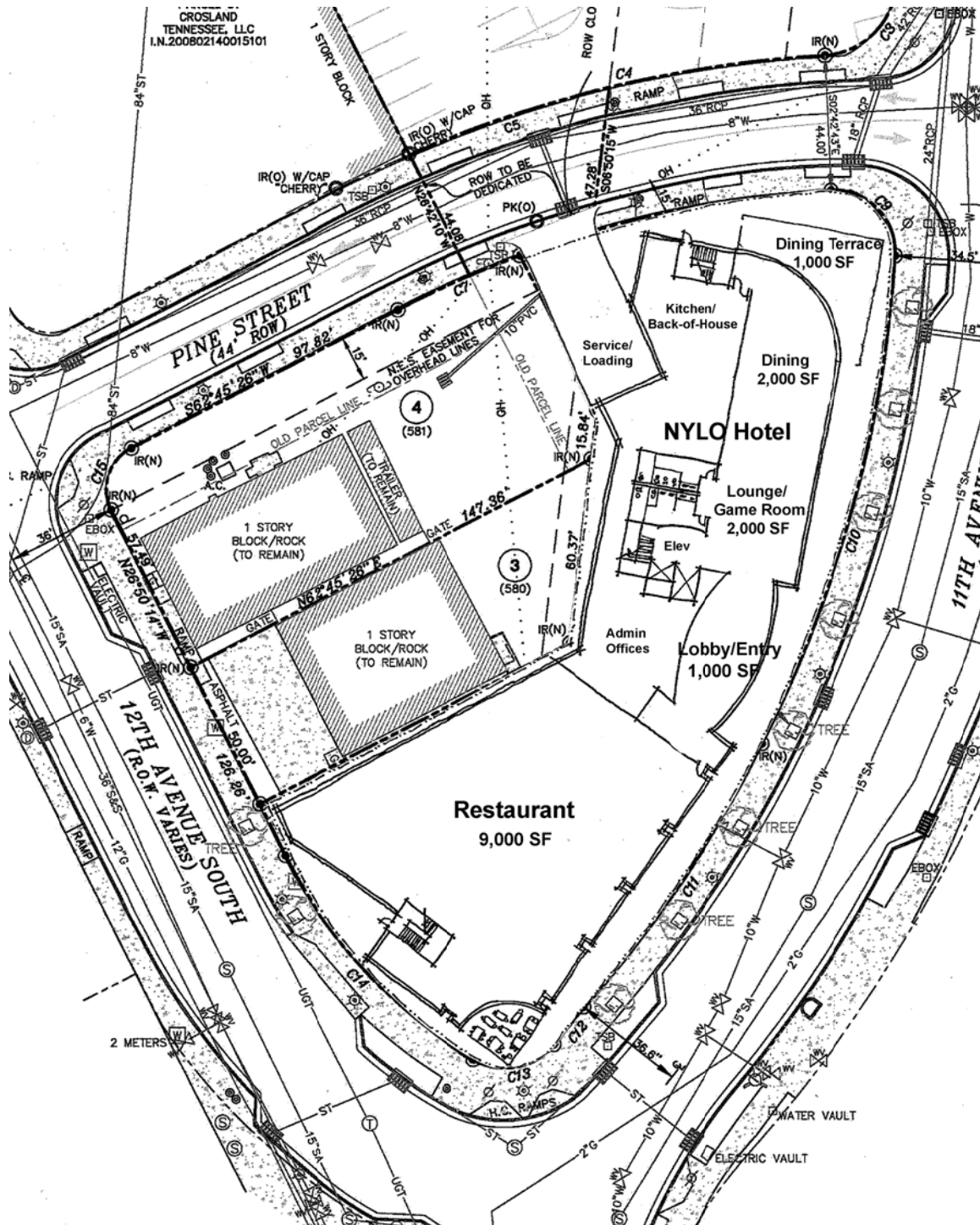


Figure 75

Schematic Site Plan

Not to Scale

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NYLO Hotel in The Gulch
Nashville, Tennessee

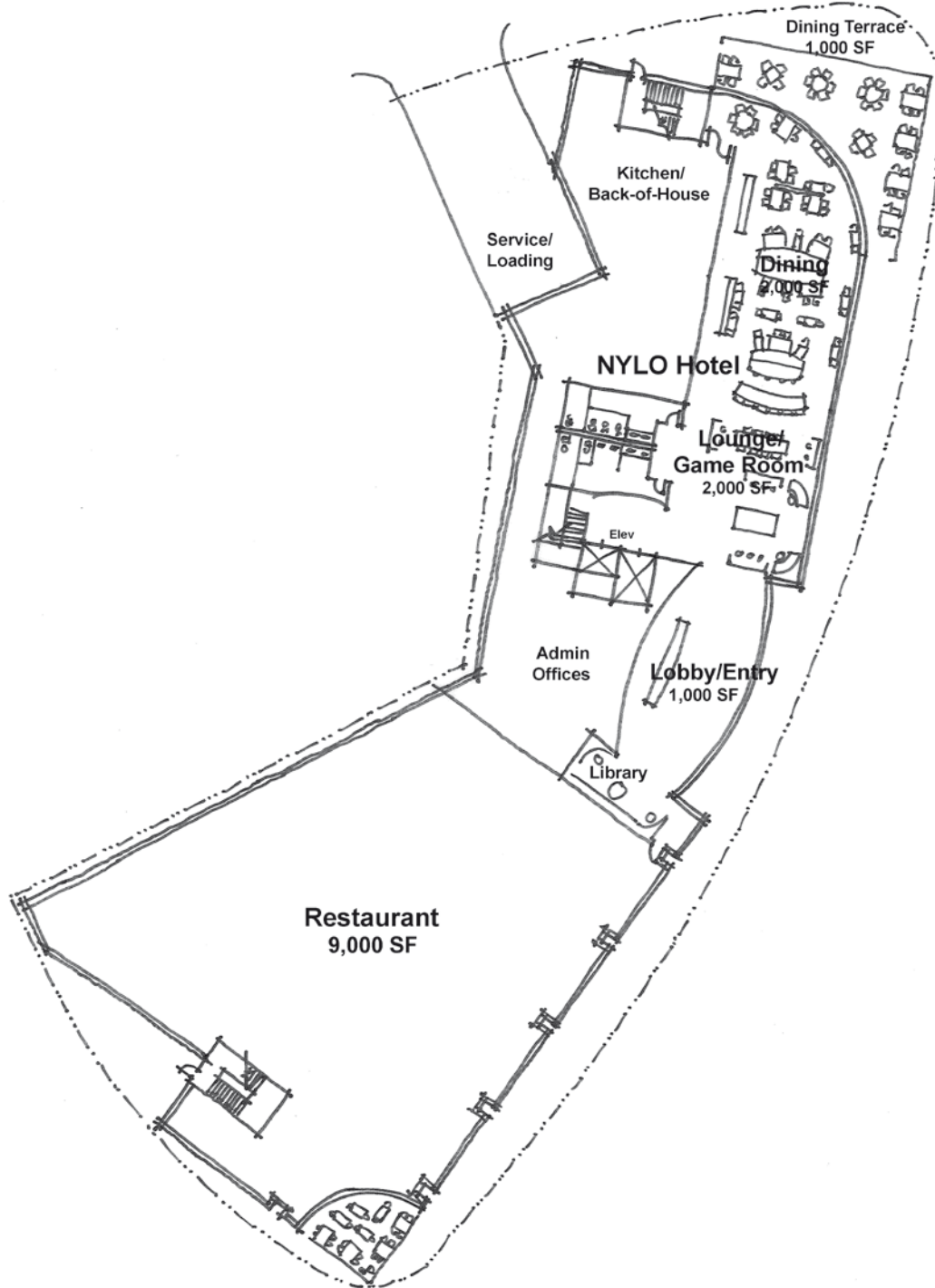


Figure 76

Schematic Ground Floor Plan (hotel/restaurant)

Not to Scale

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee

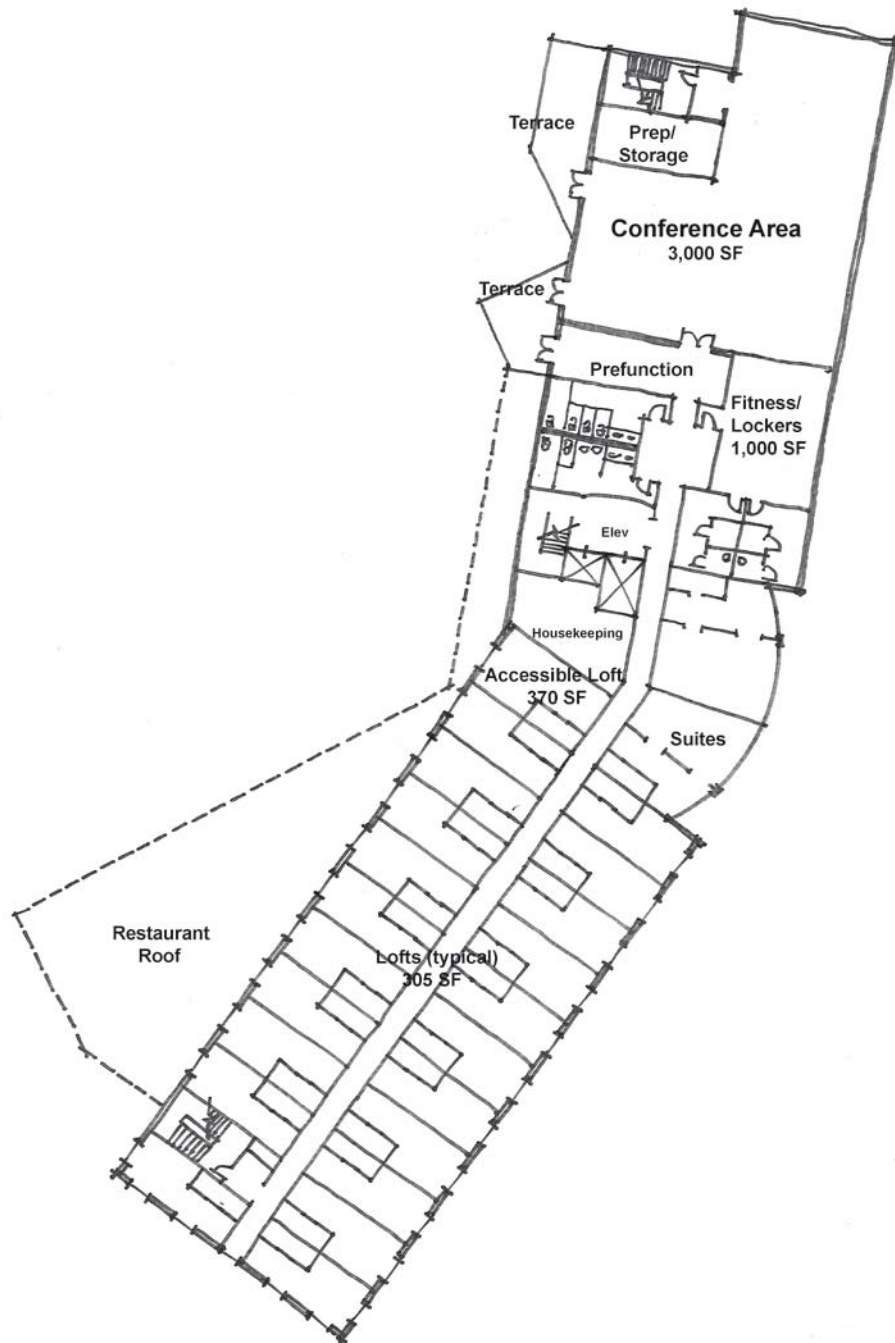


Figure 77

Schematic Second Floor Plan (hotel/conference)

Not to Scale

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee

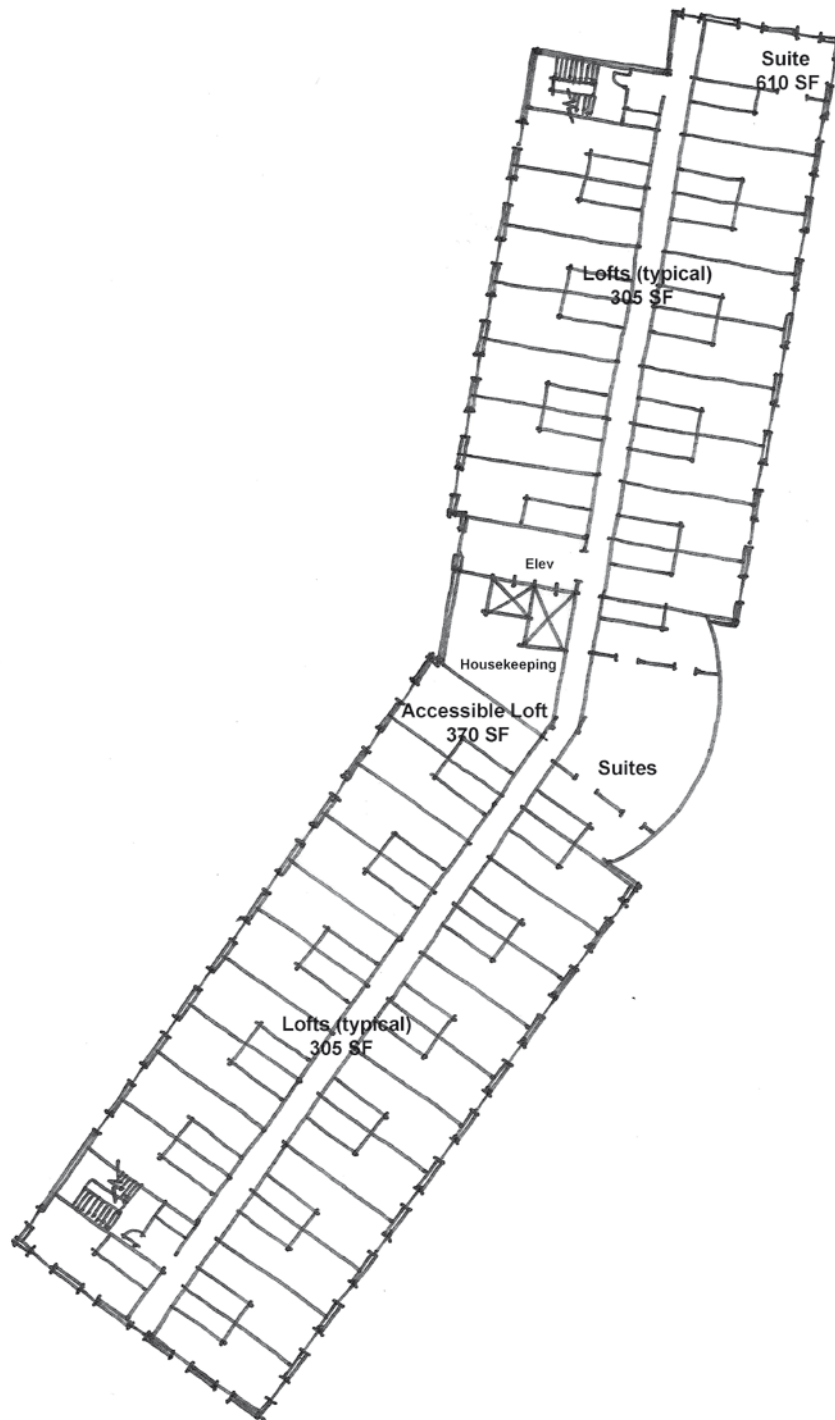


Figure 78

Schematic Typical Floor Plan (hotel)

Not to Scale

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NYLO Hotel in The Gulch
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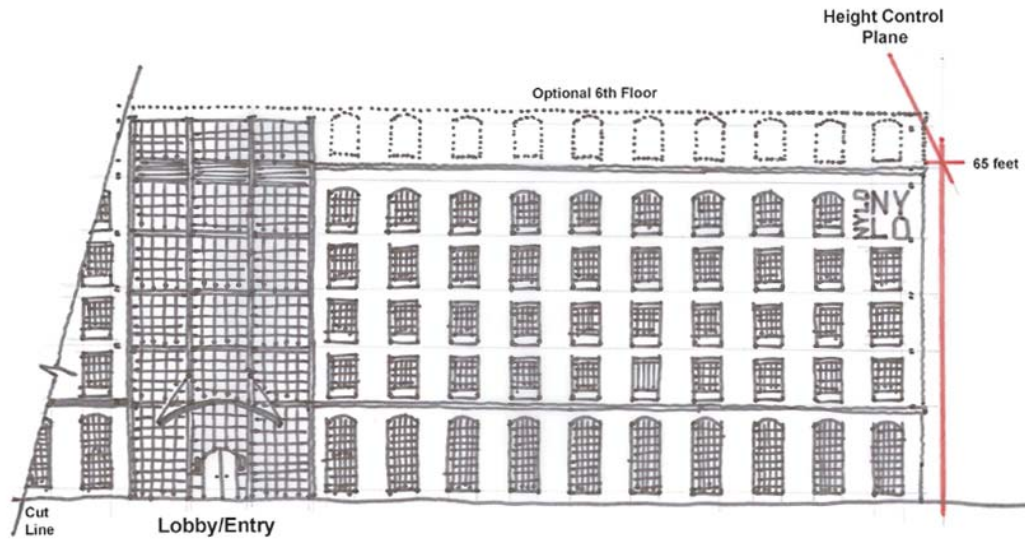


Figure 79

Schematic East Elevation (hotel portion)

Not to Scale

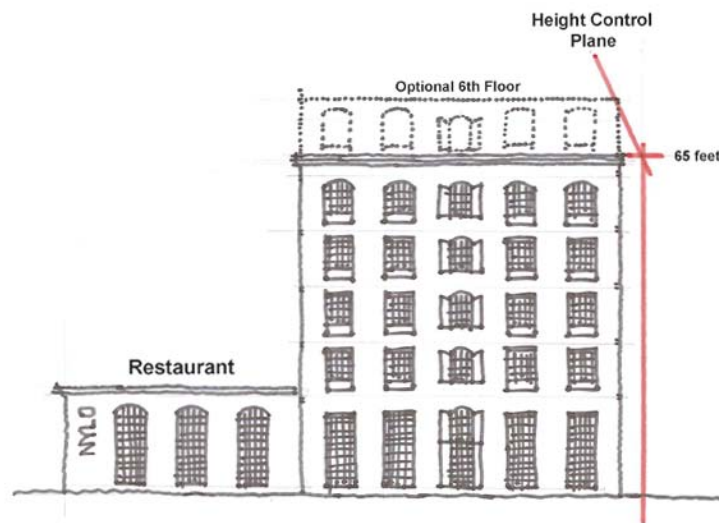


Figure 80

Schematic South Elevation (hotel/restaurant portion)

Not to Scale

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



The proposed design differs from the NYLO prototype franchise standards in three significant ways, as follows:

1. *Provision for restaurant user on ground floor.*
NYLO hotels are full service and therefore have full food and beverage operations. However, a good portion of the ground floor in a prototype NYLO property is allocated to back office functions such as storage, service areas and various offices. By consolidating some of these functions to the rear of the proposed building, it is possible to place a separate restaurant on the corner of 11th & 12th Avenues South that will provide additional revenue for the hotel. Doing so requires raising the 1st floor clear height from 10'-6" to approx. 18'-0" to accommodate that use.
2. *Conference area provided on second floor.*
In a prototype NYLO property the area allocated to meeting and conferencing space is quite small. There is a demand for meeting space in the local hotel market and this layout allows approximately 3,000 SF on the second floor on the north wing of the building. This space would otherwise not be optimal for guest rooms due to the location of the gym and locker room. The area also connects to outdoor terraces and has a prefunction area. The conference area can be configured to handle small and large groups.
3. *Option to add 6th floor to building.*
Both first prototype NYLO properties (in Plano, TX and Warwick, RI) are 5 stories in height, however the tunnel-form structural system allows greater height where desired. The Height Control Plane in the CF zoning restricts buildings to 65 feet in height by right, so pursuing an additional floor would require an application for a special exception with the BZA. While it is likely that such an application would be approved, the cost and time associated with that effort must be weighed against the added revenue of an extra floor.

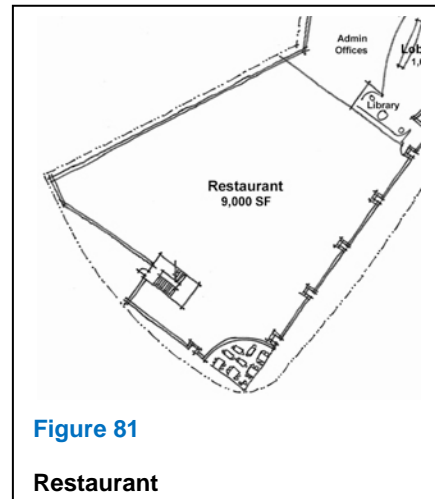


Figure 81

Restaurant

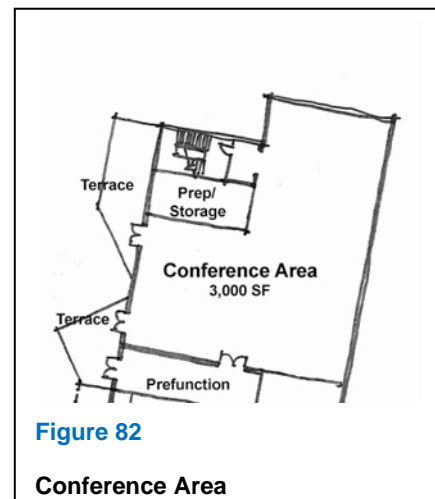


Figure 82

Conference Area

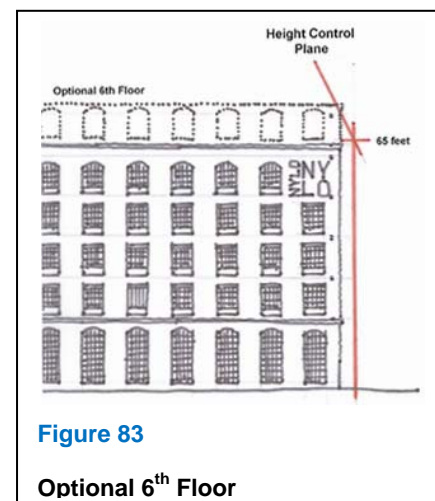


Figure 83

Optional 6th Floor

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NYLO Hotel in The Gulch
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In total, the proposed hotel would feature 144 rooms in a 5-story diagram and 184 rooms if an additional sixth floor was added. There are 40 rooms per typical floor, including 3 typical suites per floor. The ground floor and second level are atypical and contain common area functions such as the lobby, lounge, dining area, game room, conferencing areas, and fitness/locker facilities.

A summary breakdown of the development program is as follows:

DEVELOPMENT PROGRAM

FLOOR	STD LOFTS	LOFT SUITES	TOTAL	
6	37	3	40	OPTIONAL 6TH FLOOR
5	37	3	40	Typical Floor
4	37	3	40	Typical Floor
3	37	3	40	Typical Floor
2	22	2	24	Conference Area, Fitness/Lockers
Ground			-	Lobby, Lounge, Dining, Game Room
Total	170	14	184	
w/o 6th	133	11	144	

AREA CALCULATIONS

Rooms

Typical Standard Loft	305	SF
Accessible Loft	370	SF
Loft Suites	610	SF

Common Areas

Lobby/Entry	1,000	SF
Lounge/Game Room	2,000	SF
Dining	2,000	SF
Conference Area	3,000	SF
Fitness/Lockers	1,000	SF
Restaurant (separate)	9,000	SF

Total Building Area	103,000	SF
Less: Restaurant	94,000	SF
Gross Area Per Guest Room	511	SF

Figure 84

Development Program & Calculations

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Design and Architectural Considerations

The following design standards apply for the NYLO prototype standard hotel:

Number of Keys:	160-200
Avg. Key Size:	310 SF
F&B Area:	+/-3,500 SF
F&B Service:	Three meal & 24-hour food service
Alcohol/Bar:	Full Bar
Meeting Space:	Yes
Ballroom:	Optional
Outdoor Courtyard:	Optional
Gym SF:	+/- 600 SF
Changing Rooms:	Yes
Construction Period:	12 months
Gross SF:	80,000-105,000 SF
Gross SF per Key:	500-525 SF
Site Size:	3.5-4.0 acres
Class:	Upscale, Full Service
Construction:	Brick Panel, glass, tunnel form concrete

The hotel structure is poured-in-place, tunnel form concrete, polished and left largely exposed throughout the hotel. The concrete surfaces together with large, oversize windows, 10-foot ceilings and the exposed brick external walls complete the loft “shell”. The external brick wall system is a double-brick panelized system that can be built on-site or off-site. The double brick system allows for the inside of the external wall to be exposed in the hotel and creates a warm and loft-like environment. The guest loft is furnished with custom furniture and artwork, avoiding any expensive “built-in” pieces or pieces that require extensive on-site carpentry.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Environmental Factors

A new NYLO hotel in The Gulch would touch on a variety of environmental issues related to the development of the project on the subject site. The environmental features of the hotel development can be described among three broad categories:

1. *The Gulch is a certified sustainable neighborhood.*

The United States Green Building Council (USGBC) oversees the certification for green buildings under the Leadership in Energy and Environmental Design (LEED®) program. LEED is the most widely recognized green certification program in the world. Individual building projects may apply to the USGBC for certification and are scored based on energy efficiency, green building design and performance criteria.

Until recently, the LEED program was only available for individual buildings. However, the USGBC recognized that energy efficiency and environmentally sustainable solutions reach far beyond the building envelope, and in fact extend to entire neighborhoods where people live, work, and play.

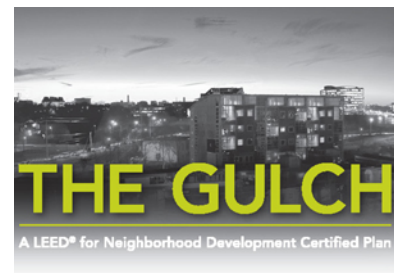


Figure 85

The Gulch, A LEED Certified Plan

Source: MarketStreet Enterprises

In 2007, the USGBC began a pilot certification program for large-scale developments called LEED for Neighborhood Development (LEED ND). LEED for Neighborhood Development is a certification program developed by USGBC in collaboration with the Congress for New Urbanism (CNU) and the Natural Resources Defense Council (NRDC).

Through the efforts of the USGBC, CNU and NRDC, the LEED ND certification program integrates the principles of smart growth, new urbanism and green building into the first national system for neighborhood design. LEED ND certification identifies projects as pioneering examples of sustainable design, and such projects demonstrate leadership in transforming the development industry.

MarketStreet Enterprises spearheaded the initiative to pursue LEED ND certification for The Gulch with LEED facilitator Looney Ricks Kiss as soon as the pilot program was launched. Of 239 projects in the United States, The Gulch was one of only four projects in Tennessee to be accepted. After



Figure 86

The Gulch LEED ND Master Plan

Source: Looney Ricks Kiss Architects, Inc.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
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an 18 month effort, MarketStreet received official confirmation that the Gulch achieved LEED ND certification at the Silver level in January 2009. With this certification, The Gulch has earned recognition for excellence in the built environment and a place among the finest developments incorporating the principles of smart growth, urbanism and green design.

The Gulch is the tenth project in the United States to be awarded the LEED ND distinction, and the thirteenth LEED ND project in the world. This elite group of projects includes the Olympic Village in Beijing, China. As a Silver Certified Plan, The Gulch is the fourth project in the world with that designation. As the first LEED ND certified plan in the Southern US, The Gulch has become a model for sustainable community design in the region.



Figure 87

Mayor Karl Dean makes LEED ND announcement, February 17, 2009

Source: MarketStreet Enterprises

2. *NYLO hotels utilize sustainable construction techniques.*

Green construction and operation policies in the construction of NYLO hotels call for using the most energy efficient building materials and techniques, including a minimum of 50% recyclable materials. This requirement mirrors a LEED for New Construction (LEED NC) credit under that particular building rating system.

With its narrow thermal range, NYLO's brand standard concrete and brick construction reduces electricity usage for heating and cooling. While the USGBC has not adopted a formal rating system for the construction of hotels, it is possible that the credits under the LEED NC rating system could be incorporated into the prospective project to a large extent.

3. *Green features are built in to NYLO hotels.*

Each NYLO hotel offers an entire allergen friendly floor, with all guestrooms incorporating a 7-step purification system from Pure Solutions North America. Of all the lodging brands, NYLO has the largest percentage of inventory dedicated to a comprehensive air purification system. Each NYLO "Pure Room" receives a certified purification treatment, has a medical grade air purifier and hypoallergenic bedding.



Figure 88

NYLO "Pure" allergen-free room

Source: NYLO Hotels

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VI. CONSTRUCTION MANAGEMENT CONTROLS

Construction Cost Analysis

The construction cost summary and detail for the prospective project was provided by JE Crain & Sons, Inc. The family-owned general contracting firm, now 75 years in business, is the dominant contractor for the hotel product type in the Nashville market.

Recently, JE Crain completed the 154-room downtown Hampton Inn & Suites Hotel, an urban infill project on a tightly staged site approximately 6 blocks from the subject site. JE Crain also recently completed the 143-room Aloft by W Hotels in nearby suburban Franklin, TN that delivered in October 2008. Among the “lifestyle brands” in the hospitality industry, the Aloft concept aligns most closely to the NYLO brand. The firm is currently finishing the 194-room Hilton Garden Inn hotel in midtown, an infill project approximately one-half mile from the subject site. That product is very similar in scope and cost to the proposed NYLO hotel and will be part of the subject’s competitive set when completed in May 2009.

JE Crain established preliminary pricing based on conceptual drawings of the proposed project, as well as NYLO-specific prototype standards and drawings provided by NYLO Hotels franchise development. The hard cost summary and detail assumed that the 6-story NYLO option was pursued, for a total key count of 184 rooms.

After consultation with Mark Rankin, one of the head estimators and a vice president at JE Crain, it appears that the project can be constructed at a cost that is in line with the NYLO prototype properties, and on a similar construction schedule.

Out of total project costs of \$28.7 million, “hard” costs for the project are \$13.8 million or \$75,200 per key including the shell construction of the attached restaurant. The tenant buildout of the restaurant space and the contractor’s cost to procure and install the hotel’s furnishings, fixtures and equipment project adds another \$5.8 million or \$31,400 per key.

The total of all these contractor costs equals approximately 69% of the total project costs.



Figure 89

JE Crain & Sons Hotel Projects

Source: JE Crain

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HARD COST SUMMARY

DESCRIPTION	TOTALS	\$/SF	\$/KEY	% TOTAL
Labor	\$ 373,420	\$ 3.62	\$ 2,029	2.06%
Material	\$ 914,814	\$ 8.88	\$ 4,972	5.06%
Subcontract	\$ 15,511,301	\$ 150.48	\$ 84,301	85.73%
Equipment	\$ 206,918	\$ 2.01	\$ 1,125	1.14%
Other	\$ 365,206	\$ 3.54	\$ 1,985	2.02%
City Privilege License	\$ 1,671	\$ 0.02	\$ 9	0.01%
County Privilege License	\$ 1,671	\$ 0.02	\$ 9	0.01%
General Liability	\$ 22,617	\$ 0.22	\$ 123	0.12%
Overhead and Profit	\$ 695,905	\$ 6.75	\$ 3,782	3.85%
Total	\$ 18,093,523	\$ 175.53	\$ 98,334	100.00%

Figure 90

Construction Hard Cost Summary

Source: JE Crain & Sons, Inc.

JE Crain's Hard Cost Detail data that support the above Hard Cost Summary is contained in the attached Appendix.

Project Delivery Schedule and Milestones

The two completed NYLO prototype hotels had 12 month construction durations, from shovel in the ground to open for business, and that is considered a benchmark for the brand. Eventually NYLO hopes to improve upon that timescale with goals of 10 months through efficiencies in material staging, delivery and assembly.

For the purposes of the prospective hotel on the subject site, it is assumed that some construction-period schedule efficiencies could be leveraged consistent with the efficient NYLO program, balanced by the fact that the proposed property has the option of a six-story diagram and the additional time associated with the construction of an additional floor beyond NYLO's prototype properties. Considering these circumstances, JE Crain felt that a 12-month construction duration was appropriate in this instance and in fact is consistent in scope with their Hilton Garden Inn hotel under construction one half mile away from the subject site.

A Critical Path Management (CPM) schedule was produced that contemplated a construction start date of January 1, 2010 and a projected completion date of December 24, 2010. A breakdown of the schedule and associated activities follows.



Project Construction Schedule

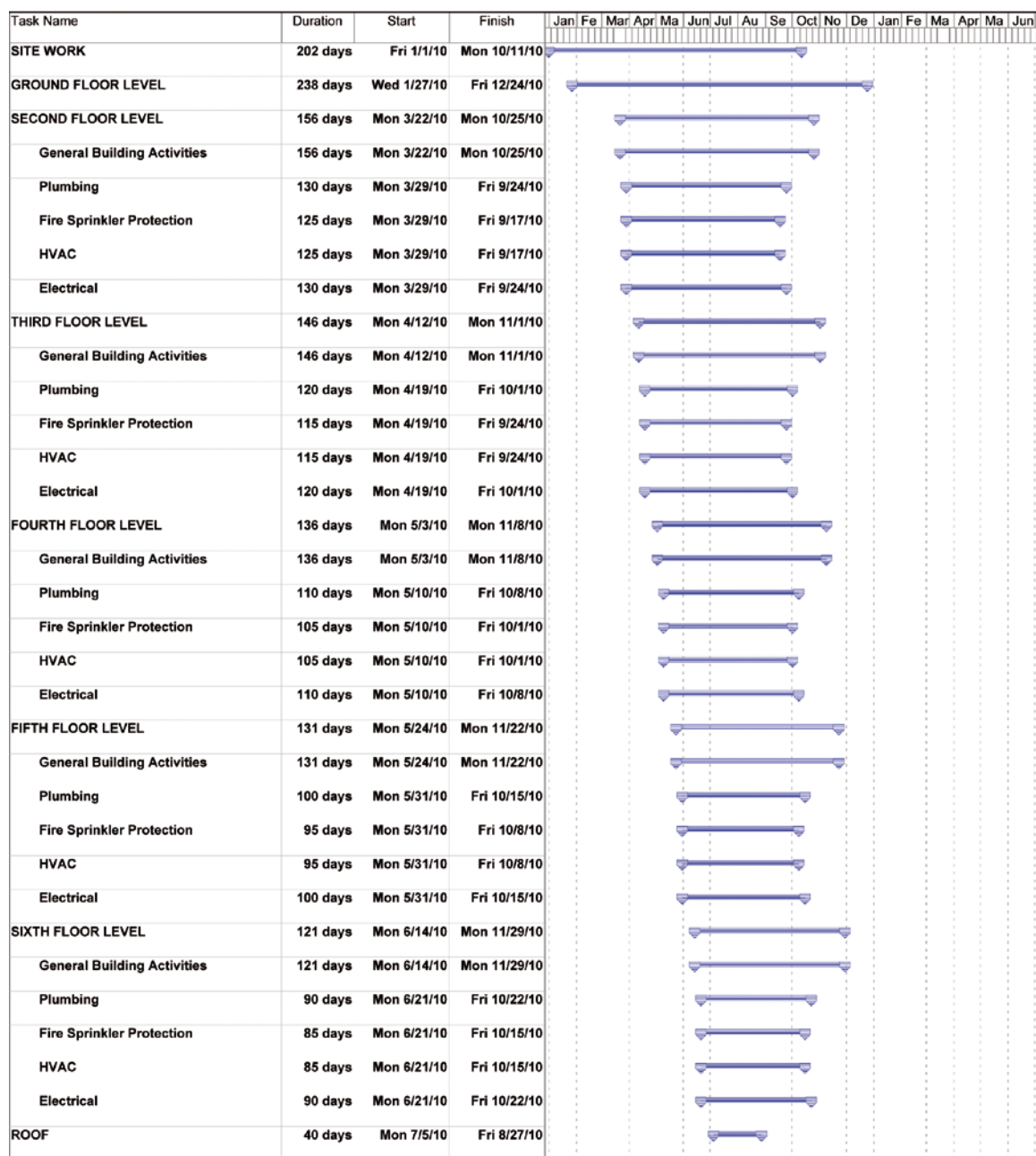


Figure 91

Project Construction Schedule

Source: JE Crain & Sons, Inc. & Author

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Construction Risk Considerations

The construction of any commercial real estate project, let alone a mid-rise boutique hotel on a small urban infill site, is a complicated endeavor. Site or soils issues, contractor performance, weather delays, staging and coordination, and the availability of labor and materials all affect the successful execution of the project and these issues become the developer's problem to solve.

Notwithstanding the extensive testing that can be performed ahead of time, problems can arise in both soil contamination and soil compaction once a shovel is in the ground, and have to be dealt with immediately in order to keep the project moving. Changes to environmental remediation plans and structural systems "on the fly" are not so uncommon, and should be planned for in the predevelopment process.

Given the variety of risks associated with the construction process, it is advisable to place a Builder's Risk insurance policy on the project, purchased either by the Project Entity or the general contractor. Such a policy protects the owner from non-performance of the contractor during the course of the project. In addition, Payment and Performance Bonds should be placed on contractors based on the dollar amount of the contract or subcontract. For example, if a subcontractor fails to execute a certain scope of the work, such as drywall installation, the bond holder can compel the company to perform or replace that sub with another party that will perform.

Quality Control Measures

The largest quality control challenges associated with the prospective NYLO hotel for the general contractor is associated with that contractor's familiarity with the hotel product type in general, the specific hotel brand contemplated, and any unique construction methods required for that brand, as those may vary among hotel brands and across regions of the country. Selecting the contractor that



Figure 92

Construction of NYLO Prototype #1 – Plano, TX

Source: NYLO Hotels



Figure 93

Construction of NYLO Prototype #2 – Warwick, RI

Source: NYLO Hotels

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will successfully address those challenges is critical for the success of the overall project.

The first issue, familiarity with product type, can be addressed by the owner simply by selecting the contractor with the most experience with hotels within the local market. If there is no logical choice, expanding to a regional search may be required. It is possible that a regional contractor may have experience with the particular hotel brand being contemplated, even if the brand does not yet have a presence in the local market. A carefully approached selection process will yield the best results.

A more difficult scenario presents itself when a hotel brand is unique to the region, as is the NYLO brand, as there are no corporate prototype properties in the Southeast. NYLO constructed its prototype properties in Plano, TX, which opened December 2007, and in Warwick (Providence), RI, which opened in August 2008. Currently under construction are NYLO hotels in Irving, TX, opening in May 2009, and in Overland Park, KS, opening in February 2010. The only planned NYLO project in the Southeast is in Durham, NC and that project has not yet started construction. Any local or regional contractor that is selected for the project needs to quickly become familiar with the construction process, means, methods and materials for these other NYLO projects.

The NYLO brand standards also come into play when construction is considered, especially with regard to the use of the “tunnel form” concrete structural system employed by the brand. Tunnel form is a formwork system that allows the contractor to cast walls and slabs in one operation on a daily cycle. It combines the speed, quality and accuracy of factory/off-site production with the flexibility and economy of cast-in-place concrete construction. The tunnel form method is rare in Nashville and has not been deployed extensively in the Southeast. Thorough examination by the contractor of this method and the materials and labor requirements required to implement it in this situation will be necessary.



Figure 94

NYLO Prototype Construction

Source: NYLO Hotels

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Project Delivery Methods

The general contractor, and that party's army of various subcontractor's, is ultimately responsible for completing the project on time and on (or under) budget. The most typical form of contract for hotel construction in the Nashville market is the so-called "Cost Plus" contract with a "Guaranteed Maximum Price" feature. In theory, this form of contract protects the Project Entity from cost over-runs that are not owner-directed, and offer a shared-savings clause if the project comes in under budget. "Force Majeure" issues such as excessive weather delays or extreme materials or labor shortages are still the burden of the project.

If this delivery method is chosen, the owner and contractor would enter into a contract based on the AIA Form 111 contract, called *Standard Form of Agreement between Owner and Contractor – Cost of the Work Plus a Fee, With a Negotiated Guaranteed Maximum Price (GMP)*. The A111 is appropriate for use on most projects requiring a negotiated maximum price, when the basis of payment to the contractor is the cost of the work plus a fee. The A111 is intended to be used with the AIA's A201 contract, General Conditions for the Contract for Construction. The A201 contract sets forth the right, responsibilities, and relationships of the owner, contractor and architect.

It is not uncommon for both the A111 and A201 contract forms to be heavily modified and amended by the legal counsel of either the owner or contractor. It is important to note that in the AIA's 2007 contract updates, the A111, dating back to 1997, was replaced with the A102 contract which is a 2007 document. Even if heavily amended by counsel, following the framework of these documents goes a long way toward mitigating risk for both the owner than the contractor.

A102™–2007 (formerly A111™–1997) Standard Form of Agreement Between Owner and Contractor where the basis of payment is the Cost of the Work Plus a Fee with a Guaranteed Maximum Price

This standard form of agreement between owner and contractor is appropriate for use on large projects requiring a guaranteed maximum price, when the basis of payment to the contractor is the cost of the work plus a fee. AIA Document A102–2007 is not intended for use in competitive bidding. A102–2007 adopts by reference and is intended for use with AIA Document A201™–2007, General Conditions of the Contract for Construction.

A201™–2007 (formerly A201™–1997) General Conditions of the Contract for Construction

The General Conditions are an integral part of the contract for construction for a large project and they are incorporated by reference into the owner/contractor agreement. They set forth the rights, responsibilities, and relationships of the owner, contractor, and architect. Though not a party to the contract for construction between owner and contractor, the architect participates in the preparation of the contract documents and performs construction phase duties and responsibilities described in detail in the general conditions. AIA Document A201–2007 is adopted by reference in owner/architect, owner/contractor, and contractor/subcontractor agreements in the A201 family of documents; thus, it is often called the "keystone" document.

Figure 95

AIA Standard Forms of Contract A102/111 Cost Plus GMP, A201 General Conditions

Source: The American Institute of Architects



VII. FINANCIAL PROFORMA AND ANALYSIS

Analysis of Land, Hard Costs and Soft Costs

The project costs for the prospective 184-room hotel project can be summarized as per the following:

PROJECT COST SUMMARY

ITEM/CATEGORY	COST	COST/KEY	COST/SF	% OF TOTAL
Land	\$ 1,724,976	\$ 9,375	\$ 16.75	6.0%
Hard Construction	\$ 15,433,482	\$ 83,878	\$ 149.84	53.7%
FF&E, OS&E, IT	\$ 4,428,145	\$ 24,066	\$ 42.99	15.4%
Financing	\$ 685,225	\$ 3,724	\$ 6.65	2.4%
Soft Costs	\$ 2,387,904	\$ 12,978	\$ 23.18	8.3%
Contingency	\$ 1,004,304	\$ 5,458	\$ 9.75	3.5%
Off-site Parking Burden	\$ 3,067,536	\$ 16,671	\$ 29.78	10.7%
Totals	\$ 28,731,572	\$ 156,150	\$ 278.95	100.0%

The total project costs above are greater than the corporate NYLO hotel properties by between \$22,600 and \$34,500 per key, on average. Of the project total, approximately \$19,200 per key is due to an allocation for current or future off-site parking that may be required to support the development of the hotel. All the current NYLO properties feature on-site or off-site surface parking. Because of the high density of The Gulch and the potential for future vertical development on existing surface parking lots, a “worst-case” scenario contemplates the allocation of land costs and construction costs to build a structured garage for the hotel and attached restaurant’s parking generation.

For all practical purposes, the parking cost allocation effectively serves to increase the land basis in the project. The current land cost of \$9,400 per key is lower than any current NYLO property, which ranges between \$9,700 and \$15,700 per key, primarily due to the small site acreage of 0.64 acres versus a typical (surface-parked) NYLO property which has 3.5 to 4.0 acres. Including the off-site parking burden, the subject project’s land burden is \$28,500 per key.

The parking burden is off-set by the lease revenue generated from the attached 9,000 SF restaurant located in the building, which is substantial. The costs to build the “cold dark shell” for the restaurant is included in the hard costs, as is an allowance to complete the tenant improvements for a prospective user. The revenue generated from the restaurant exceeds the incremental cost to construct the space, effectively supporting the increased other costs in the budget and enhancing the project’s reversionary value.

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Underwriting and Financing Assumptions

The financing market for construction and permanent loans has contracted considerably for all commercial product types, and hotel projects provide no exception to the current tight financing environment amid the global economic downturn.

Based on conversations with relationship managers for the most active commercial real estate lenders in the Nashville market, those being SunTrust Bank, Regions Bank, Fifth Third Bank and First Tennessee Bank, it would be very difficult to underwrite a new hotel project in the current environment. Such lending would likely only occur on a “relationship” basis to a group with strong sponsorship, substantial deposits in place with the prospective lender, and the imputed value of the land contributed to the project.

An alternative to borrowing from a local bank would be to solicit business from a lender that has worked with the NYLO brand on a corporate level in the construction of one of their prototype properties. NYLO has recently secured financing with a lender to begin construction on a corporate property. The identity of the bank and the location of the project cannot be identified because of confidentiality issues, as the project is currently subject to a confidential offering memorandum.

Without that identifying information, the terms of the loan can be summarized as follows:

Term:	60 months
Leverage:	65% loan-to-cost (LTC) ratio
Interest Rate:	30-day floating LIBOR rate plus 275 basis point spread. Subject to rate floor of 6.75% for the first six months and 6.00% thereafter.
Amortization:	Interest-only for first 2 years of loan, followed by 25 year amortization in years 3 to 5.
Coverage:	1.10x debt service coverage ratio
Pre-payment:	Without penalty
Guarantees:	Completion guarantee with \$1,000,000 cash completion escrow, to be released after 24 months of DSCR of 1.10x for a trailing 12-month period. No repayment guarantee.
Reserves:	Interest reserve of \$1,000,000, to be returned at project completion (maximum of \$500,000 to be used prior to issuance of certificate of occupancy). FF&E reserve of 3%, 4% and 5% in years 3, 4 and 5 respectively.

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Detailed Development Proforma

The worksheets for the development proforma are presented in the following order:

1. Financing Assumptions
2. Project Cost Detail
3. Sources & Uses of Funding
4. Mortgage Loan Schedule
5. Parking Cost Summary
6. Development Cash Flow Schedule
7. Performance Metrics
8. Profit & Loss Statement
9. Project Returns
10. Partner Returns

FINANCING ASSUMPTIONS

Debt Financing

ITEM	TERMS
Term:	60 months
Leverage (LTC):	65%
Interest Rate:	30-day floating LIBOR +2.75 bps Subject to floor of 6.75% first 6 months, 6% thereafter.
Amortization:	Years 1-2: Interest only Years 3-5: 25-year amortization
Coverage:	1.10 debt service coverage ratio (DSCR)
Pre-payment:	Without penalty
Guarantees:	Completion: \$1,000,000 cash escrow, released after 24 months upon DSCR of 1.10 for a trailing 12-month period Repayment: None
Reserves:	Interest reserve: \$1,000,000 (max of \$500,000 to be used prior to CO). FF&E Reserve: 2%, 3%, 4% in years 3, 4, and 5 of the loan respectively

Equity Financing

ENTITY	EQUITY SPLIT	PREF RETURN	PROMOTE
Equity Partner	90.0%	10.0%	70.0%
Development Partner	10.0%	0.0%	30.0%

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The debt financing scenario is identical to the current NYLO financing described above. The equity financing assumes a standard “equity partner” and “development partner” partnership arrangement with a 90/10 front-end and a 70/30 back-end split, assuming IRR hurdles are met. The preferred return has been modeled in a traditionally “normal” range, understanding that the “pref” could become increasingly expensive in the current tight financing environment. Actual pref numbers could range between 8-15% depending on equity partner requirements and the negotiated back-end split.

PROJECT COST DETAIL

ITEM/CATEGORY	COST	COST/KEY	COST/SF	% OF TOTAL
1 Land	\$ 1,724,976	\$ 9,375	\$ 16.75	6.0%
2 Sitework	\$ 366,036	\$ 1,989	\$ 3.55	1.3%
3 Hard Construction	\$ 15,015,378	\$ 81,605	\$ 145.78	52.3%
4 Off-Site Construction (street & landscaping)	\$ 52,068	\$ 283	\$ 0.51	0.2%
5 Construction Bonding, Insurance, Testing	\$ 202,200	\$ 1,099	\$ 1.96	0.7%
6 Architecture & Engineering	\$ 404,800	\$ 2,200	\$ 3.93	1.4%
7 Due Diligence/Predevelopment	\$ 100,000	\$ 543	\$ 0.97	0.3%
8 Permits & Legal	\$ 220,800	\$ 1,200	\$ 2.14	0.8%
9 Utilities	\$ 56,450	\$ 307	\$ 0.55	0.2%
10 Taxes	\$ 55,200	\$ 300	\$ 0.54	0.2%
11 Interior Design	\$ 82,800	\$ 450	\$ 0.80	0.3%
12 Technical service fee	\$ 92,000	\$ 500	\$ 0.89	0.3%
13 Project management	\$ 165,600	\$ 900	\$ 1.61	0.6%
14 Broker fee	\$ 172,800	\$ 939	\$ 1.68	0.6%
15 FF&E, OS&E, POB and IT	\$ 4,428,145	\$ 24,066	\$ 42.99	15.4%
16 Program FF&E Management Fee	\$ 138,000	\$ 750	\$ 1.34	0.5%
17 Construction Period Interest	\$ 372,425	\$ 2,024	\$ 3.62	1.3%
18 Financing Fee	\$ 312,800	\$ 1,700	\$ 3.04	1.1%
19 Contingency	\$ 1,004,304	\$ 5,458	\$ 9.75	3.5%
20 Developer Fee	\$ 697,254	\$ 3,789	\$ 6.77	2.4%
* Contribution for Off-Site Structured Parking	\$ 3,067,536	\$ 16,671	\$ 29.78	10.7%
Total Project Costs	\$ 28,731,572	\$ 156,150	\$ 278.95	100.0%

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A detailed description of the project costs is as follows:

1. *Land*

Includes land price attributed to the subject property. The land price was established based on the results of a 2008 appraisal of an immediately adjacent property and a subsequent conversation with the appraiser, making adjustments for the size of the parcel and current market conditions.

2. *Sitework*

Includes excavation, grading, paving, asphalt, storm drainage, traffic signage, masonry and miscellaneous items inside the property line of subject property.

3. *Hard Construction*

Includes construction of hotel building “core and shell” including standard 16 CSI division breakout of labor, materials, subcontractors and equipment. Includes construction of 9,000 SF restaurant delivered in a “cold dark shell” condition, in addition to a restaurant tenant allowance for buildout which may be awarded under separate contract. Includes city and county privilege licenses, contractor general liability insurance, overhead and profit. Excludes sitework, landscaping, streetscape, bonding, insurance, materials testing, FF&E OS&E and IT.

4. *Off-Site Construction*

Includes construction of site, streetscape and landscaping improvements outside of property line of subject property (public space).

5. *Construction Bonding, Insurance & Testing*

Includes construction payment and performance bonding of major trades and subcontractors, builder’s risk insurance and materials testing.

6. *Architecture & Engineering*

Includes architectural services (conceptual design, schematic design, design development, contract documents and construction administration) and major engineering disciplines such as structural, mechanical, electrical, plumbing, and fire protection.

7. *Due Diligence/Predevelopment*

Includes conceptual planning, feasibility and underwriting activities for prospective project, including market studies, supply/demand reports, meetings with municipality, zoning and title work and all required materials and collateral.

8. *Permits & Legal*

Includes building permits and permit expediting for construction of project, and legal documents for partnership operating agreements, development agreements, loan agreements and related documents.

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9. *Utilities*

Includes utility fees, tap fees, impact fees and infrastructure fees for electricity, water, sewer, gas and telephone/cable.

10. *Taxes*

Includes real property taxes during development period and various entity taxes.

11. *Interior Design Services*

Includes design of project common areas, including furnishing, material and fabric selections. Interior designer participates in local artwork program.

12. *Technical service fee*

Includes service fee charged by NYLO for incorporation of building technology and systems into property, including reservation systems, point-of-sale (POS) systems, computer networks and related franchise standard technology items.

13. *Project management*

Includes NYLO oversight of development process from start of construction through delivery, including interface with owner, architect, engineers and contractor to ensure brand consistency and resolve issues as they occur on site.

14. *Broker fee*

Includes 6% co-op brokerage fee for procurement of restaurant tenant in project. It is expected that no brokers will be involved in formation of the hotel project. Transactional brokerage fees at project disposition are accounted for elsewhere.

15. *FF&E, OS&E and IT*

Includes: Furnishings, fixtures and equipment; operations, service and equipment; and information technology. FF&E, OS&E and IT items are identified and sourced by NYLO, procured by the general contractor, and installed by a subcontractor.

16. *Program FF&E Management Fee*

Includes NYLO oversight of FF&E, OS&E and IT process throughout construction and delivery period.

17. *Construction Period Interest*

Includes construction loan interest accrued during construction period.

18. *Financing Fee*

Includes lender financing fees for procurement of project financing.

19. *Contingency*

Includes allocation for project contingency, estimated as 5% of hard costs (excluding land) and 1% of soft costs (excluding fees and interest).

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20. Developer Fee

Includes developer fee, estimated as 3% of total project costs (excluding land).

- *Contribution for Off-Site Structured Parking*

Includes estimated cost of providing parking off-site, explained further below.

SOURCES & USES OF FUNDS

ITEM/CATEGORY	COST	%
Sources of Financing		
Debt Financing	\$ 18,675,521	60.8%
Equity	\$ 10,056,050	32.7%
Equity-Escrow	\$ 2,000,000	6.5%
Total	\$ 30,731,572	100.0%
Uses of Financing		
Project Costs	\$ 28,731,572	93.5%
Interest Escrow	\$ 1,000,000	3.3%
Completion Escrow	\$ 1,000,000	3.3%
Total	\$ 30,731,572	100.0%
Sources of Equity		
Equity Partner	\$ 9,050,445	90.0%
Development Partner	\$ 1,005,605	10.0%
Equity Partner (Escrow)	\$ 1,800,000	90.0%
Development Partner (Esc)	\$ 200,000	10.0%
Total	\$ 12,056,050	

The debt financing for the project is based on a 65% loan-to-cost ratio, however additional equity would be required to satisfy the interest reserve and completion guarantee escrows of \$1 million each. As the escrows are taken outside of the loan ratio, the debt is effectively a 60/40 loan.

The equity contributions between the “equity partner” and the “development partner” are handles on a pari passu basis for both the equity and escrow contributions. The escrow contributions are returned during the holding period of the project – the interest reserve upon project completion and the completion escrow upon two years of operating history with a trailing 12-month debt service coverage ratio of 1.10x. In the case of this project that capital event occurs in year three of operations.

The capital contributions are returned at the end of the project holding period upon disposition for both parties, as the operating cash flows from the property are used to burn off the (quite high) accumulated preferred returns during the holding period.

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PARKING COST SUMMARY

Parking Required

USE	ROOMS or SF	PARK RATIO	SPACES	MAX OCC	DRIVERS
Hotel	184	1	184	131	78
Restaurant	9,000	10/1000	90	-	90
Total					168

Parking Costs

USE	SPACES	\$/SPACE		TOTAL
Hotel	78	\$ 15,000	above grade structured	\$ 1,175,760
Restaurant	90	\$ 15,000	above grade structured	\$ 1,350,000
Total				\$ 2,525,760

USE	DIMENSIONS	FOOTPRINT SF	SF/SPACE	GARAGE SIZE	LAND \$/SF	TOTAL
Parking Garage	180x360	64,800	325	997	\$ 49.50	\$ 3,207,600

Project Totals

	\$/SPACE	SPACES		\$ FOR PROJECT
Land Proration	\$ 3,218	168	above grade structured	\$ 541,776
Structured Spaces	\$ 15,000	168	above grade structured	\$ 2,525,760
Total				\$ 3,067,536

Valet Parking Income Estimate

YEAR	OCC	DRIVE RATIO	CAPTURE	CARS	RATE	GROSS INCOME	NET INCOME
2011	54.0%	60%	90%	19,584	\$ 19	\$ 372,093	\$ 123,907
2012	59.0%	60%	90%	21,397	\$ 19	\$ 406,546	\$ 135,380
2013	66.0%	60%	90%	23,936	\$ 20	\$ 478,716	\$ 159,413
2014	71.0%	60%	90%	25,749	\$ 20	\$ 514,983	\$ 171,489
2015	71.0%	60%	90%	25,749	\$ 21	\$ 540,732	\$ 180,064

All parking demand generation from the hotel and restaurant are to be accommodated off-site on existing surface lots or a future structured garage. The parking cost summary calculates the costs for an off-site structured garage across the street and backs into an allocation for the project based on an estimated cost to construct, as well as a prorated land for the site upon which the garage will be constructed.

In addition, the valet operations of the hotel will generate income for the property by charging overnight and transient guests for parking, a portion of which goes to the hotel's bottom line. Restaurant valet parking is generally offered to patrons at nominal cost and therefore no income is recognized from those valet operations.

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DEVELOPMENT CASH FLOW SCHEDULE

ITEM/CATEGORY	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	TOTAL
1 Land	\$ 1,724,976												\$ 1,724,976
2 Sitework	\$ 366,036												\$ 366,036
3 Hard Construction	\$ 250,000	\$ 500,000	\$ 750,000	\$ 1,000,000	\$ 1,250,000	\$ 1,500,000	\$ 1,750,000	\$ 1,750,000	\$ 1,500,000	\$ 1,250,000	\$ 1,250,000	\$ 2,265,378	\$ 15,015,378
4 Off-Site Construction (street & landscaping)											\$ 13,017	\$ 39,051	\$ 52,068
5 Construction Bonding, Insurance, Testing	\$ 121,320	\$ 20,220	\$ 20,220	\$ 20,220	\$ 20,220								\$ 202,200
6 Architecture & Engineering	\$ 344,080	\$ 5,520	\$ 5,520	\$ 5,520	\$ 5,520	\$ 5,520	\$ 5,520	\$ 5,520	\$ 5,520	\$ 5,520	\$ 5,520	\$ 5,520	\$ 404,800
7 Due Diligence/Predevelopment	\$ 100,000												\$ 100,000
8 Permits & Legal	\$ 220,800												\$ 220,800
9 Utilities	\$ 56,450												\$ 56,450
10 Taxes											\$ 55,200	\$ 55,200	\$ 110,400
11 Interior Design	\$ 41,400	\$ 20,700	\$ 20,700										\$ 82,800
12 Technical service fee	\$ 7,667	\$ 7,667	\$ 7,667	\$ 7,667	\$ 7,667	\$ 7,667	\$ 7,667	\$ 7,667	\$ 7,667	\$ 7,667	\$ 7,667	\$ 7,667	\$ 92,000
13 Project management	\$ 13,800	\$ 13,800	\$ 13,800	\$ 13,800	\$ 13,800	\$ 13,800	\$ 13,800	\$ 13,800	\$ 13,800	\$ 13,800	\$ 13,800	\$ 13,800	\$ 165,600
14 Broker fee												\$ 172,800	\$ 172,800
15 FF&E, OS&E, POB and IT							\$ 2,214,073		\$ 553,518	\$ 553,518	\$ 553,518	\$ 553,518	\$ 4,428,145
16 Program FF&E Management Fee							\$ 23,000	\$ 23,000	\$ 23,000	\$ 23,000	\$ 23,000	\$ 23,000	\$ 138,000
17 Construction Period Interest						\$ 3,458	\$ 8,805	\$ 31,630	\$ 42,129	\$ 54,394	\$ 65,322	\$ 166,688	\$ 372,425
18 Financing Fee	\$ 312,800												\$ 312,800
19 Contingency												\$ 1,004,304	\$ 1,004,304
20 Developer Fee	\$ 174,314	\$ 34,863	\$ 34,863	\$ 34,863	\$ 34,863	\$ 34,863	\$ 34,863	\$ 34,863	\$ 34,863	\$ 34,863	\$ 34,863	\$ 174,314	\$ 697,254
* Contribution for Off-Site Structured Parking	\$ 3,067,536												\$ 3,067,536
Total Project Costs	\$ 6,801,178	\$ 602,769	\$ 852,769	\$ 1,082,069	\$ 1,332,069	\$ 1,565,308	\$ 4,057,727	\$ 1,866,479	\$ 2,180,496	\$ 1,942,761	\$ 1,966,706	\$ 4,481,239	\$ 28,731,572

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



The development cash flow schedule contemplates a 12-month development period consistent with NYLO prototype standards (typically 10-12 months) and other hotel projects in the Nashville area. The duration of the project delivery runs from January to December 2010, with operations beginning January 2011.

The land is contributed to the project at the beginning of construction, and several of the soft cost categories are expended during the first one or two months of the project. Hard costs are spread over the period in a “bell curve” configuration that spreads dollar allocation for construction activities on site and therefore applications for payment from the contractor. FF&E and OS&E come online late in the project and concentrate a great deal of the construction loan draws in the final months of the project. Loan interest tracks with these numbers as they are expended over the construction duration.

HISTORICAL COMPETITIVE SET PERFORMANCE

PERIOD	OCCUPANCY		ADR		RevPAR	
	OCC %	% CHANGE	ADR \$	% CHANGE	RevPAR \$	% CHANGE
2002	68.5%		\$ 105.55		\$ 72.31	
2003	71.2%	3.9%	\$ 108.29	2.6%	\$ 77.06	6.6%
2004	74.4%	4.6%	\$ 110.85	2.4%	\$ 82.52	7.1%
2005	74.8%	0.4%	\$ 122.44	10.5%	\$ 91.54	10.9%
2006	73.2%	-2.1%	\$ 136.85	11.8%	\$ 100.16	9.4%
2007	72.3%	-1.2%	\$ 151.04	10.4%	\$ 109.22	9.0%
9 mo thru Sept '07	73.9%		\$ 148.71		\$ 109.93	
9 mo thru Sept '08	71.3%	-3.5%	\$ 153.71	3.4%	\$ 109.60	-0.3%
Trailing 12 mo thru Sep '08	70.4%		\$ 154.76		\$ 109.01	

Operating performance for the proposed project is weighted against the competitive set of properties shown in the STR Global reports, which were identified in cooperation with NYLO hotels vice president of franchise development Chick Armstrong. The competitive set, all of which much have a trailing 12-month operating history, consists of The Wyndham Union Station Hotel, the Courtyard Nashville Downtown Hotel, the Embassy Suites Nashville Vanderbilt Hotel, the Marriott Nashville Vanderbilt Hotel, and the Hampton Inn & Suites Nashville Downtown Hotel. The most recent delivery from the competitive set, the Hampton Inn & Suites, opened in May 2007, therefore trailing history is available from all participants.

Competitive set data is compiled for the three main hotel performance metrics: occupancy, average daily rate (ADR) and revenue per available room (RevPAR). The competitive set shows strong ADR growth in the last three years, and although occupancy has suffered somewhat, is consistent with other sectors. The trailing 12-month numbers through the last month of data available, in this case September 2008, is used as a baseline for measuring competitive set performance on a going-forward basis.



PROJECTED COMPETITIVE SET PERFORMANCE

	PERIOD	OCCUPANCY		ADR \$	ADR % CHANGE	RevPAR	
		OCC %	% CHANGE			RevPAR \$	% CHANGE
	2008	65.0%	-10.1%	\$ 151.00	0.0%	\$ 98.15	-10.1%
HOTEL PLANNING	2009	66.0%	1.5%	\$ 152.00	0.7%	\$ 100.32	2.2%
HOTEL CONSTRUCTION	2010	67.0%	1.5%	\$ 153.00	0.7%	\$ 102.51	2.2%
HOTEL DELIVERY	2011	68.0%	1.5%	\$ 155.00	1.3%	\$ 105.40	2.8%
	2012	69.0%	1.5%	\$ 157.00	1.3%	\$ 108.33	2.8%
	2013	70.0%	1.4%	\$ 159.00	1.3%	\$ 111.30	2.7%
	2014	71.0%	1.4%	\$ 162.00	1.9%	\$ 115.02	3.3%
	2015	72.0%	1.4%	\$ 165.00	1.9%	\$ 118.80	3.3%
	8-Year Average	68.5%	0.0%	\$ 156.75	1.1%	\$ 107.48	1.2%
	Average from 2011 to 2015	70.0%	1.4%	\$ 159.60	1.5%	\$ 111.77	3.0%
	Cumulative Increase		0.2%		10.0%		10.4%

Competitive set performance is projected from where the last year of available data left off, up through the end of the holding/investment period for the proposed project. 2008 projections are based on 9 months of actual data and anticipated growth or decline through the end of the year. 2009 through 2015 projections take historical data and project modest increases in occupancy, ADR and RevPAR through the end of the holding period.

Hotel performance numbers, in the face of the current downturn, are expected to take until 2013 before occupancy again reaches 2008 levels, which were down compared with all years from 2003 through 2007. For 2008, it is expected for this project that ADR will retreat to 2007 levels and then will ramp up modestly over the holding period. RevPAR begins at 2006 levels, tracking the lower occupancy, and rebounds modestly in subsequent years. Taken as a whole, the five-year average during the proposed hotel's holding period will track closely with early 2008 levels in all three metrics, and recognize the significant downturn experienced in the final quarter of 2008. From there the competitive set begins a gradual rebuilding of performance and eventually improves modestly in ADR and RevPAR by the end of the holding period in 2015.

PROJECTED SUBJECT PROPERTY PERFORMANCE

PERIOD	OCCUPANCY		ADR \$	ADR % CHANGE	RevPAR \$	% CHANGE
	OCC %	% CHANGE				
1/1/2011 to 12/31/2011	54.0%		\$ 146.00		\$ 78.84	
1/1/2012 to 12/31/2012	59.0%	9.3%	\$ 153.30	5.0%	\$ 90.45	14.7%
1/1/2013 to 12/31/2013	66.0%	11.9%	\$ 160.20	4.5%	\$ 105.73	16.9%
1/1/2014 to 12/31/2014	71.0%	7.6%	\$ 165.81	3.5%	\$ 117.72	11.3%
1/1/2015 to 12/31/2015	71.0%	0.0%	\$ 170.78	3.0%	\$ 121.25	3.0%
	5-Year Average	64.2%	\$ 159.22	4.0%	\$ 102.80	11.5%
	Cumulative Increase	28.7%		16.0%		46.0%

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



The projected subject property performance recognizes two things: 1) that an upstart hotel has a “ramp up” period of two or more years before performance will be on par with the competition, and 2) that the current economic conditions warrant considerable caution with regard to performance projections in the first years of operations. As a result the proforma projections reflect substantial reductions in performance compared to the competitive set in the first three years of operations.

As projected, the project barely exceeds 50% occupancy during the first year of operations. This is reflective of the construction duration stretching toward the end of the year and the process of bringing a project online during traditionally slow post-holiday winter months. Similarly, ADR is substantially reduced (back to 2006 levels) to account for special rate promotions designed to lure guests to the hotel in the early days of operations. Conditions improve in year two of operations, but not enough for RevPAR to exceed \$90, which is a level comparable to 2005. Performance begins to ramp up in years three through five, when the project would be established in the marketplace and able to drive both occupancy and rate versus the competition.

By the end of the project holding period, the hotel is expected to beat its competitive set in ADR but not occupancy, resulting in a RevPAR that is modestly higher than the competition. Averaged over five years of operations, occupancy is still significantly less than the competitive set due to the initial “ramp up” years dragging that metric down. Over the same five years however ADR is exactly in line with the competitive set. Once occupancy catches up to the competition, the proposed project will compare favorably in all performance metrics.

PENETRATION INDEX OF SUBJECT PROPERTY VS. COMPETITIVE SET

PERIOD	OCCUPANCY			ADR			RevPAR		
	SUBJECT	COMP SET	INDEX	SUBJECT	COMP SET	INDEX	SUBJECT	COMP SET	INDEX
1/1/2011 to 12/31/2011	54.0%	68.0%	0.79	\$ 146.00	\$ 155.00	0.94	\$ 78.84	\$ 105.40	0.75
1/1/2012 to 12/31/2012	59.0%	69.0%	0.86	\$ 153.30	\$ 157.00	0.98	\$ 90.45	\$ 108.33	0.83
1/1/2013 to 12/31/2013	66.0%	70.0%	0.94	\$ 160.20	\$ 159.00	1.01	\$ 105.73	\$ 111.30	0.95
1/1/2014 to 12/31/2014	71.0%	71.0%	1.00	\$ 165.81	\$ 162.00	1.02	\$ 117.72	\$ 115.02	1.02
1/1/2015 to 12/31/2015	71.0%	72.0%	0.99	\$ 170.78	\$ 165.00	1.04	\$ 121.25	\$ 118.80	1.02
5-Year Average Penetration			0.92			1.00			0.92

The market penetration index objectively compares the subject property with the competitive set over the holding period of the investment. The goal of the index is to see whether the proposed hotel will exceed performance metrics relative to the competition and if so, how quickly in the holding period that occurs. In the case of the proposed project, occupancy starts low due to the “ramp up” years and only catches up during the last two years of operations. ADR, however, matches the competition in year three and continually improves over the next two years. RevPAR takes one more year to match the competition than ADR. Averaged over five years, ADR matches the competitive set over the holding period, and actual performance in the last years is modestly stronger.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch

Nashville, Tennessee



PROFIT & LOSS STATEMENT

	2011			2012		2013		2014		2015	
Performance											
Occupancy		54.0%			59.0%			66.0%			71.0%
ADR	\$	146.00		\$	153.30		\$	160.20		\$	165.81
RevPAR	\$	78.84		\$	90.45		\$	105.73		\$	117.72
RevPAR Growth		-			14.7%			16.9%			11.3%
Rooms Occupied		36,266			39,624			44,326			47,684
Rooms Available		67,160			67,160			67,160			67,160
Revenue											
Rooms	\$	5,294,894	79%	\$	6,074,421	79%	\$	7,100,895	80%	\$	7,906,201
Total F&B	\$	1,200,000	18%	\$	1,320,000	17%	\$	1,425,600	16%	\$	1,511,136
Telephone	\$	-	0%	\$	-	0%	\$	-	0%	\$	-
Other/Misc	\$	230,000	3%	\$	276,000	4%	\$	303,600	3%	\$	327,888
Total	\$	6,724,894	100%	\$	7,670,421	100%	\$	8,830,095	100%	\$	9,745,225
Departmental Expenses											
Rooms	\$	1,323,724	25%	\$	1,457,861	24%	\$	1,633,206	23%	\$	1,739,364
Total F&B	\$	960,000	80%	\$	1,029,600	78%	\$	1,083,456	76%	\$	1,118,241
Telephone	\$	14,950	0%	\$	15,399	0%	\$	15,860	0%	\$	16,336
Other/Misc	\$	103,500	45%	\$	124,200	45%	\$	136,620	45%	\$	147,550
Total	\$	2,402,174	36%	\$	2,627,059	34%	\$	2,869,142	32%	\$	3,021,491
Departmental Profit											
Rooms	\$	3,971,171	75%	\$	4,616,560	76%	\$	5,467,689	77%	\$	6,166,836
Total F&B	\$	240,000	20%	\$	290,400	22%	\$	342,144	24%	\$	392,895
Telephone	\$	(14,950)		\$	(15,399)		\$	(15,860)		\$	(16,336)
Other/Misc	\$	126,500	55%	\$	151,800	55%	\$	166,980	55%	\$	180,338
Total	\$	4,322,721	64%	\$	5,043,361	66%	\$	5,960,952	68%	\$	6,723,734
Overhead											
Admin & General	\$	672,489	10%	\$	690,338	9%	\$	706,408	8%	\$	779,618
Marketing	\$	605,240	9%	\$	613,634	8%	\$	618,107	7%	\$	682,166
Energy	\$	336,245	5%	\$	306,817	4%	\$	353,204	4%	\$	389,809
Property Ops	\$	268,996	4%	\$	306,817	4%	\$	353,204	4%	\$	389,809
Total	\$	1,882,970	28%	\$	1,917,605	25%	\$	2,030,922	23%	\$	2,241,402
Gross Operating Profit	\$	2,439,750	36%	\$	3,125,756	41%	\$	3,930,031	45%	\$	4,482,332
Fixed Expenses											
Property & RE Tax	\$	336,245	5%	\$	383,521	5%	\$	441,505	5%	\$	487,261
Insurance	\$	134,498	2%	\$	153,408	2%	\$	176,602	2%	\$	194,904
Base Mgmt Fee	\$	201,747	3%	\$	230,113	3%	\$	264,903	3%	\$	292,357
Incentive Mgmt Fee	\$	-	0%	\$	76,704	1%	\$	88,301	1%	\$	97,452
Total	\$	672,489	10%	\$	843,746	11%	\$	971,310	11%	\$	1,071,975
EDITDA	\$	1,767,261	26%	\$	2,282,010	30%	\$	2,958,720	34%	\$	3,410,358
FF&E Reserve	\$	134,498	2%	\$	153,408	2%	\$	176,602	2%	\$	292,357
Net Operating Income	\$	1,632,763	24%	\$	2,128,601	28%	\$	2,782,118	32%	\$	3,118,001
Restaurant NOI	\$	288,000		\$	288,000		\$	288,000		\$	288,000
Valet Parking NOI	\$	123,907		\$	135,380		\$	159,413		\$	171,489
Total Project NOI	\$	2,044,670		\$	2,551,981		\$	3,229,531		\$	3,577,490
Total Project Costs	\$	28,731,572		\$	28,731,572		\$	28,731,572		\$	28,731,572
Cash-on-Cost Return		7.1%			8.9%			11.2%			12.5%

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



The hotel profit and loss statement tracks income and expenses for the project in an attempt to reconcile gross revenues with net operating income (NOI). The hotel occupancy, ADR and RevPAR figures are input to establish revenues, which are then reduced by departmental expenses, overhead and fixed expenses. The net of those expenses is earnings before interest, depreciation and amortization (EBITDA). EBITDA is then reduced by reserves for FF&E to establish the project NOI for a given year.

In the case of the proposed project, the hotel NOI is not the only source of revenue for the project. Both the leasing income from the restaurant operations and the net income from the valet parking provider buttress the returns of the project. Having those revenue streams in place not only increases the cash-on-cash return in any given operating year, but also enhances the final-year of operations that is used to “cap” the project income and establish a reversionary value upon sale.

Given that the value of both the restaurant and the valet operation exceed the cost to integrate them into the project, these are both value-added features for the proposed project. Overall project returns for the deal and to its investment partners are increased in terms of cash flow, NOI yield, and internal rate of return metrics.

PROJECT RETURNS

Cash Flow & Returns

	2009	2010	2011	2012	2013	2014	2015
Equity - Equity Partner	\$ (9,050,445)						
Equity - Development Partner	\$ (1,005,605)						
Equity Partner-Escrow	\$ (1,800,000)		\$ 800,000		\$ 800,000		
Development Partner-Escrow	\$ (200,000)		\$ 200,000		\$ 200,000		
Total Investment	\$ (12,056,050)	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -	\$ -
Hotel EBITDA			\$ 1,767,261	\$ 2,282,010	\$ 2,958,720	\$ 3,410,358	\$ 3,528,502
FF&E Reserve			\$ (134,498)	\$ (153,408)	\$ (176,602)	\$ (292,357)	\$ (403,972)
Hotel NOI			\$ 1,632,763	\$ 2,128,601	\$ 2,782,118	\$ 3,118,001	\$ 3,124,530
Debt Service			\$ (820,485)	\$ (1,083,643)	\$ (1,443,920)	\$ (1,443,920)	\$ (1,443,920)
Interest Reserve Draws							
Restaurant NOI			\$ 288,000	\$ 288,000	\$ 288,000	\$ 288,000	\$ 288,000
Valet Parking Net Income			\$ 123,907	\$ 135,380	\$ 159,413	\$ 171,489	\$ 180,064
Cash Flow Available for Distribution			\$ 1,224,185	\$ 1,468,338	\$ 1,785,611	\$ 2,133,570	\$ 2,148,674
Disposition Proceeds							\$ 35,925,938
Retire Debt							\$ (16,905,183)
Disposition Expenses							\$ (898,148)
Net Disposition Proceeds							\$ 18,122,607
Total Cash Flow	\$ (12,056,050)	\$ -	\$ 2,224,185	\$ 1,468,338	\$ 2,785,611	\$ 2,133,570	\$ 20,271,281
Cash Flow Yield on Equity			10.2%	12.2%	14.8%	17.7%	17.8%
NOI Yield on Total Costs			7.1%	8.9%	11.2%	12.5%	12.5%
Project IRR		18.6%					

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch

Nashville, Tennessee



PARTNER RETURNS

		2009	2010	2011	2012	2013	2014	2015
Equity Outstanding								
Equity Partner	90%	\$ (10,850,445)	\$ (10,850,445)	\$ (10,050,445)	\$ (10,050,445)	\$ (9,250,445)	\$ (9,250,445)	\$ (8,669,007)
Development Partner	10%	\$ (1,205,605)	\$ (1,205,605)	\$ (1,005,605)	\$ (1,005,605)	\$ (805,605)	\$ (805,605)	\$ (805,605)
Total Equity Outstanding		\$ (12,056,050)	\$ (12,056,050)	\$ (11,056,050)	\$ (11,056,050)	\$ (10,056,050)	\$ (10,056,050)	\$ (9,474,612)
Annual Preferred Return Calculation								
Equity Partner	10%	\$ (1,085,045)	\$ (1,085,045)	\$ (1,005,045)	\$ (1,005,045)	\$ (925,045)	\$ (925,045)	\$ (866,901)
Development Partner	0%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Annual Pref		\$ (1,085,045)	\$ (1,085,045)	\$ (1,005,045)	\$ (1,005,045)	\$ (925,045)	\$ (925,045)	\$ (866,901)
Cumulative Unpaid Preferred Return								
Equity Partner		\$ (1,085,045)	\$ (2,170,089)	\$ (3,175,134)	\$ (4,180,178)	\$ (5,105,223)	\$ (6,030,267)	\$ (6,897,168)
Allocation of cash flow		\$ -	\$ -	\$ 1,224,185	\$ 2,692,524	\$ 4,478,135	\$ 6,030,267	\$ 6,897,168
Equity Partner Unpaid Pref		\$ (1,085,045)	\$ (2,170,089)	\$ (1,950,948)	\$ (1,487,654)	\$ (627,088)	\$ (0)	\$ -
Development Partner		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of cash flow		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Development Partner Unpaid Pref		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Distributions to Preferred Returns								
Equity Partner		\$ -	\$ -	\$ 1,224,185	\$ 1,468,338	\$ 1,785,611	\$ 1,552,132	\$ 866,901
Development Partner		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Pref Return Allocations		\$ -	\$ -	\$ 1,224,185	\$ 1,468,338	\$ 1,785,611	\$ 1,552,132	\$ 866,901
Cash flow available to reduce equity		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 581,438	\$ 1,281,773
		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Flow Before Sales Proceeds								
Equity Partner Cash Flow		\$ (10,850,445)	\$ -	\$ 2,024,185	\$ 1,468,338	\$ 2,585,611	\$ 2,133,570	\$ 2,148,674
Developer Cash Flow		\$ (1,205,605)	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ -
Total Cash Flow		\$ (12,056,050)	\$ -	\$ 2,224,185	\$ 1,468,338	\$ 2,785,611	\$ 2,133,570	\$ 2,148,674
Cash Flow from Sales Proceeds								
Sale Proceeds								\$ 18,122,607
Return of Equity								
Unpaid Pref to Equity Partner								\$ -
Unpaid Pref to Development Partner								\$ -
Return of Equity to Equity Partner								\$ 8,669,007
Return of Equity to Development Partner								\$ 805,605
Total Return of Equity & Unpaid Pref Return								\$ 9,474,612
Promotional Interests								
Equity Partner	70%							\$ 6,053,596
Development Partner	30%							\$ 2,594,398
Total Promote								\$ 8,647,995
Total Cash Flow Including Sales Proceeds								
Equity Partner		\$ (10,850,445)	\$ -	\$ 2,024,185	\$ 1,468,338	\$ 2,585,611	\$ 2,133,570	\$ 16,871,277
Development Partner		\$ (1,205,605)	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ 3,400,003
Total Project Cash Flow		\$ (12,056,050)	\$ -	\$ 2,224,185	\$ 1,468,338	\$ 2,785,611	\$ 2,133,570	\$ 20,271,281
Internal Rates of Return								
Equity Partner IRR			18.0%					
Development Partner IRR			22.9%					
Total Deal IRR			18.6%					

The project returns take the invested equity into the project and establish the profit generated by the hotel, if any, in each year of operations leading up to a sale of the asset. The returns are measured by cash flow yield on equity, NOI yield on total costs, and overall project internal rate of return (IRR). Any available cash flow from operations is generally used to pay down the accumulated preferred return of the equity and development partners, so while the project shows the profit in each year, any distributions go to pay down pref. A sales analysis is included in the project returns.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



The partner returns in the project are intended to calculate the split between the equity partner and the development partner in the deal, in the following order of priority:

1. Return of preferred return to equity partner
2. Return of preferred return to development partner
3. Return of invested capital account to equity partner
4. Return of invested capital account to development partner
5. Distribution of promotional interest to both partners on a pari passu basis

The return of preferred return is critical because of the high preferred return (“pref”) interest rate accrued during the development period. In this scenario, the equity partner’s pref is paid down from cash flow but it requires nearly the entire holding period to accumulate enough profit to do so. The development partner pref is not completely repaid out of cash flow, and in fact must wait until asset disposition to satisfy the pref accumulation. The invested capital contributions for both partners are paid from sales proceeds, as is the promotional interest (as is typical).

Analysis of Investment Return Scenarios

The proposed project generates strong overall returns but it is a very capital-intensive project. All return metrics from cash-on-cost, cash flow yield on equity, NOI yield on total costs, and IRR are all healthy. It is the large amount of equity required, essentially on a 60/40 basis after accounting for lender-required escrows, which is the largest hurdle to overcome for equity investors looking at the potential project. In nearly all circumstances, paying interest on debt is far preferable to paying pref to investors. Achieving improvements to the capital stack not only would enhance returns but would generate greater interest from investors based on lower equity. The challenge is the developer’s ability to make such improvements in the current market environment.

Current Market Considerations

An improvement in loan-to-cost ratios with typical commercial lenders is unlikely to occur in the very near term. In fact, financing for hotels as a product type in general is difficult to attain based on the global economic downturn and the resulting pressure on business and leisure travel. Only the most solid projects with the strongest sponsorship are going to get done in the current environment.

A potential saving grace for the proposed project is the fact that the Music City Center is not likely to come online until early 2013, nearly four years from now. Given a relatively short 12-month delivery period for the hotel, it is possible to wait to hold off until the beginning of 2012 and still beat the convention center’s planned opening. This provides two years of breathing room while the economic downturn takes its course, in the hopes that underwriting conditions improve enough to still make a go of the proposed project.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



VIII. INVESTMENT STRUCTURE

Project Valuation Analysis

The holding period for the proposed project, from 2011 through 2015, is five years from the delivery and opening of the hotel. This mid-range holding period is positioned between a typical “merchant builder” construct-and-flip scenario and a long-term holding period of seven to ten years favored by institutions that favor cash flow. The five-year hold is long enough to take advantage of the final ramp up of operating performance versus the competitive set, yet avoids years of major capital expenditures such as updating of rooms, systems and facilities typical of a hotel property between five and ten years old.

The reversionary value of the hotel was established by capping the project’s final year NOI. Because of the uncertainty in the market, the exit cap rate is estimated to be a relatively conservative 10.0 but could vary wildly depending on current market factors. Transactional expenses, such as brokerage commissions and seller fees, are estimated to be 2.5% of the sales price.

Exit Proceeds - 2015

Current Year NOI	\$ 3,592,594
Exit CAP rate	10.0
Asset Value	\$ 35,925,938
Asset Value per Key	\$ 195,250
Disposition Expenses	2.5%
Net Proceeds	\$ 18,122,607

Partner Returns - Incl. Cash Flow & After Debt

Equity Partner Return	\$ 16,871,277
Development Partner Return	\$ 3,400,003

External Market Factors

The pricing and availability of debt and equity financing are the greatest market factors that affect the viability of the proposed project. Financing difficulties are not unique to hotels as compared with other commercial product types, but the correlation between general economic downturns and hotel occupancies is more direct than office buildings, apartments and retail centers. Hotels are the only commercial product type that start with 100% vacancy every day and therefore experience a more direct impact to general economic conditions. As a result, commercial lenders will approach this product type with more caution coming out of an economic downturn than any other.

Despite the economic downturn, the Nashville market and the onset of a potential convention center as a demand driver provides a bright spot in an otherwise bleak environment. If a hotel project can be pulled together in the current downturn, the potential for ruinous hotel competition is significantly lessened. Already, announcements of projects in the market are falling out of the pipeline, particularly in the Upscale and Upper Upscale segments. There may be hotel brands that have already underwritten the Nashville market looking for a home after a developer fails to perform. There may be pent-up demand from firms or individuals seeking entitled sites with strong local sponsorship looking for an investment opportunity. Those with the vision and resources to see past the current market will be best positioned to respond once the tide turns.

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Analysis of Debt and Equity Scenarios

The lack of a high loan-to-cost debt instrument, and the resulting preferred returns on invested equity, significantly impact the proforma returns. For example, a mere 5% more leverage on the debt side (to a 70/30 split) improves the deal IRR by almost 300 basis points. In fact, a 10% increase in leverage pushes the deal IRR to over 25%. It is clear that leverage is the key toward pushing the project to viability. Methods by which loan-to-cost ratios may be enhanced include increasing the LIBOR spread, increasing escrows and reserves to cover potential problems, or revising the guarantee provisions to place greater recourse on the borrower, among others.

Alternatively, negotiating a lower preferred return with the equity investor gives the developer greater breathing room over the project holding period. As it is, a high pref return effectively absorbs all available cash flow to satisfy the “running tab” of the equity partner, forcing the development partner to “feed the machine” over most of the holding period to satisfy the equity partner’s pref. The deal IRR remains unchanged, but the effect on cash flow distributions and return on invested capital is substantial.

Project Financing Alternatives

In the current market, alternative financing scenarios are limited. On the debt side, banks are more focused on limiting exposure and working out deals gone bad than generating new commercial real estate loans. In fact, many bank relationship managers have shifted from loan production to special assets in recent months. On the equity side, several institutional investors that were heavily invested in real property are either defunct or on the sidelines for the time being. There has emerged no group or sector of equity investors that are clearly more active in the market than others. Many groups have shifted focus to existing, stabilized assets and core markets, as those opportunities are perceived as more risk-averse than ground-up development.

Potential Investors

Typically an equity investment of the size required to launch a project such as this, in this case in an amount over \$10 million, was solely in the domain of institutional investors such as life insurance companies, pension funds, and the like. It is difficult to assemble a syndication of individuals for a capital raise of this size, especially if the equity slugs are in the \$250,000 range. Having dozens of passive “accredited investors” in a deal, accruing pref from day one, is a difficult way to execute a project.

A better solution may be to hold off on development until the institutional investors return to the market, in the hopes that there will be pent-up equity placements that need to be made for ready-to-go deals. While the “waiting game” hardly sounds like a plan, it beats the alternative of launching a project with a capital stack that works against the developer’s returns from day one.

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IX. MARKETING STRATEGY

The biggest marketing consideration for the prospective project is the potential for the proposed Music City Center convention facility to come online in the same general timeframe as this project.

As proposed, Music City Center would start construction in late 2009 and would be complete in early 2013. The approximately 1.2 million-square-foot center will be located in the six-block area bordered by Fifth and Eighth avenues south, Demonbreun Street and the proposed Korean Veterans Boulevard. The proposed site is three blocks from The Gulch along Demonbreun Street and less than five blocks from the subject site.

Nashville has been studying the idea of building a new downtown convention center since 1999. All of the studies support the contention that Nashville has both the need and the demand for a new convention center. By growing the convention business, Nashville can expand the sales tax revenue from visitors and thus depend less on property taxes from citizens.

With the 115th largest convention center in the country, Nashville can compete for only one-fourth of the convention market, but a new facility would allow Nashville to compete for three-fourths of the convention market, putting it in line with the largest 40 convention centers in the country.

Following up on a year-long process, on April 13, 2009, Mayor Karl Dean and the Metropolitan Development & Housing Agency (MDHA) made a special presentation to the Metro Council regarding the design, financing and preliminary timeline of the Music City Center project.

Mayor Dean delivered opening remarks on the need to move forward with the next stage of the Music City Center project. Seab Tuck of Tuck Hinton Architects (in partnership with TVS & Associates from Atlanta, GA) walked through new renderings and a video of the Music City Center design for the Council and standing-room-only audience.



Figure 96

Music City Center renderings

Source: Thompson, Ventulett, Stainback & Associates, Inc.

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Butch Spyridon, president of the Nashville Convention and Visitors Bureau, Metro Finance Director Rich Riebeling and Phil Ryan, MDHA executive director, also presented information on convention industry trends and bookings, financing for the center and preliminary schedule for the consideration of the Metro Council.

“Hospitality is Nashville’s second largest industry with more than 11 million visitors a year who spend some \$4B annually, noted Phil Ryan. “We lose significant business due to the inadequacy of our existing convention center. Our Convention and Visitors Bureau has the goal of selling 1 million room nights for the new Music City Center before its opening and 1 million room nights annually thereafter. Already some 132,000 room nights have been sold and we have not begun construction.”



Figure 97

Music City Center, aerial view of site

Source: Metropolitan Development & Housing Agency

“While a new convention center hotel of approximately 1000 rooms is planned, the rest of the hospitality industry and new entrants will see significant new business as well. In terms of progress, the process is under way to create a vision plan for the area around the center, determining the size and design of the new center and its projected costs. The Metro Council will then vote to authorize funding via a bond issue, expected in June 2009. Once that funding is in place, construction will begin and will track toward a 36- to 40-month construction schedule,” Ryan concludes.

FACTS RELATED TO THE NEW CONVENTION CENTER

- In 2007, visitors to Nashville contributed more than \$4 billion to the local economy. Visitors contribute \$278 million in state and local tax revenue annually.
- Visitor spending currently saves each Davidson County household more than \$1,000 each year in state and local taxes.
- Convention delegates are the single largest contributor to the visitor economy; a person attending a convention spends about \$280/day, while the average leisure tourist spends \$100/day.
- It is anticipated that the new convention center would create 36,000 new jobs.
- Since 1999, Nashville has lost 287 conventions because the downtown facility is inadequate. Nashville is now competing for only 20 percent of the convention market.
- Nashville is the 25th largest city in America by population according to the U.S. Census Bureau, but the current convention center ranks 126th in the nation.

Figure 98

Convention Center Impact Statistics

Source: Metropolitan Development & Housing Agency

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NYLO Hotel in The Gulch
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Product Positioning Considerations

The proposed convention center is estimated to generate in excess of 360,000 room-nights of convention and tourist demand, according to the mayor's office. The Nashville Convention & Visitors Bureau estimates that once open, Music City Center will generate an immediate demand for between 900 and 1,200 hotel rooms in the immediate vicinity of the new facility, which includes The Gulch area.

In response to the projected demand, MDHA issued a Request for Qualifications in October 2008 for the development of a 1,000-room convention headquarters hotel adjacent to the new facility. To date a development team has not been chosen, and the viability of establishing a financing mechanism for such a hotel is in question. As of April 16, 2009 MDHA narrowed the selection process to two development teams. Those teams are Hines Interests of Houston, TX and the Portman Companies of Atlanta, GA. The timing of a final selection has not been announced.

Regardless of whether a convention headquarters hotel materializes, important product positioning considerations remain. In fact, these considerations are even more crucial for a prospective hotel on the subject site due to the location in The Gulch, a neighborhood being branded as a hip, urban destination. The convention hotel, if built, will most likely be an institutionalized brand such as a Marriott or Hilton family brand. The two finalist development teams in the MDHA selection process both follow this general trend. Hines completed a 1,200 room Hilton hotel supporting the new convention center in Houston, TX, and Portman completed a 1,190 room hotel Hilton hotel adjacent to the new convention center in San Diego, CA.

In a market dominated by Marriott and Hilton brands, as the Nashville market is, there exists an excellent opportunity to establish a brand unique to the city that complements the character of The Gulch. Despite the hospitality industry buzz surrounding "lifestyle" or "boutique" hotel brands in the Upscale, Upper Upscale and Luxury segments, and that segment of the market has not seen much growth in the Nashville market.

Currently only three lifestyle/boutique hotels are in the Downtown/ Midtown/West End submarket: The 139-room Hotel Indigo completed on West End, the 248-room Hutton Hotel just opened on West End, and an additional 107-room Hotel Indigo under construction downtown. These properties total 494 rooms, of which the 246 Indigo rooms would be considered in the Upscale sector. The Hutton is an Upper Upscale property. For Nashville being one of the top 25 hotel markets in the country, the Upscale lifestyle/boutique segment of the market seems underserved.

Luxury flags such as a 125-room W Hotel in Midtown and a to-be-determined Hotel Palomar downtown have been talked about in the media for various sites in the submarket, but those high-end properties have not materialized.

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Supply/Demand Analysis

The Nashville hotel market has 306 hotels with 34,851 hotel rooms in the city. 21 hotel properties have been added to the market in the last five years, totaling 2,242 added rooms or an average of 448 rooms added to the market per year since 2004.

2,881 of the total rooms in the market are on one resort property at the Gaylord Opryland Resort & Convention Center, which is located several miles northeast of the downtown area. A great number of the remaining rooms in the market are in older properties that are considered functionally obsolete, especially in the midscale and economy segments. Comparatively little of the total market room inventory is in the Upscale, Upper Upscale or Luxury category. In fact, those segments represent only about 14% of the total room inventory in the market.

The Mid-priced and Economy segments are not considered comparable to the NYLO prototype, which typically bridges the Upscale and Upper Upscale segments. More specifically, it is an Upscale property with a strong food and beverage operation that compares more favorably to Upper Upscale properties.

Given the abundance of available data, for simplicity purposes the Upscale segment is identified as the target segment for the prospective project.

Nashville's current hotel room supply is depicted in a bar-chart diagram by segment as per the following:

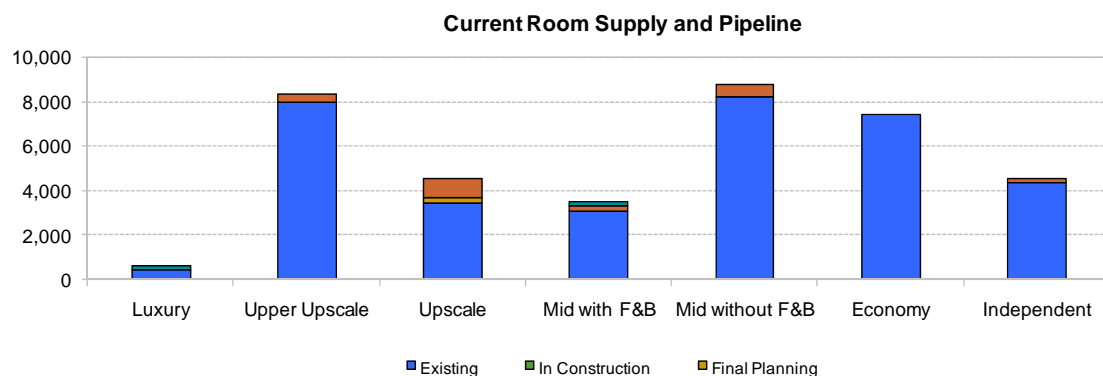


Figure 99

Nashville Current Room Supply & Pipeline chart

Source: STR Global

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NYLO Hotel in The Gulch
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The upscale segment of the market has 3,456 rooms, compared with a much greater concentration of Upper Upscale properties at 7,937 rooms. The luxury segment in Nashville is low at 462 rooms, and includes only two hotels. The historic supply for the three upper-tier segments totals 44 hotels containing 11,855 rooms.

Hotels	Historic Supply						Pipeline Projects			
	Feb-04	Feb-05	Feb-06	Feb-07	Feb-08	Feb-09	In Constr.	Final Planning	Planning	Pre Planning
Luxury	2	2	2	2	2	2				1
Upper Upscale	16	17	16	16	16	17			1	
Upscale	20	19	20	21	23	25	5	2	8	
Mid with F&B	23	25	25	25	28	29			2	1
Mid without F&B	76	77	77	80	83	86	5		8	
Economy	86	85	83	80	85	84				
Independent	61	62	66	65	61	63			5	1
Total	284	287	289	289	298	306	10	2	24	3

0.143791

Rooms	Historic Supply						Pipeline Projects			
	Feb-04	Feb-05	Feb-06	Feb-07	Feb-08	Feb-09	In Constr.	Final Planning	Planning	Pre Planning
Luxury	462	462	462	462	462	462				125
Upper Upscale	7,654	7,834	7,654	7,654	7,654	7,937			400	
Upscale	2,823	2,643	2,823	2,935	3,187	3,456	672	239	819	
Mid with F&B	2,837	3,103	2,980	3,065	3,251	3,056			250	180
Mid without F&B	7,122	7,253	7,274	7,538	7,946	8,199	379		550	
Economy	7,579	7,352	7,266	6,863	7,499	7,412				
Independent	4,071	4,108	4,441	4,436	3,788	4,329			193	
Total	32,548	32,755	32,900	32,953	33,787	34,851	1,051	239	2,212	305

Figure 100

Nashville Hotel/Room Historic Supply & Pipeline Projects

Source: STR Global

The pipeline of Upscale hotels under construction includes five projects in the Nashville market, two of which are in the subject submarket: the 194-room Hilton Garden Inn Vanderbilt Hotel on West End and the 107-room Indigo Hotel downtown. In total there are 301 rooms under construction in this segment. There are no Upper Upscale or Luxury projects under construction.

There are two Upscale hotels in “final planning”, meaning they are gearing up to begin construction within four months. One of those is in the subject submarket, the 103-room Springhill Suites Nashville Vanderbilt Hotel on West End. There are no Upper Upscale or Luxury projects in final planning.

There are eight Upscale hotels in the “planning” stage, meaning approvals have generally been granted however this is not always the case in this data set. Of the eight, two are in the subject submarket: a planned 136-room Aloft Hotel in downtown on 7th Avenue South, rumored to be on hold, and a 150-room Residence Inn Vanderbilt Hotel on West End. There are no Upper Upscale or Luxury projects in the planning stage. If these projects come to fruition that would represent 286 rooms in the submarket. One Luxury project is in the “pre-planning” stage, meaning details are preliminary. That project is a 125-room W Hotel in Midtown, part of a mixed-use office/hotel project that is entitled but currently on hold due to the difficult financing environment.

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Of the above Upscale projects from pre-planning to under construction, there are 690 rooms in five projects total, at least one of which is thought to be off the table for the time being. The average over this period of time would be approximately 230 rooms delivered to the market in the Upscale segment per year. If the Aloft project is removed, the average drops to 185 rooms delivered per year. If only remaining lifestyle/boutique hotels are included in the tabulation, the total number of rooms drops dramatically to 107 rooms in the pipeline, and that project is nearing completion in June 2009.

Pipeline	Hotels						Rooms					
	Existing Supply		Pipeline Projects				Existing Supply		Pipeline Projects			
	Total	Recently Opened	Under Constr.	Final Planning	Planning	Pre-Planning	Total	Recently Opened	Under Constr.	Final Planning	Planning	Pre-Planning
Upscale												
aloft Hotel	1	1		1	1		143	143		136	136	
Courtyard	6	1	1				928	126	120			
Hilton Garden Inn	2		2				222		325			
Homewood Suites	3				2		355				213	
Hotel Indigo	1		1		1		139		107		120	
Hyatt Place	5				1		555					
Radisson	2						483					
Residence Inn	2		1		1		278		120		150	
Springhill Suites	2			1			228			103		
Staybridge Suites					2						200	
Wyndham	1						125					
Upscale Total	25	2	5	2	8	-	3,456	269	672	239	819	-

Figure 101

Nashville Hotel/Room Pipeline

Source: STR Global

For comparison purposes, the entire Nashville market experienced a net gain of 633 Upscale hotels in the 5-year period from 2004 to 2009. Over that period, there were 633 new rooms added to inventory. The 633 rooms represent five properties, three of which are in the subject submarket totaling 378 rooms. The average number of deliveries over the 5-year period was 76 rooms per year or 11% of the current total Upscale sector inventory. There were only two Upper Upscale hotels completed in the same timeframe, adding 283 rooms or only 3.5% to the 7,937-room inventory for that sector.

The average yearly supply of 76 rooms per year over the past five years is much lower than the 185 rooms per year in the Upscale sector pipeline over the next three years. As a result, market differentiation becomes extremely important. Only 107 of the rooms coming online are in the lifestyle/boutique category, and that project delivers in two months. There are no other lifestyle/boutique hotels in the pipeline beyond June 2009.

"Lifestyle (formerly known as boutique) hotels do not yet have a strong footing in the Nashville market," said Jan Freitag, vice president with STR Global. "The recent opening of the Indigo hotel and The Hutton on West End Avenue and of the Aloft hotel in Franklin point at the strong expected demand that developers expect to meet with these brands." The lack of lifestyle/boutique hotels in the project pipeline would seem to give a brand like NYLO a competitive advantage in the submarket.

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NYLO Hotel in The Gulch
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Supply Changes	12 Month Change								
	Feb-08 Existing Supply	Add			Removed			Net Gain / Loss	Feb-09 Existing Supply
		New Build	Conv In	Room Additions	Closed	Converted Out	Rooms Removed		
Upscale									
aloft Hotel		143						143	143
Amerisuites	126					(126)		(126)	
Courtyard	802	126						126	928
Hilton Garden Inn	222							-	222
Homewood Suites	355							-	355
Hotel Indigo	139							-	139
Hyatt Place	429		126					126	555
Radisson	483							-	483
Residence Inn	278							-	278
Springhill Suites	228							-	228
Wyndham	125							-	125
Upscale Total	3,187	269	126	-	-	(126)	-	269	3,456

Supply Changes	60 Month Change								
	Feb-04 Existing Supply	Add			Removed			Net Gain / Loss	Feb-09 Existing Supply
		New Build	Conv In	Room Additions	Closed	Converted Out	Rooms Removed		
Upscale									
aloft Hotel		143						143	143
Amerisuites	555					(555)		(555)	
Courtyard	802	126						126	928
Hilton Garden Inn	110	112						112	222
Homewood Suites	242	113						113	355
Hotel Indigo		139						139	139
Hyatt Place			555					555	555
Radisson	303		180					180	483
Residence Inn	278							-	278
Springhill Suites	228							-	228
Wyndham	305					(180)		(180)	125
Upscale Total	2,823	633	735	-	-	(735)	-	633	3,456

Figure 102

Nashville Hotel Room Supply Changes – 12 Month & 60 Month

Source: STR Global

Upscale						
Open	Courtyard Nashville Vanderbilt West End	Courtyard	226	1,500	Sep-95	
Open	Courtyard Nashville Downtown	Courtyard	192	3,200	Jun-98	
Open	Homewood Suites Nashville Downtown	Homewood Suites	113	1,718	Dec-07	
Open	Hotel Indigo Nashville West End	Hotel Indigo	139	1,995	Oct-07	
Open	Wyndham Union Station Nashville	Wyndham	125	12,000	Jun-86	
Under Construction	Hilton Garden Inn Nashville Vanderbilt	Hilton Garden Inn	194		Apr-09	
Under Construction	Hotel Indigo Nashville Downtown	Hotel Indigo	107		Jun-09	
Final Planning	Springhill Suites Nashville Vanderbilt West End	Springhill Suites	103		Mar-10	
Planning	Aloft Hotel Nashville Downtown	aloft Hotel	136		Jul-10	
Planning	Residence Inn Nashville Vanderbilt West End	Residence Inn	150			
Upscale Total			1,485	20,413		

Figure 103

Nashville Upscale Hotel Properties – Downtown/Midtown/West End Submarket

Source: STR Global

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Demand, and therefore performance, for hotels is driven by three basic metrics: occupancy, average daily rate (ADR), and revenue per available room (RevPAR).

For clarification purposes these metrics are defined as follows:

- Occupancy: Rooms sold divided by rooms available
- Average Daily Rate (ADR): Room revenue divided by rooms sold
- Revenue Per Available Room (RevPAR): Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR)

Occupancy, ADR and RevPAR metrics all steadily increased in the Nashville market over the last five years. From 2004 to 2007, occupancy increased from 60.6% to 65.7%, an 8.4% increase, and then fell back to 60.7% in 2008 with the onset of the global economic downturn. ADR increased from \$74.86 to \$90.98 from 2004 to 2007, a 21.5% increase. Interestingly, ADR increased another 5.1% in 2008 to \$95.57, owing to the lack of supply in certain segments and strength in the Downtown/Midtown/West End Submarket. RevPAR increased from \$45.35 to \$59.80 from 2004 to 2007, a 31.9% increase, and then fell to \$58.06 in 2008. Total hotel revenues increased 33.6% during this five year period.

In terms of demand, the Nashville hotel market is fundamentally strong but has recently experienced the effects of the global economic downturn along with the rest of the country. Demand for rooms in the market increased 10.4% from 2004 to 2007 and then retreated in 2008. Jan Freitag provided the most recent Nashville market data for demand, which was current as of March 2009.

“The market performance through the first quarter of 2009 was somewhat mixed: occupancy fell more sharply (-11.6%) than in the nation, but ADR decreases were a bit more muted (-4.5%),” said Freitag. “Rate deterioration is not uncommon in this environment but is a good sign that Nashville hoteliers hold on to rates a bit stronger than US hoteliers in general. This will ultimately aid in the recovery and allow hotels to regain the footing once demand returns which we expect to be in early 2010.”

Over the same period, hotel room supply only increased 1.7%. All things being equal, occupancy, ADR and RevPAR are all driven higher when supply doesn't keep up with demand, and Nashville's hotel market is currently supply constrained, especially in the sectors that fit within the proposed product concept and branding.

It is expected that this supply constraint will become more pronounced due to the current economic downturn's impact on new hotel deliveries. The current lack of equity and debt financing for hotel projects will squeeze developments that are already in the pipeline, and prevent plans from taking shape for new deals that would otherwise have come to the market.



In the Upscale segment, there are 301 hotel rooms among two properties that are currently under construction in the subject submarket, both of which will deliver in the next two months.

Following those deliveries, one project is in final planning and includes only 103 rooms. There are two projects in the planning stage totaling 286 rooms, the status for one of which is questionable. That property is also the only lifestyle/boutique product in the pipeline for the entire submarket.

Considering the steadily increasing occupancies in the market, along with strong ADR and RevPAR metrics, the delivery of new hotels to the submarket is warranted given the lack of supply.

In addition, the complete lack of supply for any other lifestyle/boutique product in the local pipeline over the next three years speaks well for an entrant to the Nashville market like NYLO.

Once the demand side of the performance equation comes back to the market, a NYLO hotel can be expected to drive both rate and occupancy against the competition given the market differentiation the brand has to offer the local marketplace.

Occupancy (%)		
	Total Year	Feb YTD
2003	58.5	51.2
2004	60.6	51.0
2005	62.2	53.8
2006	66.6	56.9
2007	65.7	55.9
2008	60.7	55.5
2009		49.5
Avg	62.4	53.4

ADR (\$)		
	Total Year	Feb YTD
2003	73.50	73.72
2004	74.86	72.81
2005	78.47	74.65
2006	84.32	81.71
2007	90.98	87.16
2008	95.57	95.28
2009		90.72
Avg	83.21	82.51

RevPAR (\$)		
	Total Year	Feb YTD
2003	43.00	37.78
2004	45.35	37.14
2005	48.80	40.16
2006	56.16	46.52
2007	59.80	48.69
2008	58.06	52.83
2009		44.87
Avg	51.91	44.04

Supply		
	Total Year	Feb YTD
2003	12,099,168	1,972,453
2004	11,933,431	1,922,223
2005	12,012,204	1,929,972
2006	11,977,759	1,940,542
2007	12,141,163	1,941,685
2008	12,454,292	1,993,433
2009		2,046,661
Avg	12,103,003	1,963,853

Demand		
	Total Year	Feb YTD
2003	7,078,858	1,010,851
2004	7,229,168	980,493
2005	7,470,954	1,038,257
2006	7,976,527	1,104,846
2007	7,980,591	1,084,655
2008	7,565,498	1,105,379
2009		1,012,328
Avg	7,550,266	1,048,116

Revenue (\$)		
	Total Year	Feb YTD
2003	520,289,997	74,516,089
2004	541,156,948	71,385,942
2005	586,239,834	77,505,841
2006	672,619,782	90,280,469
2007	726,071,744	94,537,949
2008	723,057,902	105,317,207
2009		91,839,590
Avg	628,239,368	86,483,298

Figure 104
Nashville Hotel Market Total Performance, 2004-2009

Source: STR Global

Occupancy		
	Total Year	Feb YTD
2004	3.5	-0.5
2005	2.7	5.5
2006	7.1	5.8
2007	-1.3	-1.9
2008	-7.6	-0.7
2009		-10.8
Avg	0.9	-0.4

ADR		
	Total Year	Feb YTD
2004	1.8	-1.2
2005	4.8	2.5
2006	7.5	9.5
2007	7.9	6.7
2008	5.0	9.3
2009		-4.8
Avg	5.4	3.7

RevPAR		
	Total Year	Feb YTD
2004	5.5	-1.7
2005	7.6	8.1
2006	15.1	15.8
2007	6.5	4.7
2008	-2.9	8.5
2009		-15.1
Avg	6.3	3.4

Supply		
	Total Year	Feb YTD
2004	-1.4	-2.5
2005	0.7	0.4
2006	-0.3	0.5
2007	1.4	0.1
2008	2.6	2.7
2009		2.7
Avg	0.6	0.6

Demand		
	Total Year	Feb YTD
2004	2.1	-3.0
2005	3.3	5.9
2006	6.8	6.4
2007	0.1	-1.8
2008	-5.2	1.9
2009		-8.4
Avg	1.4	0.2

Revenue		
	Total Year	Feb YTD
2004	4.0	-4.2
2005	8.3	8.6
2006	14.7	16.5
2007	7.9	4.7
2008	-0.4	11.4
2009		-12.8
Avg	6.9	4.0

Figure 105
Nashville Market Percent Change, 2004-2009

Source: STR Global

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch

Nashville, Tennessee



Date	Occupancy		ADR		RevPar		Supply		Demand		Revenue		Census & Sample %		
	This Year	% Chg	This Year	% Chg	This Year	% Chg	This Year	% Chg	This Year	% Chg	This Year	% Chg	Census Props	Census Rooms	% Rooms STAR Participants
Jan 03	46.7		70.00		32.70		1,034,873		483,464		33,842,046		288	33,383	82.7
Feb 03	56.2		77.12		43.38		937,580		527,387		40,674,043		288	33,485	82.4
Mar 03	61.2		77.90		47.69		1,032,765		632,297		49,256,159		288	33,315	81.7
Apr 03	57.1		73.12		41.77		997,140		569,631		41,650,162		287	33,238	81.4
May 03	59.9		72.57		43.46		1,030,378		617,139		44,784,180		287	33,238	82.0
Jun 03	66.3		75.22		49.85		1,000,170		662,904		49,863,206		288	33,339	81.8
Jul 03	65.4		71.57		46.84		1,033,509		676,314		48,406,370		288	33,339	82.0
Aug 03	62.7		70.95		44.47		1,027,371		643,869		45,682,994		287	33,141	81.8
Sep 03	56.4		72.11		40.66		990,690		558,652		40,284,818		287	33,023	82.5
Oct 03	62.0		73.77		45.74		1,023,713		634,635		46,820,197		287	33,023	82.5
Nov 03	55.9		73.30		40.97		979,170		547,265		40,113,785		285	32,639	83.5
Dec 03	51.9		74.08		38.46		1,011,809		525,301		38,913,037		285	32,639	83.5
Jan 04	46.7	-0.1	71.33	1.9	33.28	1.8	1,010,879	-2.3	471,685	-2.4	33,845,053	-0.6	285	32,609	83.1
Feb 04	55.8	-0.7	74.18	-3.8	41.41	-4.5	911,344	-2.8	508,808	-3.5	37,740,889	-7.2	284	32,548	82.5
Mar 04	62.3	1.8	74.12	-4.9	46.19	-3.2	1,008,988	-2.3	628,775	-0.6	46,606,149	-5.4	284	32,548	82.4
Apr 04	64.9	13.5	75.33	3.0	48.86	17.0	979,050	-1.8	635,062	11.5	47,840,994	14.9	285	32,635	82.7
May 04	62.9	5.0	75.66	4.3	47.59	9.5	1,016,521	-1.3	639,420	3.6	48,379,295	8.0	286	32,791	81.9
Jun 04	69.1	4.2	77.01	2.4	53.20	6.7	983,070	-1.7	679,139	2.4	52,301,873	4.9	286	32,769	82.5
Jul 04	68.1	4.0	72.48	1.3	49.33	5.3	1,015,839	-1.7	691,300	2.2	50,108,012	3.5	286	32,769	82.2
Aug 04	61.6	-1.8	72.74	2.5	44.77	0.7	1,015,839	-1.1	625,290	-2.9	45,482,476	-0.4	286	32,769	82.2
Sep 04	63.3	12.2	75.03	4.1	47.46	16.7	983,070	-0.8	621,825	11.3	46,657,734	15.8	286	32,769	82.6
Oct 04	65.6	5.9	78.91	7.0	51.80	13.3	1,015,839	-0.8	666,777	5.1	52,617,012	12.4	286	32,769	82.1
Nov 04	57.7	3.2	76.98	5.0	44.42	8.4	980,160	0.1	565,535	3.3	43,534,149	8.5	286	32,672	83.1
Dec 04	48.9	-5.8	73.14	-1.3	35.78	-7.0	1,012,832	0.1	495,552	-5.7	36,243,312	-6.9	286	32,672	82.8
Jan 05	50.1	7.3	72.37	1.5	36.22	8.8	1,012,832	0.2	506,936	7.5	36,684,555	9.0	286	32,672	82.7
Feb 05	57.9	3.8	76.83	3.6	44.51	7.5	917,140	0.6	531,321	4.4	40,821,286	8.2	287	32,755	82.9
Mar 05	63.4	1.7	76.85	3.7	48.69	5.4	1,017,947	0.9	644,982	2.6	49,563,864	6.3	288	32,837	82.6
Apr 05	67.1	3.4	81.44	8.1	54.64	11.8	988,710	1.0	663,251	4.4	54,018,296	12.9	289	32,957	82.7
May 05	59.5	-5.5	76.92	1.7	45.74	-3.9	1,021,977	0.5	607,665	-5.0	46,741,167	-3.4	289	32,967	82.8
Jun 05	73.6	6.5	80.49	4.5	59.21	11.3	988,890	0.6	727,431	7.1	58,551,732	11.9	289	32,963	82.6
Jul 05	67.4	-0.9	75.68	4.4	51.03	3.5	1,023,992	0.8	690,416	-0.1	52,253,017	4.3	290	33,032	82.3
Aug 05	61.4	-0.2	75.49	3.8	46.38	3.6	1,023,992	0.8	629,192	0.6	47,494,797	4.4	290	33,032	82.2
Sep 05	64.4	1.8	79.32	5.7	51.06	7.6	990,960	0.8	637,882	2.6	50,595,790	8.4	290	33,032	81.4
Oct 05	69.4	5.7	84.14	6.6	58.36	12.7	1,019,962	0.4	707,472	6.1	59,525,579	13.1	289	32,902	81.2
Nov 05	61.6	6.7	81.12	5.4	49.96	12.5	986,460	0.6	607,473	7.4	49,280,198	13.2	289	32,882	81.3
Dec 05	50.7	3.6	78.75	7.7	39.94	11.6	1,019,342	0.6	516,933	4.3	40,709,553	12.3	289	32,882	80.9
Jan 06	52.6	5.2	78.89	9.0	41.53	14.7	1,019,342	0.6	536,603	5.9	42,332,756	15.4	289	32,882	81.5
Feb 06	61.7	6.5	84.38	9.8	52.05	16.9	921,200	0.4	568,243	6.9	47,947,713	17.5	289	32,900	81.5
Mar 06	70.2	10.8	85.40	11.1	59.96	23.1	1,019,218	0.1	715,632	11.0	61,113,435	23.3	288	32,878	80.9
Apr 06	70.1	4.5	84.67	4.0	59.34	8.6	986,340	-0.2	691,309	4.2	58,531,585	8.4	288	32,878	81.6
May 06	67.5	13.6	82.56	7.3	55.74	21.9	1,017,761	-0.4	687,172	13.1	56,733,610	21.4	287	32,831	80.8
Jun 06	75.0	2.0	84.50	5.0	63.40	7.1	982,770	-0.6	737,442	1.4	62,310,767	6.4	287	32,759	80.9
Jul 06	71.7	6.4	81.18	7.3	58.22	14.1	1,015,529	-0.8	728,250	5.5	59,121,481	13.1	287	32,759	81.8
Aug 06	67.7	10.2	82.14	8.8	55.64	20.0	1,015,529	-0.8	687,882	9.3	56,501,804	19.0	287	32,759	81.3
Sep 06	66.7	3.7	84.34	6.3	56.29	10.2	982,770	-0.8	655,945	2.8	55,319,966	9.3	287	32,759	80.7
Oct 06	71.5	3.1	88.41	5.1	63.25	8.4	1,015,529	-0.4	726,524	2.7	64,228,981	7.9	287	32,759	80.1
Nov 06	67.7	10.0	88.17	8.7	59.71	19.5	982,770	-0.4	665,576	9.6	58,681,616	19.1	287	32,759	79.8
Dec 06	56.5	11.5	86.46	9.8	48.87	22.4	1,019,001	-0.0	575,949	11.4	49,796,068	22.3	288	32,871	80.3
Jan 07	51.5	-2.1	85.64	8.6	44.12	6.2	1,019,001	-0.0	524,963	-2.2	44,957,017	6.2	288	32,871	80.9
Feb 07	60.7	-1.7	88.59	5.0	53.74	3.2	922,684	0.2	559,692	-1.5	49,580,932	3.4	289	32,953	80.4
Mar 07	71.4	1.8	89.49	4.8	63.94	6.6	1,026,255	0.7	733,213	2.5	65,617,486	7.4	290	33,105	80.6
Apr 07	69.4	-1.0	90.70	7.1	62.93	6.0	993,150	0.7	689,017	-0.3	62,496,140	6.8	290	33,105	81.2
May 07	69.4	2.7	90.86	10.1	63.03	13.1	1,033,044	1.5	716,659	4.3	65,117,507	14.8	292	33,324	81.3
Jun 07	76.0	1.3	93.47	10.6	71.07	12.1	999,210	1.7	759,799	3.0	71,018,788	14.0	293	33,307	82.7
Jul 07	69.9	-2.5	87.86	8.2	61.44	5.5	1,032,517	1.7	722,084	-0.8	63,438,739	7.3	293	33,307	83.4
Aug 07	66.8	-1.4	87.52	6.6	58.43	5.0	1,031,897	1.6	688,912	0.1	60,294,691	6.7	293	33,287	83.8
Sep 07	64.9	-2.8	92.07	9.2	59.73	6.1	1,000,020	1.8	648,713	-1.1	59,730,126	8.0	294	33,334	83.5
Oct 07	71.9	0.5	96.47	9.1	69.33	9.6	1,037,663	2.2	745,768	2.6	71,943,077	12.0	295	33,473	83.2
Nov 07	63.6	-6.1	94.80	7.5	60.26	0.9	1,004,370	2.2	638,461	-4.1	60,524,751	3.1	295	33,479	83.6
Dec 07	53.1	-0.0	92.81	7.3	49.31	0.9	1,041,352	2.2	553,310	-3.9	51,352,490	3.1	296	33,592	82.9
Jan 08	51.1	-0.8	93.05	8.7	47.56	7.8	1,047,397	2.8	535,367	2.0	49,817,184	10.8	298	33,787	83.8
Feb 08	60.3	-0.7	97.37	9.9	58.67	9.2	946,036	2.5	570,012	1.8	55,500,023	11.9	298	33,787	84.2
Mar 08	64.5	-9.7	95.09	6.3	61.32	-4.1	1,047,397	2.1	675,467	-7.9	64,230,267	-2.1	298	33,787	83.5
Apr 08	69.0	-0.5	101.60	12.0	70.15	11.5	1,017,240	2.4	702,392	1.9	71,362,668	14.2	299	33,908	82.8
May 08	60.8	-12.4	94.46	4.0	57.42	-8.9	1,051,148	1.8	639,037	-10.8	60,361,439	-7.3	299	33,908	82.8
Jun 08	69.7	-8.4	97.63	4.5	68.03	-4.3	1,017,240	1.8	708,803	-6.7	69,203,497	-2.6	299	33,908	82.5
Jul 08	67.3	-3.7	93.15	6.0	62.72	2.1	1,053,690	2.1	709,507	-1.7	66,091,656	4.2	300	33,990	82.4
Aug 08	61.4	-8.0	90.13	3.0	55.37	-5.2	1,054,682	2.2	647,959	-5.9	58,399,813	-3.1	301	34,022	81.7
Sep 08	57.3	-11.7	94.26	2.4	54.00	-9.6	1,033,440	3.3	592,054	-8.7	55,807,629	-6.6	303	34,448	81.5
Oct 08	63.2	-12.1	99.62	3.3	62.96	-9.2	1,071,639	3.3	677,329	-9.2	67,474,617	-6.2	304	34,569	81.2
Nov 08	57.0	-10.4	96.84	2.2	55.17	-8.5	1,043,550	3.9	594,437	-6.9	57,567,451	-4.9	306	34,785	81.8
Dec 08	47.9	-9.8	92.06	-0.8	44.12	-10.5	1,070,833	2.8	513,134	-7.3	47,241,658	-8.0	304	34,543	81.9
Jan 09	46.8	-8.3	88.17	-5.2	41.30	-13.2	1,070,833	2.2	501,660	-6.3	44,230,691	-11.2	304	34,543	82.9
Feb 09	52.3	-13.1	93.23	-4.2	48.79	-16.8	975,828	3.1	510,668	-10.4	47,608,899	-14.2	306	34,851	82.8

Figure 106

Nashville Hotel Market Performance Data by Month

Source: STR Global

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Marketing and Advertising Requirements

Marketing a new hotel in any market is almost solely in the domain of the hotel brand, if indeed a “chain” hotel is used such as NYLO. The chain creates and maintains a strong brand identity for the hotel owner, which is the primary value-add for franchise fees besides the availability and use of the chain’s reservation system.

With a lifestyle/boutique hotel such as NYLO, branding is critically important and serves as the key differentiator against more established hotel families such as Hilton and Marriott that have a global presence and existing penetration in every market in the country.

Design comes into play in a lifestyle/boutique brand much more so than as a major chain. For example, NYLO teamed up with designer Stephane Dupoux for the creation of the NYLO brand. Dupoux is a concept designer of cutting edge restaurants, nightclubs and hotels around the world including venues in New York and Miami such as the original Nikki Beach in Miami and Buddha Bar in New York.



Figure 107

NYLO Fashion Show

Source: NYLO Hotels

The broad target category for NYLO is the transient business traveler, such as those that would patronize the Music City Center. NYLO has been designed with this guest in mind and has all of the necessary amenities to serve the business traveler. NYLO will also capture a great deal of leisure business because of its unique design, food and beverage offerings, fitness center, and loft accommodations. The hotels are consciously targeting a broad demographic with the aim to be a gathering place with broad appeal.



Figure 108

NYLO Print Advertising

Source: NYLO Hotels

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NYLO Hotel in The Gulch
Nashville, Tennessee



The NYLO brand has a focused marketing and promotions campaign for the brand in general and for individual hotels as they come out of the pipeline and deliver into local markets. The focused campaign features significant utilization of the Internet, as that is the primary consumer medium of the target demographic.

The use of pay-per-click (PPC) and search engine optimization (SEO) technologies allows a strategic approach toward the deployment of advertising dollars, as does participation in social networking websites such as Facebook. More traditional print media advertising, such as ads in business and lifestyle magazines favored by the target demographic, is also utilized.

“The targeted demographic are corporate travelers, men and women, 25-55 years of age. The targeted demographic is therefore primarily made up of Generation X (age 27-40) and Baby Boomers (age 41-59) cohorts.

Within the target demographic, NYLO is more specifically seeking to capture a smaller subset of people who are active, technologically savvy, and interested in arts, food and dining, sports and an experience beyond the tired humdrum or typical business travel.”

Figure 109

NYLO Target Demographic Data

Source: NYLO Hotels

Sales, marketing and public relations services for NYLO Hotels is administered by Y Partnership, an industry leader specializing in travel tourism, hospitality and leisure.

Project Delivery and Sales Analysis

In the hotel product type, the primary sales mechanism that puts “heads in beds” is the brand’s reservation system. With advances in the Internet to book hotel rooms, the world of hotel reservations has changed dramatically over the past few years. In fact, as recently as five years ago it would have been extremely difficult, if not impossible, to sustain a small chain of hotels against the corporate competition of major players with tens of thousands of hotel rooms apiece.

There are two trends driving the sales of hotel room nights across the county as follows:

1. *The rise of third-party distribution provider services*

An increasing amount of hotel rooms are now booked through distribution providers such as Expedia, Orbitz, Travelocity, Priceline and several others. The speed and functionality of these services is now better than ever. The third party websites are linked in with the NYLO reservation system, allowing changes to availability and rates to be made “on the fly” by the chain or by individual properties.

2. *The widespread acceptance and use of the Internet to book hotel rooms*

In addition to the third-party distribution providers that utilize the Internet almost exclusively, NYLO’s own website (www.nylohotels.com) is the primary booking engine for the brand. The website is accessed by the user either directly to the brand URL address, through partner or referring websites, or organically through Internet search engines such as Google.

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



Booking volume on the NYLO website greatly exceeds bookings via telephone, which is a major savings versus corporate chains. In fact, the NYLO 1-800 reservation number utilizes a voice-prompt system to ring through to each individual hotel for on-site bookings, eliminating the need for a call-in pool on the corporate level.

NYLO has an agreement with SynXis to provide reservation system services. SynXis, owned by Sabre, is the industry leader in distribution and technology services for the hospitality industry.

SynXis captures more bookings through more channels than any other central reservation system provider, including the corporate chains such as Hilton and Marriott. SynXis services 10,000 hotel properties in over 100 countries, representing approximately 750,000 hotel rooms.

SynXis provides reservation system solutions for all types of hotel bookings as follows:

- Voice and Telephone
- Global Distribution System (GDS) and Travel Agents
- Internet
- Local Negotiated Rates (LNRs)
- Walk-in Traffic



Figure 110

NYLO Internet Partners

Source: NYLO Hotels

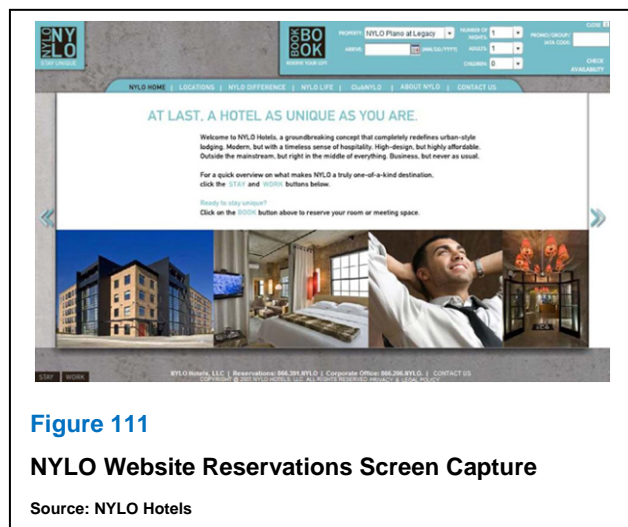


Figure 111

NYLO Website Reservations Screen Capture

Source: NYLO Hotels

Strategies for Pre-Leasing Activities

The NYLO SynXis reservation system “goes live” well before the anticipated opening date of the hotel, and is extremely effective in booking traffic from the first day of project delivery. However, most “pre-leasing” or “pre-sale” activities occur at the local level.

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NYLO Hotel in The Gulch
Nashville, Tennessee



The NYLO sales program focuses on the metro market areas surrounding each NYLO hotel. The specific targets are companies and organizations that create significant incoming business travel and are in need of a hotel that fits the requirements of their preferred hotel program and the desires of their guests. Each NYLO hotel has a director of sales, sales manager, and in some instances a sales coordinator that is responsible for negotiating local negotiated rates (LNR's) and maintaining the LNR relationship, generating group business and booking banquet/catering business.

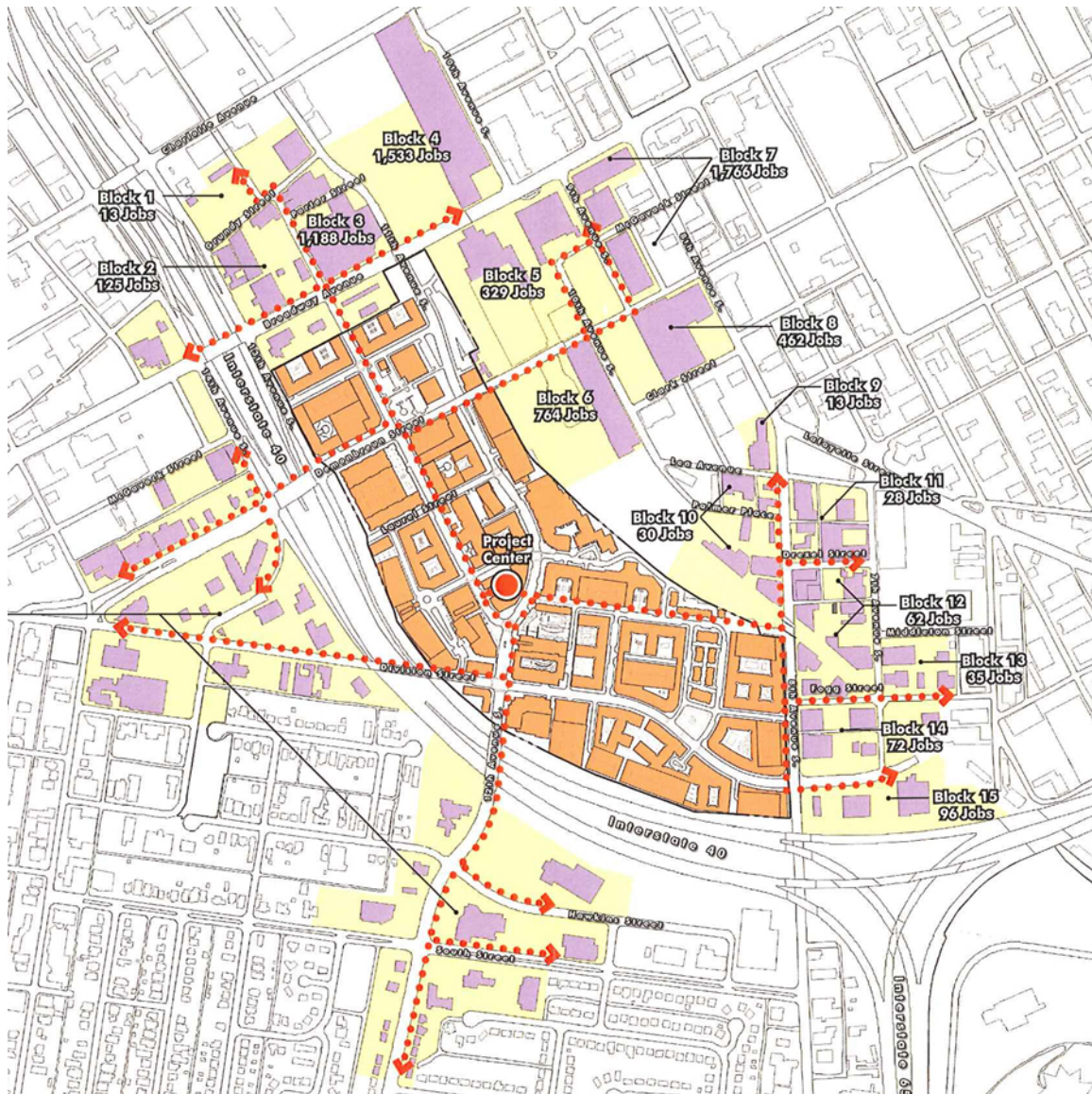


Figure 112

Employer (Business Lead) Proximity to Subject Site

Source: MarketStreet Enterprises

DEVELOPMENT PROPOSAL

NYLO Hotel in The Gulch
Nashville, Tennessee



The director of sales would be in charge of identifying major employers within proximity of The Gulch and to turn those leads into room nights. “Walk-to” traffic that could also leverage the retail, restaurants and nightlife of the area would be extremely important for recurring local bookings.

For instance, within walking distance of The Gulch are several major employers that could generate business. The local newspaper, The Tennessean, is four blocks from the subject site and employs 1,188. Christian publishing/media house LifeWay has its national headquarters five blocks away from the subject and employs 1,533. The federal and state governments employ 1,766 in a large municipal complex six blocks from the subject. A large office building, Cummings Station, is a 400,000 SF facility with dozens of commercial tenants and is located three blocks from the subject. Estimated employment in Cummings Station is 764.

In specific months prior to the new hotel’s opening, airport, magazine and newspaper campaigns would be launched for local awareness and reservations “call-to-action”. The director of sales would be responsible for local advertising, promotions, and local public relations. The director of sales would work with the most progressive advertising agency in the market in which the hotel delivers. Many of these types of creative firms are located within or adjacent to The Gulch.

The local community serves as an important component of the hotel’s sales efforts. Each hotel is “localized” to be a unique place that local residents and businesses enjoy as an amenity to the community. NYLO’s unique architecture and design complements the urban vibe of The Gulch and *The Loft* feature in NYLO’s prototype mimics the stylish loft living opportunities in nearby apartments and condominiums. The hotel should participate in community involved promotional events in The Gulch. Local artists can be featured in the hotel’s art program for the public spaces in the project, as they are in other NYLO properties. The hotel staff should become engaged in local events, charitable activities and various other endeavors related to The Gulch and the local area.

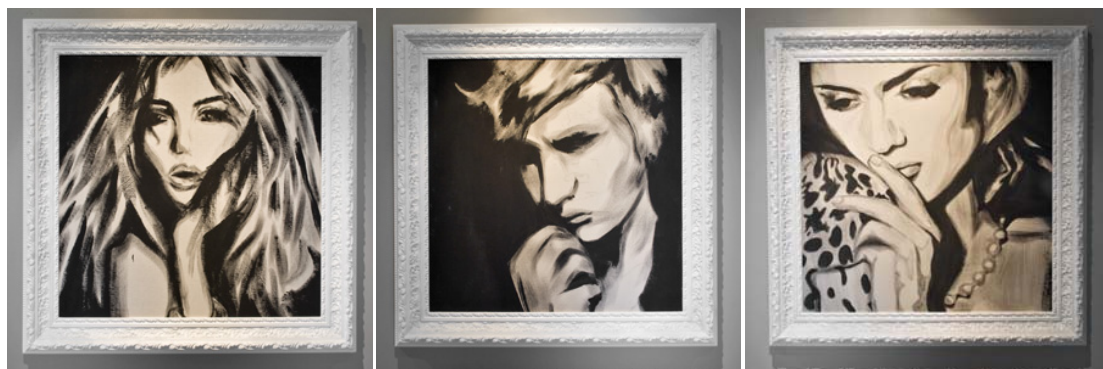


Figure 113

NYLO Art Program, NYLO Plano at Legacy Hotel
“Lust, Life & Learn” by Nicole Morrow

Source: NYLO Hotels



X. LEGAL ISSUES AND DEVELOPMENT STRATEGY

Legal Issues Related to Land, Survey and Title Work

The subject site consists of two separate parcels that must be combined into one lot of record in order for the proposed development to take place. The parcels are currently divided because before 2004, a public road by the name of 11th Industrial Avenue South bisected the block, approximately 45 feet wide in the north-south direction. When the \$7 million public improvement campaign was initiated by the city, the alignment of the right-of-way was shifted and curved to the east, which accomplished two things: First, the shift allowed the creation of a larger development parcel because of the dimensions of the subject site. Second, designing a curve into the road and placing parallel on-street parking on both sides of the road provided a traffic calming measure.

The new 11th Avenue South right-of-way, in addition to all associated utility work, streetscape and landscape improvements, has been completed. The final step in the process is the legal abandonment of the old 11th Industrial Avenue south and the creation of a new plat that combines the two parcels into one. The final parcel will be named "Parcel 2" only because the parking lot to the immediate north of the subject site was also affected by the old right-of-way, and will be reworked on the same plat as "Parcel 1". There are two other parcels affected on the same block as the subject site, namely the Auto Garage site ("Parcel 3" and the Station Inn site ("Parcel 4").

The re-platting of the block has been approved by all affected landowners and final mylar copies of the proposed plat have been signed. The plat must now be approved by the city and recorded with new parcel numbers, as well as deed book and page numbers assigned by the city. In addition, a quitclaim deed must be executed by the city as part of the public right-of-way abandonment process, now that the road has been converted to private use. The above work is occurring concurrently and should be complete within the next 90 days.

Risk Mitigation for Physical Due Diligence

Even though the subject site is unimproved, it is an urban infill location with factors that warrant certain measures for risk mitigation as follows:

1. *Platting and recording.*

As per the above, the process for re-platting the parcels into a single lot of record, along with the associated quitclaim deed required to ensure consistent fee simple ownership, should be complete prior to commencing development. Ensuring that the proper legal entities are in place (with firmly established property boundaries based on current survey information) is important for mitigating risk and avoiding surprises in the development process.

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2. *Environmental due diligence.*

The subject site has no history of being environmentally impacted. In fact, because of the public road running through the site until approximately 5 years ago, the site has no adverse use history or physical improvements whatsoever. In most cases such as this a Phase I Environmental Site Assessment (ESA) would be sufficient.

However, given the site's location across 11th Avenue South from the former CSX rail yard directly to the east, the majority of which contains known contaminants, further study is recommended, specifically a Phase II ESA study. Known contaminants have been discovered and remediated on adjacent building sites in recent years and the potential exists for some degree of environmental impact on the subject site.

Part of the Phase II ESA process will be physically testing the subject site in certain areas via test pits and soil sampling. Depending on the findings of the tests, a remediation plan will be established. The CSX site has had numerous studies conducted over the past 10 years, and in fact already has a Voluntary Cleanup, Oversight and Assistance (VOAP) Program in place with the Tennessee Department of



Figure 114

**Former CSX Rail Yard Area
Environmentally Impacted site**

Source: MarketStreet Enterprises

Voluntary Cleanup, Oversight & Assistance Program

The Voluntary Cleanup Oversight and Assistance Program (VOAP) offers people the opportunity to work proactively with state government to address necessary cleanup of a property to return it to productive use. In return for their efforts, participants can receive a No Further Action letter and a release of liability for areas where investigation and cleanup is conducted. The program is open to everyone with an interest in addressing contamination at a site. The following are examples of situations where this program is currently used.

1. To resolve potential liability of an innocent landowner at a contaminated site,
2. To address potential liability at a site for a prospective owner,
3. To establish a legal basis for enforcement of institutional controls to limit future liability at a site resulting from it progressing to uses with increased risk,
4. As an alternative to receiving a unilateral order from the Commissioner to investigate and clean up an inactive hazardous substance site.

The VOAP is participating as part of Tennessee's state response program under the Small Business Liability Relief and Brownfields Revitalization Act. As a result, program participants may receive protection from intervention by U.S. EPA at eligible sites.

Figure 115

TDEC's VOAP program description

Source: Tennessee Department of Environmental Conservation

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Environmental Conservation (TDEC). The TDEC plan involves testing and monitoring a site once development of a new project commences, and occurs throughout the construction process.

Once a project is complete and found to be in compliance with the VOAP program plan established for the site, a No Further Action letter is awarded by TDEC to the landowner and the site is thereafter considered successfully remediated. The subject site may enter into a similar program if the site is found to be environmentally impacted.

3. *Title work.*

Assuring a clean and unbroken “chain of title” is essential to beginning any development project and a title search should be conducted on the subject property to ensure this before any transfer of land takes place pursuant to the prospective project. In addition, the project entity should purchase an owner’s title insurance policy to protect the entity from claims of prior owners or other parties. In the event of a claim(s), the title insurance company will indemnify the entity from such claim(s).

Formation of Project-Related Legal Entities

The proposed project will contain at least one entity that is the “Project Entity”. The Project Entity will be a single-asset entity formed expressly for the purpose of executing the project. The form of the entity will be a Limited Liability Company (LLC) that shields other entities and partners from liability should a claim be brought against the development project.

Beneath the Project Entity there are usually at least two other parties, the “Development Entity” that is the “sponsor” of the project and a separate “Equity Entity” that is the “money” behind the project. These are usually separate companies or LLC’s. Sometimes these entities may be one in the same, but usually a Development Entity with expertise in a project joins forces with an Equity Entity to fund the project up to and during project construction. Assuming there are no other financial instruments at play, the equity contribution makes up the difference between the amount of the construction loan and the total project costs.

Typically, the Development Entity forms the “capital stack” of debt and equity, of which the Equity Entity is a part, and assembles the team to execute the project. There is an allocation of project ownership interest between the Development Entity and the Equity Entity, usually a percentage of the overall estimated profit in the deal. The Development Entity may also fund a small portion of the project equity requirement, akin to having “skin in the game” along with the Equity Entity.

Below the Development Entity and Equity Entity are the individual participants in the deal, or “Partners”. The Partners are the individuals responsible for executing the project if working for the Development Entity, or for funding the equity contributions for

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the project if working for the Equity Entity. Generally speaking, if there are recourse provisions in the construction loan that require personal guarantees for the completion of the project and/or the repayment of debt, that is the responsibility of the Development Partner(s). The Equity Partner's financial contribution is considered "at risk" and may require additional equity infusions to fund the project in the event of a shortfall, but recourse against the Equity Partner(s) is generally not in the form of a personal guarantee against that partner(s).

The operation of the Project Entity is established by the creation of a legal Operating Agreement that governs how the entity is formed and governed between the Development Entity and the Equity Entity. A legal Development Agreement is also created to establish the roles and responsibilities of the Development Entity, as well as establish the compensation of that entity in the form of development fees.

Overall Project Risk Scenarios

The development project faces risks associated with the financing, execution, delivery and operation of the new hotel project. Some of these risks are present for every new real estate development, some are specific to the product type proposed, and some are risks specific to this proposed project at this exact location. The most significant project risks as they relate to the proposed hotel in this location are as follows:

1. *Predevelopment & Financing Risks.*

The predevelopment process can be described as a "chicken and egg" scenario because of the costs involved in making the deal a reality. The developer tries to contain or delay costs as much as possible before financing is established, but must also spend considerable dollars to bring the predevelopment effort to the point that the deal is "seasoned" and ready to go.

Typically these efforts would include site investigations, entitlements and zoning efforts, architectural and engineering drawings and fees paid to other professional consultants as part of the process. If the project does not move forward to construction, these costs are "sunk" and not recoverable. Because of this situation, there is often a predevelopment cost sharing agreement between the Development Entity and the Equity Entity, making both parties share some risk and incentivizing them to drive the process toward a deal.

In the current economic environment there is no guarantee that construction financing from banks can be obtained on reasonable terms and that problem adds substantial risk in the deal. If the project is to be initiated in the short term (6-9 months), the Development Entity needs to be engaging potential lenders to establish baseline project requirements in order to feel comfortable moving the deal ahead.

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2. *Delivery Risks.*

With hotels in particular, the delivery of the finished product is an amazingly complicated process that is time consuming and fraught with risk, much more so than an office building, industrial facility or retail center. Hotels have a significant amount of Furniture, Fixtures and Equipment (FF&E) to fill the guest rooms and common areas, ranging from nightstands to bar equipment. Most of the FF&E comes from overseas via cargo ship and is meant to arrive “just in time” to avoid additional storage and transportation fees.

Towards the end of a project, truckloads of goods arrive on a daily basis, all of which must be unpacked, inspected, transferred to a final location, and kept free from harm until opening. Damage and theft are common. Even if this scope of work falls under the general contractor, the Development Entity is ultimately responsible for the project being ready on time.

In addition, scores of hotel employees must be interviewed, hired and trained in a short amount of time. It is not uncommon for a full-service hotel with conferencing areas to employ one worker for roughly each guest room. Typically the hiring and training tasks are the responsibility of the hotel management company and not the Development Entity. However, because most of the hiring and training occurs at the property, those functions must be coordinated due to the numerous staging and life-safety (OSHA) issues involved with an unfinished building. These issues become more apparent in the final weeks before opening, when the project is being inspected for opening and most of the “stock goods” for housekeeping and food service operations begin to arrive.

3. *Operational Risks.*

Once a hotel is complete it becomes less of a real estate project and more of an operating business. Office buildings, industrial facilities and retail centers have long-term leases, the administration of which is not as time-intensive with respect to property management. Hotels start out with 100 percent vacancy every single night, and the hotel management company needs to put “heads in beds” in order to be profitable. It often takes two or three years for a new hotel to reach a stabilized operating performance, whether measured in percentage occupancy, average daily rate, or revenue per available room.

What this means for the Development Entity is that, far from signing a five year lease with an office tenant, a hotel property must be continually monitored to ensure that operating performance meets or exceeds expectations. Hotels have been subject to wild swings in occupancies due to events outside of owner's control, such as the national travel patterns during the months following the September 11, 2001 terrorist attacks. New York and Washington, D.C. were of course most affected, but the resulting cutbacks in business and leisure travel shocked the entire industry. Even outside of catastrophic events, hotel performance tracks closely with travel patterns and the national economy. A large drop in airport deplanements spells trouble for the hospitality industry.

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Alternative Exit Strategies

Hotels, as a product type, are unique as compared to other types of projects in that they can't be easily converted into another income producing product type, if at all, because of the small unit sizes common to the product. Over the course of time, office buildings and warehouses, for example, have been converted to residential or hotel uses, but the scenario rarely works the other way around. Given the small room size of most hotel properties, 310 square feet on average in the case of NYLO hotels, "backing in" to another product type such as for-lease or for-sale multifamily generally isn't possible.

The most likely conversion opportunities for a hotel would be to modify the building to accommodate either student housing or seniors housing, neither one of which presents a palatable option. Overall, the best strategy seems to be to try and underwrite the hotel on a relatively conservative basis and also feel comfortable that the analyses of the projected room supply, demand and performance scenarios are adequate to support the proposed project.

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APPENDIX

Credits

Figures:

1. *Nashville Regional Map*
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2. *Gulch Master Plan, 2009 Update*
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78. *Schematic Typical Floor Plan (hotel)*
79. *Schematic East Elevation (hotel portion)*
80. *Schematic South Elevation (hotel/restaurant portion)*
81. *Restaurant*

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83. *Optional 6th Floor*
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Excerpts from Zoning Ordinance:

TITLE 17 OF NASHVILLE-DAVIDSON COUNTY MUNICIPAL CODE

Chapter 17.04 GENERAL PROVISIONS AND DEFINITIONS

No applicable data in provisions & definitions

Chapter 17.08 ZONING DISTRICTS AND LAND USES

17.08.010 Zoning districts established

F. Commercial Districts

5. CF Commercial Core Frame

17.08.020 Zoning districts described

F. Commercial Districts. Commercial districts are designed for establishments engaged in a variety of consumer sales and service uses, professional and business services, and recreational uses. Freestanding structures are common within these commercial districts, with most businesses desiring to be oriented toward major streets and thoroughfares.

5. CF, Core Frame District. The CF district is intended to implement the general plan's central business district land use policies for support services. The district is designed primarily for a diverse variety of business service functions along with retail trade and consumer service establishments and large parking structures that require locations in proximity to the central business district

17.08.030 District land use tables

Refer to Table __, Zoning District Land Use Table

ZONING DISTRICT LAND USE TABLE						
Commercial						
	C N	C L	C S	C A	C F	C C
Hotel/motel		P	P	P	P	P
Key: P-Permitted PC-Permitted w/condi- tions* SE-Special exception* A-Accessory* O-Overlay * Refer to Chapter 17.16 for standards						

Figure A1

Zoning District Land Use Table

Source: Metro Planning Department, Online Mapping

Chapter 17.12 DISTRICT BULK REGULATIONS

17.12.020 District bulk tables

C. District bulk Table 17.12.020C establishes the bulk requirements for all structures in AG, mixed-use and nonresidential districts

Refer to Table 17.12.020C, District Bulk Regulations, Mixed-Use and Nonresidential Districts

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MIXED-USE AND NONRESIDENTIAL DISTRICTS							
Zoning District	Min. lot area	Max. FAR	Max. ISR	Min. rear setback (in ft.)	Min. side setback (in ft.)	Max. height at setback line (in ft. or stories)	Slope of height control plane (V to H)
CF	None	5.00	1.00	None req.	None req.	65	1.5 to 1

Figure A2

District Bulk Regulations
Mixed-Use & Non-Residential Districts

Source: Metro Planning Department, Online Mapping

17.12.030 Street setbacks

Note 3: No street setbacks shall be required in the CC, CF and MUI districts

17.12.040 Other setbacks

B. Setbacks for Irregular-Shaped Lots. Wherever a lot is of such irregular shape that the setback provisions cannot be readily applied, the zoning administrator shall interpret the application of the setback provisions

17.12.060 Building height controls

A. Height Controls Established. No building or other structure shall penetrate the height control plane except as permitted by this section. Height controls shall be imposed from:

2. All street setback lines in nonresidential districts

17.12.070 Special floor area ratio (FAR) provisions.

B. Residential Bonus in Mixed Use, ORI, CF and CC Districts

1. For property located either (a) in the MUI District, or (b) within the urban zoning overlay district in any mixed-use, ORI, CF or CC district, in any building where at least twenty-five percent of the floor area (exclusive of parking) is designed and constructed for residential occupancy, the floor area designed and constructed for residential use shall not be counted in determining the floor area ratio of the building. This uncounted floor area benefit shall not be combined with any other bonus allowed under this section or Section 17.36.090.

2. In any development that uses the uncounted floor area benefit in subsection (B)(1) of this section to construct ten or more residential units, the following number of residential units shall be restricted for use as affordable housing for a period of at least seven years:

Affordable housing units = $25\% \times (\text{total residential units} - 10)$

This provision shall be enforced pursuant to the affordable housing provisions in Section 17.36.090(b)(3).

F. Parking Garage Liner Buildings. Within the CC, CF, ORI, and all mixed-use districts, parking garages fronting a public street or public space may be masked by a liner building that is a minimum of twenty feet deep. The floor area of any liner building shall be excluded from the calculation of the floor area ratio, provided the following requirements are satisfied:

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1. The first twenty feet of depth of the liner building shall be occupied by office, residential, or other non-parking commercial uses.
2. For non-residential uses on the first floor, a minimum of forty percent of the front façade of the first floor shall be clear or lightly tinted windows and doors. The first floor transparent glazing area calculation shall be measured from the finished grade at the setback to the finished floor elevation of the second floor, or to a height of sixteen feet, whichever is less. Upper floors, regardless of use, shall have a minimum of twenty-five percent of glazing to be eligible for square footage calculation exemption.
3. For residential uses on the first floor, a minimum of twenty percent of the front facade of the first floor shall be openings. Openings shall be clear or lightly tinted windows or main entrance doors. The first floor opening area calculation shall be measured from the finished floor elevation of the first floor to the finished floor elevation of the second floor, or to a height of twelve feet, whichever is less. Upper residential floors shall have a minimum of twenty-five percent glazing to be eligible for square footage calculation exemption. Residential uses on the first floor shall have a minimum finished floor elevation one and one half feet above the finished grade at the setback.

Chapter 17.16 LAND USE DEVELOPMENT STANDARDS

Article I. General Provisions

17.16.070 Commercial uses (*Refer to zoning district land use table, Table _*)

Article II. Uses Permitted With Conditions (PC) *Not applicable*

Article III. Uses Permitted by Special Exception (SE) *Not applicable*

Article IV. Uses Permitted as Accessory (A) *Not applicable*

Chapter 17.20 PARKING, LOADING AND ACCESS

Article I. General Provisions *No applicable data*

Article II. Parking and Loading Requirements

17.20.030 Parking requirements established

The number of parking spaces required for each land use classification of this zoning code is established in Table 17.20.030 (*Refer to Figure _ Parking Requirements*)

PARKING REQUIREMENTS	
Land Use	Minimum Parking Spaces
Commercial Uses	
Hotel/motel	1 space per rooming unit, plus 1 space per 2 employees

Figure A3

Parking Requirements

Source: Metro Planning Department, Online Mapping

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17.20.040 Adjustments to required parking

Notwithstanding the provisions of Section 17.20.030:

C. For uses located within the CF or MUI districts within the I-40/I-65/I-265 loop south of the CSX railroad, and north of, or having frontage on, Gateway Boulevard, and which are located within a council-approved redevelopment district, the off-street parking requirement shall be one-quarter the requirement set forth in Table 17.20.030. *(Refer to Table __, Parking Adjustments)*

PARKING ADJUSTMENTS		
Adjustment	Criteria	Parking Adjustment
Transit	Resident or nonresident use is located within 660 feet of a public transit route.	10% reduction
Pedestrian Access	Nonresidential use is located where residents of all residential and mixed-use areas within 1,320 feet of the subject property can walk to and from the nonresidential use on a continuous sidewalk system (ignoring intervening streets).	10% reduction
Public Parking Lots	Nonresidential use is located within 660 feet of a parking lot that is available for use by the public without charge (either directly or through a validation program in which the subject use participates).	10% reduction
On-Street Parking	Single-family or duplex residential use is located along one or more public street frontages where public parking is permitted.	One legal on-street parking space (to a maximum of two parking spaces) can be substituted for every required off-street parking space provided the on-street space is located on a public right-of-way immediately abutting the property or tenant space seeking the parking adjustment. Where a partial space straddles an extension of a side property line, the space may be counted by the abutting property owner in front of whose property 50%
On-Street Parking	Multifamily residential or nonresidential use is located along one or more public street frontages where public parking is permitted.	One legal on-street parking space can be substituted for 1/2 of every required off-street parking space provided the on-street space is located on a public right-of-way immediately abutting the property or tenant space seeking the parking
Contextual Front Setbacks	Residential or nonresidential use builds within ten feet of the rights-of-way in accordance with the contextual front setback provision contained in Section 17.12.035(A)(3) (Major new investment provision).	10% reduction

Figure A4

Parking Adjustments

Source: Metro Planning Department, Online Mapping

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17.20.080 Off-site parking.

All required parking spaces shall be located on the same lot as the principal use, provided that the zoning administrator or planning commission (as applicable) may permit all or a portion of the required parking spaces to be located on a remote and separate lot from the lot on which the principal use is located, based on the following provisions.

A. Qualifying Districts. Land uses on lots which contain existing buildings on the effective date of the ordinance codified in this chapter located within any of the commercial, industrial, office, ORI, Institutional, mixed-use or shopping center districts or within a planned unit development (PUD) or urban design overlay district, may qualify for locating required parking on a separate lot. Land uses on lots which develop after the effective date of the ordinance codified in this chapter located within the mixed-use districts may also qualify for locating required parking on a separate lot. Any lot utilized to satisfy the parking requirements of an off-site land use must be zoned for automotive parking uses in the zoning district land use table of Section 17.08.030 and be connected to the principal use by a continuous sidewalk system. In a planned unit development, institutional overlay, or shopping center district both lots must be part of the same master development plan or a unified plat of subdivision as authorized by Chapter 17.40, Article V.

B. Separation.

1. The nearest property line of any off-site parking area required for a residential use shall not be located more than two hundred feet away from the residential use as measured from the nearest property line of the residential use.
2. The nearest property line of any off-site parking area for a nonresidential use:
 - a. shall not be located more than five hundred feet away from the nonresidential use as measured from the nearest property line of the nonresidential use; and
 - b. shall not be separated from the nonresidential use by any street with more than four travel lanes.
3. Properties in the MUI, CF and SCR districts, and all religious institutions subject to Section 17.16.170(E)(2), shall be exempt from the above maximum separation provisions.
4. Within the qualifying districts, the above distance standards may be increased for those land uses identified in Table 17.20.030 in which the traffic engineer must establish the parking requirement, provided that the

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location of the off-site parking lot is recommended by the traffic engineer.

C. Common Ownership. Any off-site parking area shall be under the same ownership as the principal use to which it is accessory, or otherwise secured by a lease of no less than, three years with a guaranteed renewal option or the lease is equal to the term of any lease for the principal use, whichever is greater, and all necessary legal instruments shall be executed and recorded with the Register of Deeds against all parcels involved. Copies of all recorded lease agreements shall be provided to the zoning administrator prior to the issuance of zoning permits. All renewal agreements pertaining to off-site parking contained within the lease shall be provided to the zoning administrator prior to the end of a lease term. This is to ensure that the required number of spaces shall remain available throughout the life of the principal use.

D. Approval Criteria. The zoning administrator or planning commission (as applicable) shall base the decision to approve or disapprove a request for off-site parking on the recommendation of the metropolitan traffic engineer.

17.20.100 Shared parking.

Within the urban zoning overlay district, the zoning administrator or planning commission (as applicable) may approve a shared parking plan for a mixed use project when uses are located near one another and have different peak parking demands and operating hours, or other characteristics that would enable them to share parking areas without resulting in significantly higher on-street parking in surrounding areas or unauthorized use of other parking facilities, based upon a favorable recommendation of a shared parking study and site plan from the metropolitan traffic engineer. (See Figure 17.20.100) Shared parking arrangements shall be subject to the requirements set forth below. Outside of the urban zoning overlay district, the zoning administrator or planning commission (as applicable) may approve a shared parking plan for a mixed use project when uses are located near one another and have different peak parking demands and operating hours, based upon a favorable recommendation of a shared parking study and site plan from the metropolitan traffic engineer. (See Figure 17.20.100) Shared parking arrangements shall be subject to the following requirements:

A. Agreements. In cases where the uses for which shared parking is requested are located on lots under different ownership, a three party agreement between the metropolitan government and owners shall be required and subject to approval by the metropolitan government's legal counsel. Any applicable

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easements and joint access corridors which tie the shared parking concept together will be required to be recorded on a final plat and in any restrictive covenants, and shall be referenced on the site plan.

B. **Parking Zone Lot.** Owners of multiple adjacent properties may petition to have their parcels considered as a single parcel (a "parking zone lot") for purposes of compliance with parking requirements, provided that the parking zone lot includes a sufficient number of spaces to meet the sum of the minimum off-street parking space requirements for each use within the parking zone lot. Such requests shall be reviewed and approved through the site plan approval process (Section 17.40.170(c)(2)).

Documentation of an approved parking zone lot shall be recorded with the register of deeds. The approved parking zone lot may be amended or terminated through the site plan process upon (1) a petition filed by a majority of the owners whose properties include at least seventy-five percent of the square footage included in the approved parking zone lot prior to amendment or termination, and (2) submission of evidence that each use has made alternative provisions to satisfy its minimum off-street parking required by this code.

C. **Criteria.** In reviewing an application for a reduction in the minimum number of required parking spaces, the following shall be considered:

1. Characteristics of each use and projected peak parking demand, including hours of operation;
2. Potential reductions in vehicle movements afforded by multipurpose use of spaces by employees, customers or residents; and
3. Potential improvements in access, design, open space preservation and circulation afforded.

17.20.110 Maximum Parking Reduction

A. The maximum number of parking space reduction is established in Table 17.20.110 (*Refer to Table __, Maximum Parking Reduction*)

MAXIMUM PARKING REDUCTION	
Required Parking Spaces	Maximum Reduction
1--4	0
5--9	1
10--19	2
20 or more	10 percent

Figure A5

Maximum Parking Reduction

Source: Metro Planning Department,
Online Mapping



17.20.130 Loading space requirements.

A. The number of loading spaces required for each land use classification of the zoning code is established in Table 17.20.130
(Refer to Table __, Number of Loading Spaces Required)

NUMBER OF LOADING SPACES REQUIRED			
Land Use	Floor Area (SF)	Spaces (10x25 ft)	Spaces (10x50 ft)
Commercial, recreational and entertainment	2,000--9,999	1	0
	10,000--25,000	0	1
	Over 25,000	0	2

Figure A6

Loading Spaces Required
Source: Metro Planning Department, Online Mapping

Article III. Access Management

17.20.140 Traffic impact studies.

C. Waiver of a Traffic Impact Study. Any property within the downtown loop formed by Interstate 265, Interstate 65, and Interstate 40 shall be exempt from traffic impact studies. Further, a property owner who can show that a development will not have a significant impact on the transportation system or affect the existing level of service of a roadway or an intersection may seek a waiver of a traffic impact study. Such a request shall be made in writing and shall be in accordance with guidelines established by the planning commission. A traffic impact study also may be waived in cases where the applicant and the zoning administrator or planning commission agree on the nature and scope of the applicant's responsibilities for mitigating the impacts of traffic generated by the development.

Chapter 17.24 LANDSCAPING, BUFFERING AND TREE REPLACEMENT

Article I. General Provisions

17.24.020 Landscape plan required.

A landscape plan shall accompany any application for master development plan or final site plan approval unless exempted by Section 17.24.030, Exceptions. The plan shall show location, size, spacing, species, form and quality of all existing and proposed materials intended to fulfill the requirements of this chapter. The plan shall also show topography, location of all utilities, and either an under-ground sprinkler system or hose bib attachments.

Article II. Tree Protection and Replacement

Does not apply

Article III. Parking Area Screening and Landscaping

Does not apply

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Article IV. Landscape Buffer Yard Requirements

Does not apply

Chapter 17.28 ENVIRONMENTAL AND OPERATIONAL PERFORMANCE STANDARDS

Article I. Environmental Performance Standards

Does not apply

Article II. Operational Performance Standards

Does not apply

Chapter 17.32 SIGN REGULATIONS

Does not apply. Signage approvals in Arts Redevelopment District are controlled via administrative review by Metropolitan Development & Housing Authority.

Chapter 17.36 OVERLAY DISTRICTS

Does not apply

Chapter 17.40 ADMINISTRATION AND PROCEDURES

Applicable, but addresses detailed procedural issues with Zoning Administrator

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HARD COST DETAIL										
DIVISION	ITEM	DESCRIPTION	QTY		LABOR AMOUNT	MATERIAL AMOUNT	SUB AMOUNT	EQUIPMENT AMOUNT	OTHER AMOUNT	TOTAL AMOUNT
1000.00		GENERAL REQUIREMENTS								
1002.00		Plan/Spec - Reproduction								
	10	Plan/Spec - Reproduction	1.00	Isum		17,480				17,480
		Plan/Spec - Reproduction				17,480				17,480
1003.00		Plan/Spec - Engineering								
	40	Re-Shore Design	1.00	Isum					2,500	2,500
		Plan/Spec - Engineering							2,500	2,500
1021.00		Contingency								
	10	Geopiers	1.00	LSUM					190,000	190,000
		Contingency							190,000	190,000
1042.00		Project Manager								
	10	Project Manager	1.00	wks					85,000	85,000
		Project Manager							85,000	85,000
1043.00		Superintendent								
	10	Superintendent	52.00	week	73,164					73,164
	20	Superintendent (Working)	52.00	week	62,712					62,712
		Superintendent			135,876					135,876
		4,160.00	Labor hours							
1043.60		Clerk								
	20	Clerk	260.00	day	31,356					31,356
		Clerk			31,356					31,356
		2,080.00	Labor hours							
1043.97		Mileage								
	20	Superintendent Vehicle	12.00	mnth				7,866	6,000	13,866
	40	Job Vehicle - Add'l Mileage (Other)	240.00	mile				155		155
		Mileage						8,021	6,000	14,021
		2,079.96	Equipment hours							
1043.99		Parking								
	10	Parking								
1061.00		Permit - Building								
	10	Building Permit	1.00	Isum					40,170	40,170
		Permit - Building							40,170	40,170
1511.00		Temp - Electrical								
n	10	Temp. - Electrical - SQFT	103,080.00	sqft					6,185	6,185
	30	Temp - Generators (Rental)	6.00	each				2,950		2,950
		Temp - Electrical						2,950	6,185	9,135
1513.10		Temp - Heating								
n	10	Temp. - Heating	103,080.00	sqft					11,133	11,133
	20	Temp - Heaters (Rental)	8.00	each				3,059		3,059
		Temp - Heating						3,059	11,133	14,192
1514.20		Temp - Telephone Monthly								
	10	Temp. Tele. Service - Local	12.00	mnth					3,420	3,420
		Temp - Telephone Monthly							3,420	3,420
1514.50		Temp - Internet								
	10	Temp Internet Connection Fee	1.00	EACH					250	250
n	20	Temp Internet Monthly Fee	12.00	mnth					1,152	1,152
		Temp - Internet							1,402	1,402
1515.00		Temp - Water								
	10	Temporary Water Service	12.00	mnth					300	300
		Temp - Water							300	300
1516.10		Temp - Portable Toilets								
	10	Portable Toilets	36.00	mnth					2,520	2,520
		Temp - Portable Toilets							2,520	2,520
1536.00		Temp - Rails								
	10	Included in ProBuilt Price		Inft						
	----	Temp Stairs	1.00	Isum				13,110		13,110
		Temp - Rails						13,110		13,110
1541.00		Watchman/Security Guard								
	sub	Watchman/Security Guard Subcontract	1.00	sub			5,000			5,000
		Watchman/Security Guard					5,000			5,000

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HARD COST DETAIL, continued...										
DIVISION	ITEM	DESCRIPTION	QTY		LABOR AMOUNT	MATERIAL AMOUNT	SUB AMOUNT	EQUIPMENT AMOUNT	OTHER AMOUNT	TOTAL AMOUNT
1562.00		Clean Up - Rent Dumpster								
	10	Rent Dumpster	40.00	week					14,000	14,000
		Clean Up - Rent Dumpster							14,000	14,000
1581.00		Temp - Job Sign								
	20	Project Signs - Buy New	1.00	each	201	546	300			1,047
		Temp - Job Sign			201	546	300			1,047
		10.00 Labor hours								
1582.00		Temp - Job Sign(CrainBrd)								
	10	Temporary Job Sign - Crain Birds	2.00	EACH	80	55				135
		Temp - Job Sign(CrainBrd)			80	55				135
		4.00 Labor hours								
1590.00		Temp - Office								
	1	Office Trailer	12.00	mnth	634	328		4,261		5,223
		Temp - Office			634	328		4,261		5,223
		31.56 Labor hours								
		2,079.96 Equipment hours								
1590.01		Temp - Storage Trailer								
	1	Tool Trailers	12.00	mnth	254	131		1,311		1,696
		Temp - Storage Trailer			254	131		1,311		1,696
		12.63 Labor hours								
		2,079.96 Equipment hours								
1602.00		Small Tools								
	10	Small Tools	103,080.00	sqft		1,689				1,689
		Small Tools				1,689				1,689
1604.00		Fuel & Repairs								
	10	Fuel & Repairs	1.00	lsum				6,009		6,009
		Fuel & Repairs						6,009		6,009
1605.00		Hauling								
	10	Hauling	103,080.00	sqft	3,108					3,108
		Hauling			3,108					3,108
		154.62 Labor hours								
1716.00		Clean - Glass, Tile, ect.								
	40	Clean - Glass, Tile, Ect. Multi-Story	103,080.00	sqft			28,862			28,862
		Clean - Glass, Tile, ect.					28,862			28,862
1717.00		General Clean Up								
	10	General Clean-Up	103,080.00	sqft	35,222					35,222
	----	Trash chute	1.00	lsum				7,830		7,830
		General Clean Up			35,222			7,830		43,052
		1,752.36 Labor hours								
1999.00		Misc. General Requirement								
	10	Miscellaneous	103,080.00	sqft	704	1,914			2,577	5,196
		Misc. General Requirement			704	1,914			2,577	5,196
		35.05 Labor hours								
		GENERAL REQUIREMENTS			207,436	22,143	34,162	46,550	365,206	675,499
		8,240.22 Labor hours								
		6,239.88 Equipment hours								
2100.00		SITEWORK								
2144.10		Dewater - Gravel at Slabs								
n	10	Gravel At Slab	131.35	ton	771	2,117				2,888
		Dewater - Gravel at Slabs			771	2,117				2,888
		38.35 Labor hours								
2220.45		Excav - Fine Grade								
	20	Fine Grade Walks & Drives	7,487.00	sqft	151					151
		Excav - Fine Grade			151					151
		7.49 Labor hours								
2282.00		Termite Treatment								
	sub	Soil Poisoning	14,968.00	sqft			1,450			1,450
		Termite Treatment					1,450			1,450
2930.00		Rental Tools - Site Work								
n	10	Skid Loader (Bobcat)	9.00	mnth				11,307		11,307

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HARD COST DETAIL, continued...										
DIVISION	ITEM	DESCRIPTION	QTY		LABOR AMOUNT	MATERIAL AMOUNT	SUB AMOUNT	EQUIPMENT AMOUNT	OTHER AMOUNT	TOTAL AMOUNT
n	20	Backhoe	4.00	mnth				8,740		8,740
		Rental Tools - Site Work						20,047		20,047
		2,253.29	Equipment hours							
		SITEWORK			921	2,117	1,450	20,047	0	24,535
		45.84	Labor hours							
		2,253.29	Equipment hours							
3000.00		CONCRETE								
3100.00		Concrete Subcontract								
	sub	Tunnel Form Subcontractor	1.00	sub			1,809,990			1,809,990
	sub	Wall Panel Subcontractor	1.00	sub			1,760,000			1,760,000
	sub	Floor Polishing (Diamond Hard)	76,545.00	sqft			229,635			229,635
		Concrete Subcontract					3,799,625			3,799,625
3114.05		Form Walls Straight								
	f41	Tunnel Form Rental	1.00	Isum				109,250		109,250
		Form Walls Straight						109,250		109,250
3127.30		Forms - Perim. 4" @ Grade								
	f30	Perim. BHead at Grade 4" Wood	200.00	Inft	603	43				646
		Forms - Perim. 4" @ Grade			603	43				646
		30.00	Labor hours							
3231.00		Rebar - Wiremesh Lump Sum								
	sw30	WWM Sheets - 6x6 10/10	8,235.70	sqft	1,059	1,097				2,156
		Rebar - Wiremesh Lump Sum			1,059	1,097				2,156
		52.71	Labor hours							
3273.00		Acess-Premolded Exp Joint								
	a4 4	Asphaltic Exp. Joint 1/2"x4"	1,000.00	lf	503	197				699
		Acess-Premolded Exp Joint			503	197				699
		25.00	Labor hours							
3311.00		Conc - Walks								
	c30	Walk Conc 3000 psi	92.43	cuyd		6,867				6,867
		Conc - Walks				6,867				6,867
3375.00		Finish - Protect & Cure								
	5	Cure & Protect Flat Work	7,487.00	sqft	227	206				433
		Finish - Protect & Cure			227	206				433
		11.31	Labor hours							
3380.20		Finish - Flat Ext.								
	10	Concrete Finish - Flat Work Ext	7,487.00	sqft			4,867			4,867
		Finish - Flat Ext.					4,867			4,867
3954.00		Crane for Concrete Work								
	10	Tower Crane	1.00	Isum			285,000			285,000
		Crane for Concrete Work					285,000			285,000
		CONCRETE			2,392	8,408	4,089,492	109,250	0	4,209,542
		119.01	Labor hours							
4000.00		MASONRY								
4001.00		Masonry Sub - All Types								
	sub	Brick - First Floor Skin	4,068.00	sqft			59,393			59,393
		Masonry Sub - All Types					59,393			59,393
4214.00		Brick - Pavers								
	sub	Pavers at Sidewalk	4,274.00	sqft			128,220			128,220
	sub	Hanover Pavers	624.00	sqft			6,240			6,240
		Brick - Pavers					134,460			134,460
		MASONRY			0	0	193,853	0	0	193,853
5000.00		METALS								
5110.00		Structural - Framing								
	sub	Structural Framing Subcontract	1.00	sub			400,000			400,000
	sub	2nd Floor Beams	1.00	sub			37,885			37,885
		Structural - Framing					437,885			437,885
5705.00		Ornamental Rail								
	10	Ornamental Rail	155.00	Inft			27,900			27,900
		Ornamental Rail					27,900			27,900
		77.50	Labor hours							

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DIVISION	ITEM	DESCRIPTION	QTY		LABOR AMOUNT	MATERIAL AMOUNT	SUB AMOUNT	EQUIPMENT AMOUNT	OTHER AMOUNT	TOTAL AMOUNT
5999.00		Misc - Misc Metals								
	10	Misc. Metals	1.00	each	3,350	4,916				8,266
	----	Unistrut	1.00	Isum	670	1,639				2,309
		Misc - Misc Metals			4,020	6,555				10,575
		METALS			4,020	6,555	465,785	0	0	476,360
		77.50 Labor hours								
6000.00		WOOD & PLASTICS								
6000.10		Rough Hardware								
	10	Rough Hardware - Material	1.00	Isum		5,089				5,089
		Rough Hardware				5,089				5,089
6100.00		Rough Carpentry								
	vndr	Framing Lumber - Material	1.00	Isum		17,480				17,480
		Rough Carpentry				17,480				17,480
6101.00		Layout								
	10	Layout (Own Forces)	1.00	each	23,450					23,450
	10	Full Time Layout - Per Tim Sinclair	1.00	each	22,780					22,780
	30	Batterboards	200.00	each	8,040	1,311				9,351
		Layout			54,270	1,311				55,581
		400.00 Labor hours								
6116.00		Plywd - Wall Sheathing								
	348	Plywd Wall Sheath 3/4" (ab 8'), @ Prodema	1,440.00	sqft	868					868
	588	Plywd Wall Sheath 5/8" (ab 8')	1,344.00	sqft	810					810
		Plywd - Wall Sheathing			1,679					1,679
		83.52 Labor hours								
6117.00		Plywd - Roof Sheathing								
	34	Roof Sheathing 3/4"	4,704.00	sqft	1,891					1,891
	----	2" X 6" T&G Roof Deck	2,552.00	sf	4,275					4,275
		Plywd - Roof Sheathing			6,166					6,166
		94.08 Labor hours								
6122.00		Blocking - Roof Nailers								
	I 2	Labor - Roof Nailer 2 Piece	132.00	Inft	398					398
	I 4	Labor - Roof Nailer 4 Piece	212.00	Inft	895					895
		Blocking - Roof Nailers			1,293					1,293
		64.32 Labor hours								
6123.10		Blocking - Wall								
	----	Blocking @ Toilet Accessories	1,282.00	each	5,154					5,154
	----	Misc Blocking	2,145.00	each	8,623					8,623
		Blocking - Wall			13,777					13,777
6123.30		Blocking - Window & Door								
	----	Blocking @ Window Head	200.00	If	670					670
		Blocking - Window & Door			670					670
6124.00		Blocking - Furring Strips								
	10	Blocking - Furring Strips	1,440.00	Inft	1,930					1,930
		Blocking - Furring Strips			1,930					1,930
		96.00 Labor hours								
6199.00		Misc. Rough Carpentry								
	10	Misc. Rough Carpentry	1.00	each	12,730					12,730
		Misc. Rough Carpentry			12,730					12,730
6930.00		Rental Tools - Carpentry								
n	10	Scissor Lift	6.00	mnth				5,178		5,178
n	20	Boom Lift	6.00	mnth				25,892		25,892
		Rental Tools - Carpentry						31,071		31,071
		2,079.96 Equipment hours								
		WOOD & PLASTICS			92,513	23,880	0	31,071	0	147,464
		737.92 Labor hours								
		2,079.96 Equipment hours								
7000.00		THERMAL & MOISTURE PROT								
7211.00		Insulation - Batt								
	10	Batt Insulation	1.00	Isum	469	574				1,043
		Insulation - Batt			469	574				1,043

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HARD COST DETAIL, continued...										
DIVISION	ITEM	DESCRIPTION	QTY		LABOR AMOUNT	MATERIAL AMOUNT	SUB AMOUNT	EQUIPMENT AMOUNT	OTHER AMOUNT	TOTAL AMOUNT
		23.33 Labor hours								
7240.00		Ext. Insulation Finish Sy								
	sub	EIFS - Subcontractor	1.00	sub			229,034			229,034
	----	EIFS Ceilings	211.00	sqft			2,110			2,110
		Ext. Insulation Finish Sy					231,144			231,144
7250.00		Fireproofing - Spray On								
	sub	Spray Fireproofing	1.00	sub			10,900			10,900
		Fireproofing - Spray On					10,900			10,900
7530.00		EPDM - General								
	sub	Single Ply Roofing - Subcontract	20,700.00	sqft			165,600			165,600
		EPDM - General					165,600			165,600
7905.00		Sealants - Caulking								
	sub	Caulking & Waterproofing -Subcontract					58,750			58,750
	sub	Fire Caulking	1.00	sub			58,200			58,200
		Sealants - Caulking					116,950			116,950
		THERMAL & MOISTURE PROT			469	574	524,594	0	0	525,637
		23.33 Labor hours								
8000.00		DOORS & WINDOWS								
8100.00		Hollow Metal Material								
	vndr	Steel Doors -Material	11.00	Isum		3,605				3,605
	vndr	Steel Frames -Material	201.00	Isum		32,939				32,939
	----	Handling	1.00	Isum	2,814					2,814
		Hollow Metal Material			2,814	36,544				39,358
8105.10		Holl. Mtl. Door Labor								
	10	Receive/Handle Door Package	1.00	Isum	13,400					13,400
	10	H.M. Door - Labor	11.00	each	1,592					1,592
		Holl. Mtl. Door Labor			14,992					14,992
		80.20 Labor hours								
8105.15		Holl. Mtl. Frame Labor								
	12	H.M. Frames Tilt Wall - Labor	11.00	each	663					663
	15	H.M. Drywall Frame - Labor	201.00	each	4,040					4,040
		Holl. Mtl. Frame Labor			4,703					4,703
		234.00 Labor hours								
8210.00		Doors - Wood								
	21	Dr Wood SC - Pre-Machine	385.00	each	23,216					23,216
	vndr	Wood Doors - Material	385.00	Isum		84,123				84,123
	----	Handling	1.00	Isum	3,350					3,350
		Doors - Wood			26,566	84,123				110,688
		1,155.00 Labor hours								
8400.00		Storefront & Entrances								
	sub	First Floor	3,660.00	sqft			132,858			132,858
	sub	Radius Wall (First Floor ONLY)	625.00	sqft			22,688			22,688
	sub	Single Doors	5.00	each			11,000			11,000
	sub	Pair of Doors	9.00	each			31,500			31,500
	sub	Pal's Glass Service	1.00	sub			847,920			847,920
		Storefront & Entrances					1,045,966			1,045,966
8710.00		HardWr - Finishing								
	vndr	Fin. Hdwe. - Material	396.00	Isum		151,421				151,421
	----	Handling	1.00	Isum	9,217					9,217
		HardWr - Finishing			9,217	151,421				160,637
8800.00		Glass & Glazing - Sub								
	sub	Shower glass (installed by Pal's)	184.00	each		241,224				241,224
		Glass & Glazing - Sub				241,224				241,224
		DOORS & WINDOWS			58,291	513,311	1,045,966	0	0	1,617,568
		1,469.20 Labor hours								
9000.00		FINISHES								
9250.00		Gypsum Wallboard - Sub								
	sub	First Floor Exterior Skin	4,068.00	sqft			28,476			28,476
	sub	Interior Walls - 1st Floor	824.00	sqft			3,914			3,914
	sub	Corridors - 1st Floor	2,600.00	sqft			13,650			13,650

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HARD COST DETAIL, continued...										
DIVISION	ITEM	DESCRIPTION	QTY		LABOR AMOUNT	MATERIAL AMOUNT	SUB AMOUNT	EQUIPMENT AMOUNT	OTHER AMOUNT	TOTAL AMOUNT
	sub	Interior Walls - 2nd Floor	1,050.00	sqft			4,988			4,988
	sub	Corridors - 2nd Floor	6,390.00	sqft			33,548			33,548
	sub	Corridors - 3rd Floor	22,120.00	sqft			116,130			116,130
	sub	Guest room toilets	47,840.00	sqft			227,240			227,240
	sub	Lobby Ceilings	600.00	sqft			3,600			3,600
		Gypsum Wallboard - Sub					431,545			431,545
9310.00		Ceramic Tile								
	sub	Quarry	615.00	sqft			8,610			8,610
		Ceramic Tile					8,610			8,610
9720.00		Epoxy MarbleChip Flooring								
	sub	Epoxy Marble Chip Flooring Sub	3,166.00	sqft			12,664			12,664
		Epoxy MarbleChip Flooring					12,664			12,664
9900.00		Painting & VWC - Sub								
	sub	Paint at the radius storefront wall	1.00	sub			5,000			5,000
	sub	Interior of exterior walls	4,068.00	sqft			2,400			2,400
	sub	1st floor drywall	6,848.00	sqft			4,040			4,040
	sub	2nd floor drywall	14,880.00	sqft			8,779			8,779
	sub	3rd-6th floor drywall	44,240.00	sqft			26,102			26,102
	sub	Guest room toilets	95,680.00	sqft			56,451			56,451
	sub	Doors & Frames	396.00	each			35,046			35,046
		Painting & VWC - Sub					137,818			137,818
9925.00		Painting - Touch-up								
	10	Painting - Touch-Up	1.00	Isum	1,340	656				1,996
		Painting - Touch-up			1,340	656				1,996
		FINISHES			1,340	656	590,637	0	0	592,633
10000.00		SPECIALTIES								
10160.00		Toilet Partition Metal								
	1003	Toilet Partitn Steel S-Steel	12.00	each	1,930					1,930
	2003	Urinal Screen Steel S-Steel	2.00	each	121					121
	vndr	Toilet Partitn Steel - Matl	1.00	Isum		8,740				8,740
		Toilet Partition Metal			2,050	8,740				10,790
		102.00 Labor hours								
10430.00		Signs								
	sub	Signs - Subcontract	1.00	sub			13,000			13,000
		Signs					13,000			13,000
10524.00		Fire Extinguisher Cabinet								
	10	Fire Ext Cab - Labor	40.00	each	2,144					2,144
	vndr	Fire Ext Cab - Material	1.00	Isum		6,391				6,391
		Fire Extinguisher Cabinet			2,144	6,391				8,535
		106.67 Labor hours								
10620.00		Folding Partitions								
	sub	Folding Partitions Subcontract	1.00	Sub			30,000			30,000
		Folding Partitions					30,000			30,000
10800.00		Toilet Accessories								
	vndr	Misc Tlt/Bath Equip - Material	1.00	Isum		169,338				169,338
	----	Tlt Acc installation	1.00	Isum			25,000			25,000
		Toilet Accessories				169,338	25,000			194,338
10950.00		RTU Screens								
	10	Rooftop Unit Screens	415.00	Inft		136,016				136,016
		RTU Screens				136,016				136,016
10990.00		Misc. Specialties								
	----	Alum Exter channel for Cathode	275.00	Inft	1,843	6,853				8,696
		Misc. Specialties			1,843	6,853				8,696
		SPECIALTIES			6,037	327,338	68,000	0	0	401,375
		208.67 Labor hours								
11000.00		EQUIPMENT								
11100.00		Equipment - Fixturing								
	sub	Equipment Fixturing - Subcontract	93,965.00	sub			4,250,400			4,250,400
		Equipment - Fixturing					4,250,400			4,250,400
11990.00		Miscellaneous Equipment								

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HARD COST DETAIL, continued...										
DIVISION	ITEM	DESCRIPTION	QTY		LABOR AMOUNT	MATERIAL AMOUNT	SUB AMOUNT	EQUIPMENT AMOUNT	OTHER AMOUNT	TOTAL AMOUNT
	----	Linen Chute	1.00	each		9,833	5,000			14,833
		Miscellaneous Equipment				9,833	5,000			14,833
		EQUIPMENT			0	9,833	4,255,400	0	0	4,265,233
14000.00		CONVEYNG SYSTEMS								
14210.00		Elevator Passenger								
	sub	Elev. Passenger - Subcontract					223,800			223,800
	----	Machine Room	1.00	Isun			9,650			9,650
	----	Finishes	1.00	Isun			15,000			15,000
		Elevator Passenger					248,450			248,450
		CONVEYNG SYSTEMS			0	0	248,450	0	0	248,450
15000.00		MECHANICAL								
15300.00		Fire Protection - Sub								
	sub	Fire Protection - Sub	93,965.00	sub			140,948			140,948
		Fire Protection - Sub					140,948			140,948
15400.00		Plumbing - Subcontractor								
	sub	Plumbing - Subcontractor	93,965.00	sub			1,033,615			1,033,615
		Plumbing - Subcontractor					1,033,615			1,033,615
15500.00		HVAC - Subcontractor								
	sub	HVAC - Subcontractor	93,965.00	sub			1,503,440			1,503,440
		HVAC - Subcontractor					1,503,440			1,503,440
		MECHANICAL			0	0	2,678,003	0	0	2,678,003
16000.00		ELECTRICAL								
16001.00		Electrical - Sub								
	sub	Electrical - Subcontractor	93,965.00	sub			1,315,510			1,315,510
		Electrical - Sub					1,315,510			1,315,510
		ELECTRICAL			0	0	1,315,510	0	0	1,315,510