



February 12, 2016

Mr. James Allen
Executive Director
Amherst Industrial Development Agency
4287 Main Street
Amherst, NY14226

Re: Lord Amherst Hospitality Renovation Project

Dear Jim:

Enclosed please find applications completed for the Lord Amherst hospitality renovation project ("Project"). We are seeking to amend the existing inducement for the Project due to an increase in its cost of renovation arising out of changes to the Project vision and scope.

Recently, we met with Amherst I.D.A. staff and Nathan Neill to discuss our desire to seek an amended inducement for the Project. Nathan advised that, due to the change in legislation in 2013 re eligibility, the IDA may need to make a determination that the Project is a tourism project in order to amend the prior inducement (even though that was not the section of the IDA statute by which the Project was originally induced). By submission of this letter and the enclosed application, we formally request that the Amherst I.D.A. consider making the tourism determination and proceed to act on the application at its meetings in March. The balance of this correspondence shall provide a brief summary of the Project as it relates to prior actions taken by the Amherst I.D.A. and the impetus for the request for an amended inducement.

The original inducement for the Project was granted on or about August 19th, 2011, prior to our completing acquisition of the property. The scope of the Project, as described in the application prepared at that time, consisted of a \$500,000 +/- "trial" renovation of the original early 1960s hotel & restaurant to determine whether there was merit to undertake a more comprehensive renovation. This initial investment was subsequently made and the hotel's improved performance thereafter prompted our filing of an application in December of 2012 to amend the inducement to support a more

comprehensive renovation to “mid-scale” hospitality level (2 - 2 ½ diamonds)¹. The application included an estimate of approximately \$9.885 million in renovation costs. This inducement was granted by the Amherst I.D.A. in early 2013.²

Subsequent to this inducement and as the design and due diligence with respect to the Project proceeded, discovery of conditions in the building resulted in the scope of asbestos abatement and selective demolition of the interior increasing substantially from what had been anticipated. A complete gut of the building was necessary, including removal of ALL interior finishes, including existing walls & ceilings, electrical wiring, plumbing lines and all fixtures. The budget for the Project had assumed that a portion of the existing interior finishes and building systems “infrastructure” could be reutilized. As this would no longer be the case, the revised budget for the Project would require substantially more investment than would be warranted for conversion of the building to a mid-scale level, even with the I.D.A. benefits.

We subsequently retained The Gettys Group, a renowned hospitality consulting firm based in Chicago, to assist us with the Project. Gettys assessed the Project and concurred that renovation to a “mid-scale” level was not feasible given the anticipated cost. However, their assessment of the local hospitality market concluded that the Town was underserved for more upscale hospitality offerings and that the former Lord Amherst offered an opportunity fill that gap provided some of the building’s limitations could be overcome. Thus, the vision shifted from the “mid-scale” Project that was no longer feasible to creating a first quality, full-service boutique hotel Project (3 ½ - 4 diamonds), and Gettys Group was retained to assist with the design and branding of the Project.

In addition to starting from scratch with respect to the interior of the building, structural changes to the building were determined to be necessary, most notably the excavation of a lower level floor under a large part of the existing hotel in order to create a new “service level” to more effectively support the “back-of-the-house” operations (i.e. laundry, housekeeping, staff lockers and break room, storage, mechanical rooms, and staff offices and circulation etc.) without being visible to guests. In addition to these operations, the new lower level would house a guest fitness/spa facility and five new guest rooms. Other Project scope changes would include reconstruction of the original “pillared” lobby section of the hotel building, installation of a second elevator, and an enhancement in the overall

¹ Hotels fall into various service/quality levels and ratings. A limited-service, mid-scale hotel would have a AAA rating of 2 to 3 diamonds. The Hyatt Place at 5020 Main Street is a select-service, 3 diamond hotel. The proposed hotel would be a full-service, upscale boutique hotel with a target rating of 3.5 to 4 diamonds. The highest AAA rating is 5 diamonds which is typically associated with luxury hotels.

² After the inducement in 2013, the 5000-5020 Main Street parcel was subdivided into three tax parcels for financing purposes...5000 Main, 5010 Main, and 5020 Main...all with common ownership.

quality of the interior finishes and furnishings throughout the hotel from the “mid-scale” finishes previously anticipated.

With regard to the hotel restaurant, the application filed in 2012 anticipated that the hotel restaurant would be entirely leased to a third party (as it has been since the opening of the Lord Amherst in the early 1960s) who would operate the restaurant and event space in conjunction with the hotel. Under this arrangement, it was anticipated that we would complete improvements to the “shell” of the building and the operator would complete the interior finishes and supply all furniture, fixtures and equipment (“FF&E”) at their cost (and presumably they would seek an inducement from the I.D.A. for this investment). A prospective operator was subsequently identified and design has been advanced for the renovation of the hotel restaurant, however, no lease has been signed as of the date of this application. The hotel restaurant is a critical component of a full-service hotel. Therefore, we would need to proceed with its completion and operation whether or not a lease is signed with a third-party operator. Therefore, in addition to its renovation, the enclosed application for the Project includes estimates for the finishing and equipping of the hotel restaurant which the prior application did not include.

The updated cost estimate for the overall Project is \$19,925,000 which is comprised of \$15,381,250 for the hotel portion of the Project, and \$4,543,750 for the hotel restaurant. Related thereto, the lender for the hotel will be increasing its loan amount to \$13,000,000. The loan amount anticipated for the hotel restaurant is \$3 million though a lender for this part of the Project has not yet been finalized.

With respect to the Tourism destination determination, we would expect this decision would be rather straightforward since, by definition, an upscale, full-service hotel exists to cater to out-of-town visitors. In this regard, enclosed please find an opinion letter from our counsel, Hodgson Russ LLP. Please also be reminded that the Lord Amherst property was designated as a Neighborhood Enhancement Area and it is helpful to recall the recommendations made by the Town’s Industrial and Commercial Incentive Board in 2011 with regard to these areas (which recommendations were adopted by the Amherst Town Board) which read as follows: *“The Amherst IDA and the Planning Department also recommended that hotels and motor service and sales uses that were previously excluded from the enhancement area be included. Hotels, bed and breakfasts, and boutique hotels are often cornerstones of a commercial development or district and should be encouraged at appropriate locations (as determined by zoning)”*. Though this excerpt from the recommendations does not specifically use the word “tourism”, each of the example project types mentioned are hospitality and tourism uses which both the I.D.A. and Town Planners recognized as desirable projects for enhancement areas such as the subject property is designated.

Please also be reminded that a study prepared by Tourism Economics (also enclosed herewith) was completed for the hospitality campus and submitted to the Amherst I.D.A. during the review of the application for inducement for the Hyatt Place Hotel at 5020 Main Street in early 2013. The Tourism Economics study analyzed direct, indirect and induced economic impacts for Lord Amherst Project and the Hyatt Place Hotel. The Tourism Economics study concluded that the Lord Amherst Project alone would generate an average of \$2.2 million in annual economic impact. Perhaps even more telling with respect to the tourism determination is the actual guest origination data for the Hyatt Place. Since its opening on August 25th through December 1st, 2015 more than 75% of the guests that stayed at the Hyatt Place came from outside New York State and nearly half of those (43%) came from outside the United States. The proposed upscale, full-service, boutique hotel, which will be geared more toward the leisure traveler (i.e. tourist) than the Hyatt Place, can be expected to generate similar, if not superior results.

We appreciate your consideration of the enclosed application and look forward to attending the Board meeting on March 4th.

Sincerely,

ISKALO DEVELOPMENT CORP.



David Chiazza

Executive Vice President