June 19, 2024

Memorandum

To: The City of Fort Lauderdale

From: PFM Group Consulting LLC

RE: **The Landing – Water Taxi Unsolicited Proposal Review**

Introduction & Background

Per information provided by the City of Fort Lauderdale ("City'), on May 12, 2023, the City received an unsolicited proposal from Water Taxi of Fort Lauderdale, LLC ("Developer"). pursuant to Section 255.065, Florida Statutes, to construct, operate, and maintain a Water Taxi Terminal located at 1001 Seabreeze Blvd, Fort Lauderdale, FL. The project, currently named "The Landing" includes space for the dockmaster, a ticket office, waiting area, public restaurant, and an event space ("Project" or "The Landing").

In Resolution No. 23-208, the City Commission determined that the proposed project would serve a public purpose as a public facility or infrastructure that is used and will be used by the public at large or in support of an accepted public purpose or activity, and constitutes a qualifying project pursuant to Section 255.065, Florida Statutes. A financial analysis of the proposal has been requested as part of the negotiations and shared with the City Commission as part of the proposed agreement. Furthermore, pursuant to Section 255.065, Florida Statutes, the approval of the qualifying project by the City of Fort Lauderdale is subject to entering into a comprehensive agreement with Fort Lauderdale Water Taxi, LLC. and the City of Fort Lauderdale may reject the proposal until such time a comprehensive agreement is executed.

At this time, PFM Group Consulting LLC ("PFM"), at the request of the City has reviewed the unsolicited proposal information as well as a Developer provided financial pro forma for the Project.

PFM Analysis & Review

PFM has reviewed the Developer provided data, specifically the unsolicited proposal and Developer pro forma. The Developer pro forma segmented the revenue and expense streams into three (3) separate categories: 1) Water Taxi Storage and Dock Rental, 2) Welcome Center and 3) Restaurant. PFM reviewed the 5-year pro forma and extended it out an additional five (5) years for analysis purposes.

The proposed four-story structure includes a Welcome Center and Dock Master with ticket office on the first floor with the balance of the building providing restaurant food and beverage services with second floor waiting area with bar, third floor indoor/outdoor restaurant with the fourth floor being rooftop event space. The total square feet per the Developer's current renderings is provided in Figure 1 in the imaging below.

Figure 1. Developer Rending and Project Size

GROSS BUILDING - INTERIOR SPACE	
LEVEL	S.F.
LEVEL 1	2,475 SF
LEVEL 2	1,210 SF
LEVEL 3	2,993 SF
LEVEL 4	1,085 SF
TOTAL	7,762 SF

GROSS BUILDING - EXTERIOR SPACE	
LEVEL	S.F.
LEVEL 1	2,053 SF
LEVEL 2	2,778 SF
LEVEL 3	743 SF
LEVEL 4	2,453 SF
TOTAL	8,026 SF

GROSS BUILDING	
LEVEL	S.F.
LEVEL 1	4,527 SF
LEVEL 2	3,987 SF
LEVEL 3	3,736 SF
LEVEL 4	3,538 SF
TOTAL	15,788 SF

PFM and the Developer discussed the assumptions associated with the Water Taxi Storage and Dock Rental. Given the Developer's experience with the existing water taxi operation and knowledge of the boating industry, these assumptions appeared reasonable. Regarding the Welcome Center assumptions, the combined assumptions were conservative with the Welcome Center being a breakeven operation over its initial few years of operation. According to our research, the initial retail sales per square foot of the operation at $591 per square foot is consistent with that of a pharmacy ($600-$800 per sqft) and well below airport terminal-based retail stores ($800-$1,200 per sqft). This initial estimate appears conservative given the nature of the purchases at the site which are anticipated to be transient, and less price sensitive compared to general retail facilities.

With respect to the restaurant operation, the Developer has reached out to a local restaurant operator and received a preliminary financial pro forma with respect to the operation of a restaurant on site. However, from a financial pro forma perspective, the Developer will not be the owner/operator of the restaurant. Rather the Developer intends to lease the space to the restaurant operator. PFM has gathered local market data with respect to restaurant lease rates for nearby locations, which provide insight into the market rent for the Project. Table 1 summarizes those findings.

Table 1. Local Restaurant Lease Rates

					Est. Lease Rate ($/SQFT)		
Location	City	YR Blt	LU	SQFT	Low	High	Median
3142 NE 9th St	Fort Lauderdale	1980	Restaurant	1,040	-	-	$65.77
3134 NE 9th St	Fort Lauderdale	1959	Restaurant	1,040	$65.00	$79.00	$72.00
235 S Fort Lauderdale Bch Blvd	Fort Lauderdale	1959	Restaurant	4,000	$48.00	$58.00	$53.00
2915 E Las Olas Blvd	Fort Lauderdale	1975	Restaurant	5,300	$74.00	$90.00	$82.00
1207 SE 17th St	Fort Lauderdale	2021	Restaurant	4,445	-	-	$66.15
1717 SE 17th St	Fort Lauderdale	2013	Restaurant	4,682	$59.00	$72.00	$65.50
701 SE 17th St	Fort Lauderdale	1989	Restaurant	30,910	-	-	$49.00
			AVG	**7,345**	**$61.50**	**$74.75**	**$64.77**

Source: CoStar

Given the Project's waterfront location and general location adjacent to Bahia Mar, PFM believes that the site will demand restaurant lease rates that will be consistent with the average of the high lease rates shown above at $74.75, which would be subject to a 3% escalator. Based on discussions with the Developer, the expectation is that the restaurant operator will be responsible for an estimated 8,400 square feet of space, which includes space on Level 2, Level 3, and Level 4 of the Project.

The Developer is working with a local bank (which has been confirmed via a preliminary financing letter) and intends to finance the construction of the Project via a 25-year "mini-perm" bank loan which would be structured as an interest only facility for the first five (5) years with a standard amortization of the balance of the loan beginning in Year 6. This loan would be in the amount of $8 million with a preliminary interest rate of 7%. For purposes of modeling PFM is assuming an $8 million loan with an 8% interest rate, which for the first five (5) years as an interest only facility represents $640,000 in annual interest payments and in Year 6 would convert to the standard amortization which would be just less than $803,000 annually. For purposes of comparison, the application of a 7% rate on the same loan would generate an interest only payment of $560,000 annually and in Year 6, annual payments would increase to just more than $744,000.

PFM's modeling adjusted the Developer's assumptions with respect to revenue and expense growth rates, making them slightly more conservative. The most notable adjustments to the Developer model were related to the assumed annual growth rates of revenues and expenses. Table 2 summarizes the adjustments made.

Table 2. Projected Project NOI and Debt Service Coverage Summary

	PFM		Developer	
Escalator Assumptions	Yrs 1-5	Yrs 6-10	Yrs 1-5	Yrs 6-10
City of Fort Lauderdale Lease	105%	105%	103%	NA
Water Taxi - Dock Rental Revenue	107%	104%	112%	NA
Water Taxi - Dock Rental Expenses	105%	103%	105%	NA
Welcome Ctr Revenue	107%	104%	112%	NA
Welcome Ctr Expenses	105%	103%	105%	NA
Restaurant Lease/Rent	103%	103%	0%	NA
Restaurant Revenue*	107%	104%	107%	NA
Restaurant Expenses*	105%	104%	105%	NA

Source: PFM Group Consulting LLC

Table 3 summarizes the net operating income ("NOI") from the 1) Water Taxi Storage and Dock Rental, 2) Welcome Center and 3) Restaurant (rent/lease payments) and compares it against the estimated debt service and the resulting debt service coverage estimates. Included within these estimates is the existing agreement between the Developer and the City regarding an annual $120,000 lease payment made to the City to operate the water taxi service (included as a Welcome Center expense line item).

Table 3. Projected Project NOI and Debt Service Coverage Summary

NOI Summary	2026	2027	2028	2029	2030
Water Taxi & Dock Rental	$95,400	$117,277	$141,514	$168,323	$197,932
Welcome Center	($12,680)	($7,314)	($1,260)	$5,547	$13,174
Restaurant (Lease/Rent to Developer)	$624,611	$643,349	$662,650	$682,529	$703,005
TOTAL	$707,331	$753,313	$802,904	$856,399	$914,111
Debt Service*	$640,000	$640,000	$640,000	$640,000	$640,000
Est. Debt Service Coverage	1.11	1.18	1.25	1.34	1.43

NOI Summary	2031	2032	2033	2034	2035
Water Taxi & Dock Rental	$228,321	$261,662	$298,206	$338,224	$382,010
Welcome Center	$14,286	$13,536	$12,665	$11,661	$10,513
Restaurant (Lease/Rent to Developer)	$724,095	$745,818	$768,193	$791,239	$814,976
TOTAL	$966,702	$1,021,017	$1,079,064	$1,141,123	$1,207,499
Debt Service*	$802,982	$802,982	$802,982	$802,982	$802,982
Est. Debt Service Coverage	1.20	1.27	1.34	1.42	1.50

*25-year loan at 8% (Interest only first 5 years)

Source: Developer and PFM Group Consulting LLC

As the data shows, the restaurant rent/lease payment represents a significant source of Project revenues available for debt service. This slowly decreases as the Project stabilizes. Table 4 summarizes the change in revenues available for debt service over time. PFM's discussions with the Developer indicate that the underlying assumptions are reasonable and conservative and that there is also some additional operational upside not included in the existing figures. One element that the Developer is reviewing is the renting of first floor space to a retailer to provide additional services, such as a coffee shop or other ancillary use.

Table 4. Allocation of Revenues Available for Debt Service

NOI Summary	Year 1	Year 5	Year 10
Water Taxi & Dock Rental	13.4%	21.2%	30.6%
Welcome Center	-1.1%	3.3%	4.0%
Restaurant (rent to Developer)	87.7%	75.5%	65.4%
TOTAL	100.0%	100.0%	100.0%

Source: PFM Group Consulting LLC

As noted, the Project is most sensitive to the restaurant operation and the rent/lease associated with the restaurant. PFM analyzed and summarized the impact of the range of market restaurant lease rates on the projected debt service coverage. Table 5 summarizes the findings.

Table 5. Allocation of Revenues Available for Debt Service

		Debt Service Coverage Ratio			
Est. Rest. Lease (2026) ($/sqft)	Yr 1	Avg Yrs 1-5	Yr 6	Avg Yrs 6-10	Avg Total (Yrs 1-10)
$61.50	0.94	1.09	1.05	1.20	1.15
$64.77	0.98	1.14	1.09	1.24	1.19
$74.75	1.11	1.28	1.23	1.39	1.33

Source: PFM Group Consulting LLC

As the data shows, the application of the $74.75 per sqft lease rate from the comparable set shows that the Project would maintain an average annual debt service coverage of 1.33 over the first ten (10) years of operation, with ample coverage in Year 1. Running a sensitivity analysis with PFM's assumptions, the targeted minimum annual restaurant lease payment is $560,000 ($67/sqft). This would allow for a breakeven restaurant operation in Year 1 for the most conservative restaurant scenario and still provide debt service coverage above 1.0.

Proposed Deal Points and Pro Forma Summary

As described in the unsolicited proposal provided by the Developer to the City, the Developer's Obligations and Payments to City include: 1) the Developer will be responsible to secure financing and pay for 100% of the capital costs of the project, estimated to exceed Eight Million Dollars ($8 million), 2) the Developer will be responsible for 100% of the day-to-day operation costs of the project, 3) Water Taxi will be responsible for 100% of the maintenance of the project, 4) the Developer will make available the event space to City up to five (5) times a year for official City Events at no rental cost to City. The City will be responsible for all costs and expenses incurred including food, beverages and/ or service costs to staff any such events and 5) the Developer will continue to participate in the current lease arrangement with the City of the $120,000 annual payment, with a 5% annual escalator.

The City Obligations including Property Interests and Rent Structure Required for the Project include: The Project requires a 30-year lease from the City of $1 per year, with Developer having the option to extend such term for an additional term of twenty (20) years.

The preliminary financial pro forma, while not complete, suggests adequate debt service coverage assuming that the minimum target restaurant lease payment of $560,000 annually is achieved. There is initial concentration risk regarding the revenue streams available for debt service with the restaurant lease payment representing the majority of funds; however, as the project matures, it is expected that the other business lines will grow as a relative share of the broader Project operation.

Potential Negotiation Points

If the City is comfortable with the deal points and summary described above, PFM suggests that it consider negotiations with the Developer on certain provisions that could provide future return to the City.

The City currently receives $120,000 annually for the leasing of the existing docks which will be incorporated into the Project. In PFM's experience with municipal land lease deals, it's common to have the municipal landowner incorporate additional participation in the Project in the form of a revenue share at some defined moment in Project maturity (e.g. years of operation, a targeted debt service coverage ("DSC") ratio, etc…) For example, to the extent that the Project was successful to the point of achieving a DSC of 1.25, this could be the trigger for revenue sharing in the form of an agreed upon percentage of net operating income ("NOI").

In addition, given the proposed structure with the Project being developed and operated on City-owned property, PFM has also observed municipal landowners implement local government participation in the event of a sale. In this case, the City could consider a Transaction Rent (or Participation Fee) at the time of a sale that is equal to the lesser of a specific dollar amount (e.g. $10 million) or a stated percentage of the deal (e.g. 0.25% of the gross sales price for the initial sale/transfer or on each transfer of ownership). This enables the City to realize value for the potential appreciation in the value of the Project that is developed on its land.

Conclusion

The development of the Project at the proposed location is consistent with the overall market. The overarching assumptions market and pro form assumption indicate that the Project is feasible. Like any Project, it is subject to an array of risks including but not necessarily limited to market risks, developer/operator risk, financing risks, political risk and climate risks.

The City and Developer have established a partnership with respect to the existing and ongoing water taxi operation. The proposed Project represents an opportunity to create another waterfront destination for the City. The Developer has requested a 30-year lease from the City of $1 per year, with Developer having the option to extend such term for an additional term of twenty (20) years. PFM has reviewed the preliminary financial pro forma provided by the Developer, and we believe the operating and financial return metrics that are included in the pro forma are reasonable. If the City believes it is in its best interests to agree to provide the City's property and leasehold interests to support the proposed Project, there are certain provisions beyond the existing dock lease of $120,000 annually, it may want to consider with respect to an additional revenue stream or participation in a Project capital event.