City of Fort Lauderdale

One-Stop Shop Unsolicited Proposal Discussion

15 February 2022

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I. Introduction

Source: South Florida SunSentinel 9/21/21

One-Stop-Shop FTL (OSS) proposal

One Stop FTL, LLC ("OSS") submitted to the City of Fort Lauderdale a proposal for the development and operation of a Cultural Center, Marketplace and Community Park on municipally owned land (the "Proposal") under a long-term license agreement.

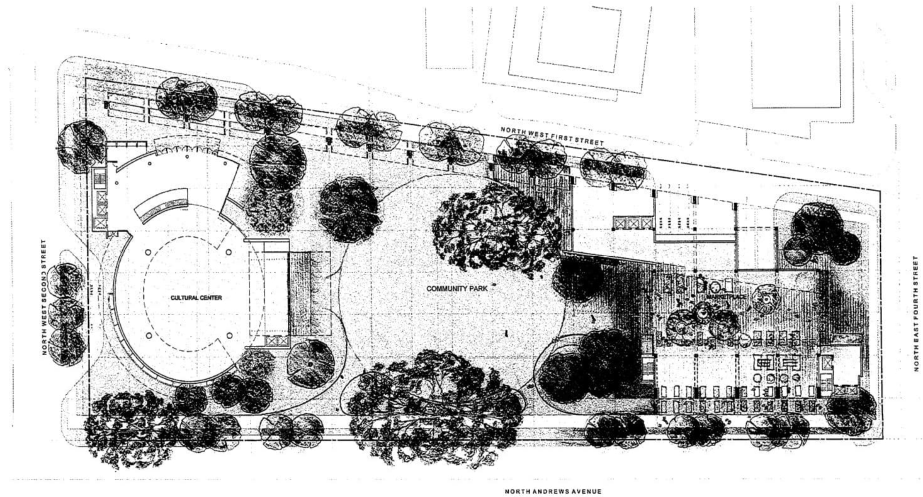
The Site

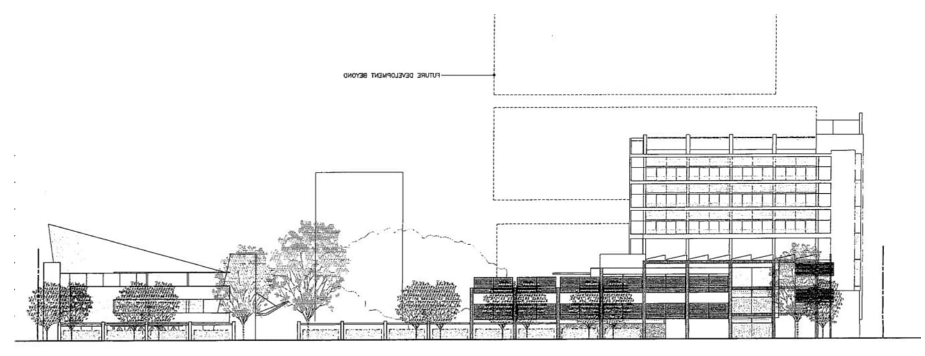
- 3.34-acre block of City-owned land two blocks north of a major artery spanning the City of Fort Lauderdale
- Across the street from City Hall and a Brightline station; proximate to Las Olas and Flagler Village areas
- Site includes existing (vacant) structures; City assumes responsibility for environmental hazards

The Proposal

- 50-year license with two 25-year renewal options
- Conceptual plan rather than committed program
- Elements on the site per conceptual plan:
  - Cultural Center – 75k square feet (interior); 45k square feet (exterior)
    - ~2,000 capacity live events venue
    - Restaurant concept sized at ~200 seats for projections
  - Marketplace – 54k square feet (interior); 4k square feet (exterior)
    - Restaurant(s) – 800 seats
    - Distillery – 150 seats
  - Community Park – 2.3 acres

Conceptual renderings





Source: OSS Unsolicited Proposal

Introduction

- In order to fulfill its obligations under Chapter 255.065 of the state statutes the City undertook an analysis of the Proposal in the following key areas:
  - The capabilities and experience of the OSS team members
  - The proposed payments to the City under the draft comprehensive agreement
  - The financial and commercial assumptions reflected in the OSS business plan

- As part of this analysis, the City undertook the following steps:
  - Issued clarification and diligence questions to the OSS team to clarify certain elements of the Proposals
  - Met with OSS team members to discuss responses to the additional questions
  - Analyzed the key assumptions in the proposal and benchmarked them against industry. comparators where available

- The following pages summarize the key findings on the Proposal across the four areas mentioned above

II. Key Considerations

Source: South Florida SunSentinel 9/21/21

Key considerations – Proposal team qualifications

- In order to fulfill its obligations under Chapter 255.065 of the state statutes the City undertook an analysis of the Proposal in the following key areas:
  - **The capabilities and experience of the OSS team members**
  - The financial and commercial assumptions reflected in the OSS business plan
  - The proposed payments to the City under the draft comprehensive agreement

- Key questions to answer for this item include:
  - **Do team members have experience successfully constructing/developing projects like this one (e.g., similar size, scope, uses, etc.)?**
  - **Do team members have experience successfully operating projects like this one (e.g., similar size, scope, uses, etc.)?**

Proposal team experience

Proposal team qualifications similar to the proposal

DAMN GOOD
HOSPITALITY GROUP

Representative projects

Revolution Live

- 1,300 capacity entertainment venue in Ft. Lauderdale
- 150 events per year + 50 private events

Backyard

- Indoor & outdoor event venue in Fort Lauderdale
- 1,600 total capacity (300 seated)

Stache Drinking Den

- Cocktail lounge and event space in Fort Lauderdale
- Capacity of 400 (100 seated)

Warren Delray

- Restaurant / Bar concept
- ~150 capacity

BANYAN
DEVELOPMENT

Representative projects

Wellington Green Commons

- 140k sq. ft. development in Wellington, FL anchored by Whole Foods

Boca Lakes

- 10-acre mixed use development in Boca Raton, FL

Mission Bay Plaza*

- 281k sq. ft. retail center in Boca Raton, FL
- Anchored by Toys R Us, Office Max

* Developed by Banyan Principal with other firm

Key considerations – Proposal team qualifications

Proposal team qualifications

Key question	Findings
Do team members have experience successfully constructing/developing projects like this one? Do team members have experience successfully operating projects like this one?	▸ Proposal team members have experience in comparable entertainment operations and real estate industries, including experience in Fort Lauderdale and Florida. ▸ The operations partner, Damn Good Hospitality Group, has a history of operating Revolution Live in Fort Lauderdale and an existing exclusivity arrangement with LiveNation for events that could help drive activation at the project. ▸ The real estate development partner, Banyan Development, appears to have experience developing properties of similar scale; The Proposal did not include examples of experience with signature “infill” developments and/or entertainment facilities.

Key considerations – Business plan

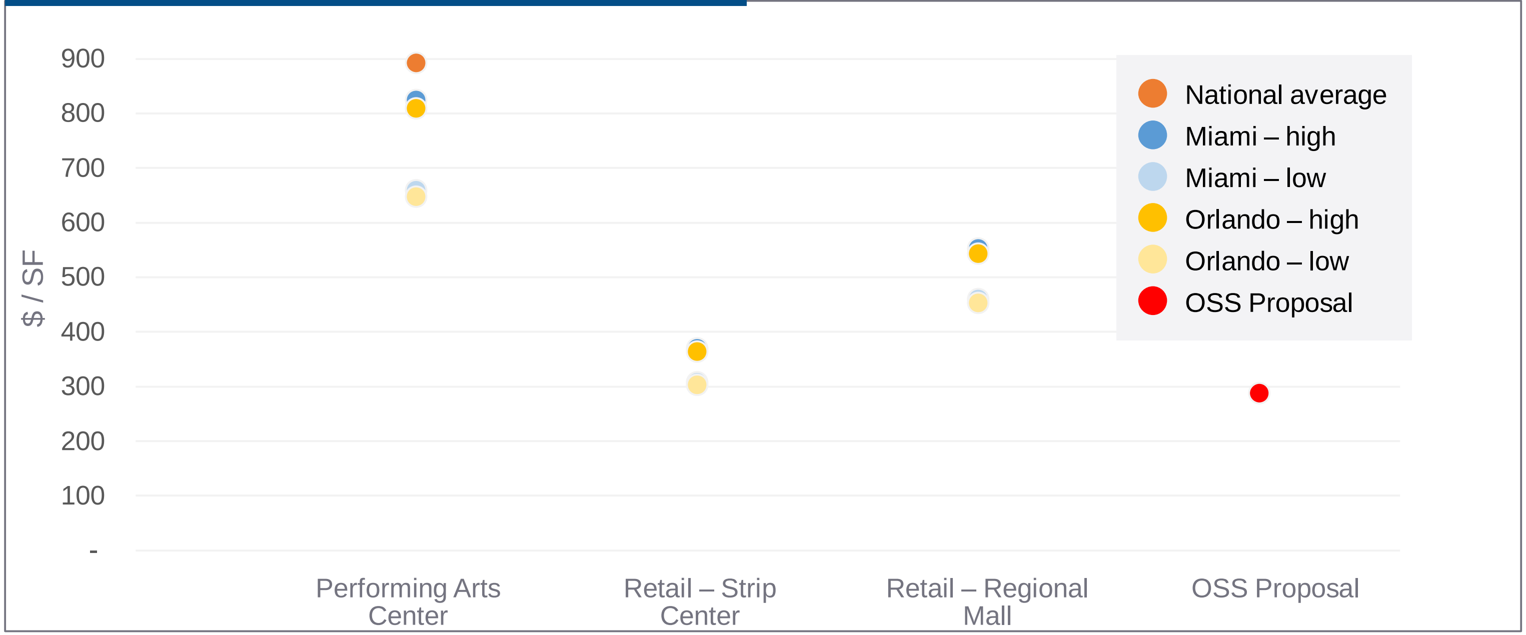
- In order to fulfill its obligations under Chapter 255.065 of the state statutes the City undertook an analysis of the Proposal in the following key areas:
  - The capabilities and experience of the OSS team members
  - **The financial and commercial assumptions reflected in the OSS business plan**
  - The proposed payments to the City under the draft comprehensive agreement

- Key questions to answer for this item include:
  - **Does the proposer have a business plan in place to construct and finance the project that is consistent with and based on assumptions similar to comparable projects?**
  - **Does the proposer have a business plan in place to operate the project that is consistent with and based on assumptions similar to comparable projects?**

Design & construction costs

- The Proposal includes construction costs ($287/SF) similar to strip center retail.
- Performing arts centers have some of the highest construction costs per square foot compared to other benchmarked construction types. The 2021 national average is $892/SF and in major Florida markets is $647-854/SF. A live events space is unlikely to have the same level of design, finish and functionality and would have lower costs.
- Project design is in conceptual development, and the cost estimate will continue to be refined. The project is currently carrying a 7% contingency which is low compared to other comparable construction projects at this stage of design.

Construction cost per square foot - comparables



Source: Cumming, https://ccorpinsights.com/costs-per-square-foot/

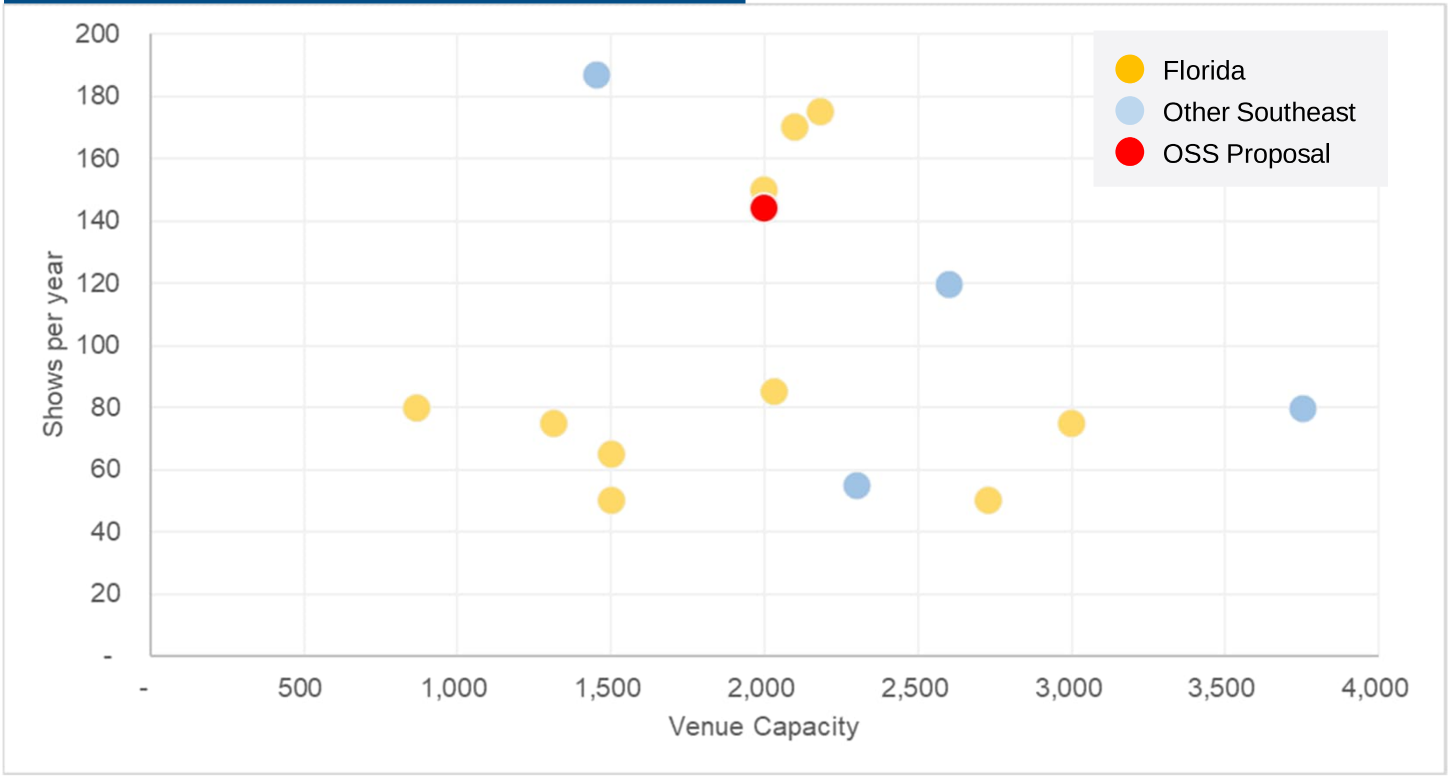
OSS total – total construction cost of $114,301,572 / 397,852 SF

Note: OSS proposal includes hard and soft costs. Retail hard costs comparators updated for soft costs on the same assumption as OSS (27% soft costs)

Operating revenues – event demand

- Event programming at the Project is projected by OSS to be a major driver for revenues and income in the business plan, driving ticket and subscription sales as well as food and beverage demand.
- The current projection of 140 events per year is in the top tier of comparable facilities, and is not a conservative assumption.

Annual events - comparables

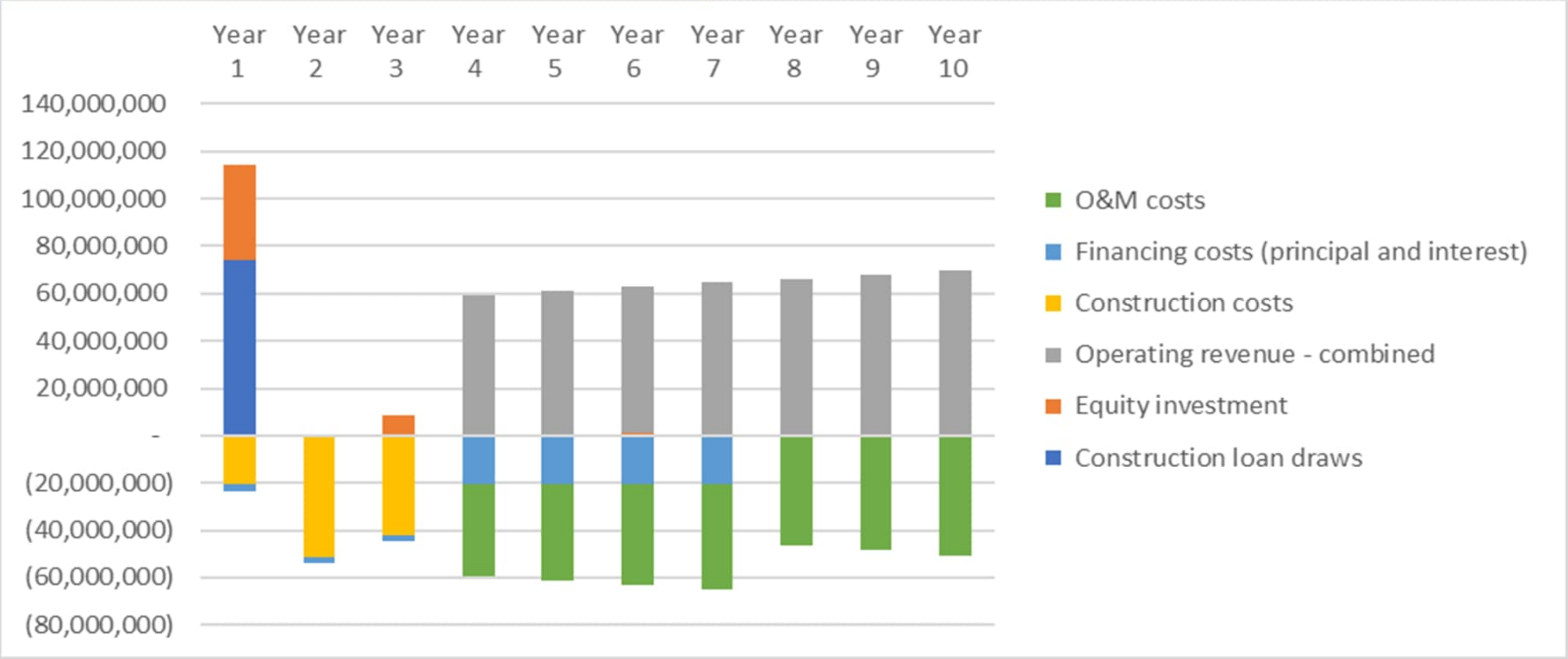


Note: Comparable venue information provided by Proposer.

Project cash flow projections

- The OSS plan contemplates a three-year construction period. OSS's capital costs are funded with a combination of 65 percent debt and 35 percent equity contributions; debt includes a three-year construction loan taken out by a four-year mini-perm (which is atypical for a real estate project).
- The Project is projected to generate ~$59 million in revenue in its first year of operations, with approximately 2/3 budgeted to cover operating expenses and remainder going to financing costs and ground rent.
- In the base case, the high cost of debt service in the early years, means that the project does not appear to be profitable until Year 5 of operations, even before payment of rent.

Project cash flows (excluding fees payable to City)



Key considerations – Business plan

Business plan

Key question	Findings
Does the proposer have a business plan in place for construction to construct and finance the project that is consistent with and based on assumptions similar to comparable projects? Does the proposer have a business plan in place for operations to operate the project that is consistent with and based on assumptions similar to comparable projects?	▸ The base case business plan includes customary components; however, some of the key input assumptions are unclear or optimistic: ▸ Construction costs are low compared to benchmarks, and construction cost contingency is 7%, low for early stage projections. ▸ OSS assumes a number of live events in its base case financial plan that would place the event roster in the top tier of comparables. ▸ Financial performance is heavily dependent upon live events; without a more specific restaurant strategy, at this early development stage, the reasonableness of the operating income projections is unclear and is challenging to compare performance to comparable facilities. ▸ In the base case, the high cost of debt service in the early years means that the project does not appear to generate sufficient income to cover costs until Year 5 of operations and relies on additional capital injections to support costs and pay rent. ▸ The Proposer team has a history of working with national and regional lenders, but the Proposal does not include financial commitments in place today. This is not unusual at this stage of development, but obtaining financing on this type of project represents a key potential risk. ▸ The planned mini-perm takeout structure is uncommon in comparable projects and does not typically align the financing expense with the long-term license revenues.

Key findings – Payments to the City

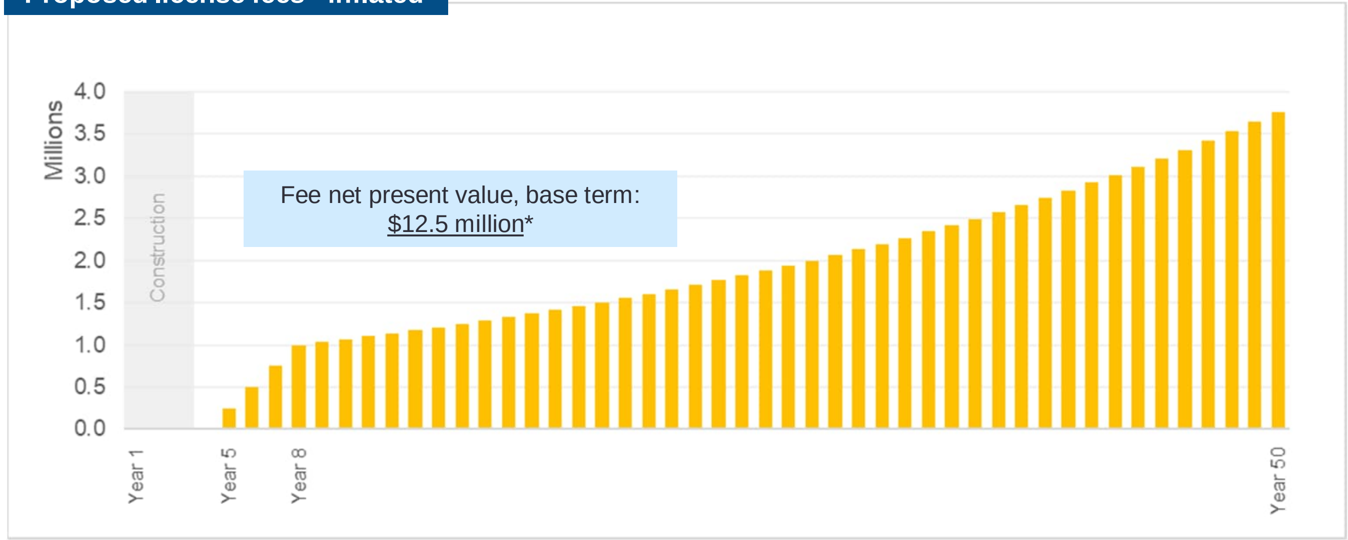
- In order to fulfill its obligations under Chapter 255.065 of the state statutes the City undertook an analysis of the Proposal in the following key areas:
  - The capabilities and experience of the OSS team members
  - The financial and commercial assumptions reflected in the OSS business plan
  - **The proposed payments to the City under the draft comprehensive agreement**

- Key questions to answer for this item include:
  - **Is the fee proposal consistent with comparable market rents for this project?**
  - **Will there be property taxes, a PILOT or other equivalent payment generated by the project?**
  - **Are there other direct financial benefits for the City included in the proposal?**

License agreement fees

- Under the Proposal, the City would receive an annual license fee from OSS. Section 5 of the comprehensive agreement sets out the amount and payment profile of the fee with OSS to begin making fee payments one year after a certificate of occupancy is achieved.
- The first payment is $250k (assumed to be Year 5 of the contract in the business plan) and increases annually by $250k until reaching $1 million in fifth year of operations (assumed to be Year 8 of contract in the business plan).
- The $1 million fee then inflates at a rate that is still under negotiation. The draft comprehensive agreement indicates annual increases at a Cost of Living Adjustment ("COLA") plus 1%, and that is what is shown below. Agreements of this kind typically include an annual increase provision tied to inflation, a fixed rate and/or a market value reset.

Proposed license fees - inflated



* Net present value calculated based upon estimated WACC of 7.9% and annual inflation of 3.2% (recent COLA + 1%). Escalation under the draft comprehensive agreement continues to be under negotiation.

License agreement fees

Payments to the City

- In order to estimate a potential comparable fee/ground rent on the property, it is possible to use a cap rate based methodology.
- OSS plans to use its net operating income to pay ground rent and to cover project capital (and financing) costs.
- One approach to estimating project value is to apply a "capitalization rate" to the net operating income.
- That estimated project value can be compared against the upfront capital investment of $114 million. The "residual" value above that investment can be used to estimate a potential ground rent payment.
- The calculations show a potential fee/rent range of $3-6 million/year. Changes to the business plan assumptions would impact the ground rent estimate.
- In some precedent transactions, public agencies consider below market fees or rents in order to facilitate social, economic or other project benefits.

($m, opening year)	Case A	Case B
Revenues	58.7	58.7
Operating expenses	39.2	39.2
Net operating income (a)	19.5	19.5
Capitalization rate (b)	7%	10%
Estimated project value (a/b)(d)	278	195
Capital cost (c)	114	114
Residual value (d – c)	164	81
Fee/ground rent estimate		
4% of residual value	6.6	3.2

CBRE H12021 report cites Fort Lauderdale retail cap rates of 5.25-7.25%. Given unique nature of the project, a 7% case is shown as well as a scenario with an additional cushion of up to 3% to account for atypical nature of property – a mix of restaurant and performance space. The ground lease rent estimate uses a 4% figure given the unique nature of the investment; other development types may command a higher percentage.

Key findings – Payments to the City

Payments to the City

Key question	Findings
Is the fee proposal consistent with comparable market rents for this project?	▸ The fee proposal appears low based on the financial projections provided in the Proposal; however, if certain key business plan assumptions are changed (e.g., costs are higher, income is lower), the proposal may be more consistent with market precedent. ▸ The fee inflation proposal is still under negotiation.
Will there be property taxes, a PILOT or other equivalent payment generated by the project?	▸ While taxes are currently not payable on the property, the City may consider requesting an additional payment from the Proposer that would be to be paid in addition to the license fee.
Are there other direct financial benefits for the City included in the proposal?	▸ The Proposal includes development and operation of a Community Park which OSS values at $10 million for construction costs and approximately $400,000/year for operating costs. It is difficult to validate these figures without a further level of design and operating standard.