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Review of Unsolicited Proposal: Fort Lauderdale Studio Initiative

September 14, 2022

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Dear Ms. Grant,

Deloitte[1] ("Advisor" or "Deloitte" or "we" or "our") is pleased to assist the City of Fort Lauderdale (the "City") with a high-level review of the financial feasibility of one (1) unsolicited proposal ("Proposal") the City has received from Fort Lauderdale Studio Initiative LLC ("FMSI" or "Proposer") to develop a full-service movie studio complex located at 1400 NW 31st Avenue on property owned by the City ("Project" or "Studio Project"), as described below, ("Services"). Accompanying this letter is our **Final Deliverable** pertaining to the following:

- Review of project materials to understand the nature of the proposed facilities, as well as their physical and locational characteristics.
- Evaluation of the reasonableness of the financial model's assumptions (e.g., revenue projections, cost assumptions, City contributions, among others) and Studio Project risks.
- Perform market research, consisting of interviews with key demand generators and discussions with local market participants. These interviews allow us to make informed judgments regarding potential demand and economic benefits to the City.
- Review of the mechanical/ technical features and reasonableness of the financial models to understand the accuracy of the financial model's outputs.

The Advisor notes that this is not a formal audit of the financial model, but rather an evaluation of the soundness of the formulas and model logic.

The review was performed based on materials provided to Deloitte by the City and the Proposer during regular communication within the period ending on Monday September 12, 2022.

Our **Final Deliverable** summarizes the result of our analysis within the agreed scope. The results, advice, or conclusions included in this draft are subject to the terms of our contracts and the assumptions and limitations reflected in our Engagement Letter dated August 19, 2022.

In authorizing us to provide you with our **Final Deliverable**, you confirm that to the best of your knowledge and belief (1) the information supplied to us by the City and the Proposer for the purpose of this engagement is complete and accurate in all material respects as of the date of the analysis, and (2) you accept sole responsibility for the forecasts and assumptions underlying the forecasts used in our analyses and confirm that they are reasonable under the circumstances.

If you have questions regarding the results of the analysis, please contact John Solomon at +1.571.245.1572 or Jennifer Ahn at +1.571.447.3725.

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Overview of Proposed Project/Summary of Findings

Deloitte, at the request of City of Fort Lauderdale (the "City"), reviewed at a high-level the financial feasibility of an unsolicited proposal to develop a full-service movie studio complex on property owned by the City.

Requested from the City by Proposer

- City to contribute land via long-term ground lease located at 1400 NW 31st Avenue (former Wingate Municipal Incinerator and Landfill Superfund Site) to Proposer.
- Proposer to receive a 50-year lease to 2072 at $1 per annum, with one 50-year option to extend following the conclusion of the initial term.
- City and Proposer enter into a Comprehensive Agreement ("CA") to regulate the relationship over the life of the lease.

Overall Development Cost, Timeline, and Assets

- Total construction and development cost of $163.9 million. Asset to be operational by 2024 and fully built by 2025.
- Assets include horizontal (land, site infrastructure) and vertical infrastructure (sound stages, offices, sets, film school, commissary/retail).
- Proposer's total development budget appears appropriate and directionally aligns with benchmarking analysis done through Marshall Valuation Services ("MVS") data.

Opportunity Cost of the City Land Contribution

- A 61-acre brownfield site zoned for commercial use. The opportunity cost of the site would be dependent on the income-generative possibilities of its improvements, but costs are constrained by its environmental impairments.

Potential Benefits to the City

- Tax revenue uplift from commercial activity generated by the asset. This tax uplift has not been fully quantified.
- Labor opportunities for blue collar/middle-skill workers who are in high demand in the production industry. Around 28% of Broward County workers work in painting, transportation, trades, utilities, and construction.[1]
- Project developed under a Design, Build, Finance, Operate Maintain ("DBFOM") delivery model, so the Proposer bears the risk and responsibility for each component of delivery.
- City has an opportunity to leverage the studio project employment opportunities and additional Broward County Film Commission Rebate Incentive Programs [2] as outlined by County Resolution No.2021-518 [3], toward attracting productions and becoming a nationally attractive center for the film, television and digital content-creation industry.

High-level Project Economics

- The primary source of revenue is studio rental revenue, which will be received from a mix of industry tenants.
- Hard costs, soft costs, and $6 million project contingency (3.6% of total development costs) are considered in the project budget.
- The project will be paid for by 70% debt and 30% equity, which is reasonable for similar projects. At a high-level, the project economics appear sufficient to sustain the indicated level of debt under the proposed cost and structure.

The review indicates that the proposed structure, assumptions, and forecasts indicate that the studio project is viable, subject to the risks and mitigants expressed in our findings. We note that the project development is at an early stage and final feasibility will be contingent on an executed CA, executed financing contracts, and sufficient permitting.

1. https://careersourcebroward.com/assets/uploads/documents/Unemployment-Data/Broward-Unemployment-Release-for-April-2022.pdf
2. https://www.broward.org/Film/Pages/FilmOverview-Application.aspx
3. https://www.castandcrew.com/wp-content/uploads/2022/06/22-956-Resolution-Amending-the-Broward-County-Administrative-Code_No-Comments.pdf

Real Estate Market Analysis

Deloitte conducted real estate analysis based on provided data and reports by Proposer, and market research.

Land Economics

- The 61-acre site is currently unimproved and zoned for commercial use. As a brownfield "Superfund" site, it requires continuous site testing and remediation. The value of the site will be dependent on the income-generative possibilities of its improvements, which can only be realized after remediation.

Real Estate Market Data

- Commercial land of at least 20 acres in the Ft. Lauderdale market (15-mile radius from the Project) in the last four years has traded for around $600k - $700k/acre.[1]
- One nearby site traded for $680k/acre with the plans to construct a storage/warehouse facility on the site. This indicates that industrial-use may be a possible alternative use for the subject property.[2]
- Based on our review, the Proposer's land use is reasonable due to the environmental hazards that will be remediated and improved with an income-producing, tax-generating property.

Demand for Movie Studios

- Florida Chamber of Commerce and Associated Industries of Florida announced film, television, and digital media industries have been included in their respective legislative priorities for the 2022 Florida Legislative Session.[3]
- Movie and Video Production industry is projected to grow at annualized rate of 2.3% until 2026.[4] The Proposer's projected 5% YoY growth rate as of 2028 appears elevated. We address this in our Sensitivity Analysis by running a long-term revenue YoY growth scenario of 2% and demonstrate the impact under lower growth rates.

Anticipated Revenues and Costs

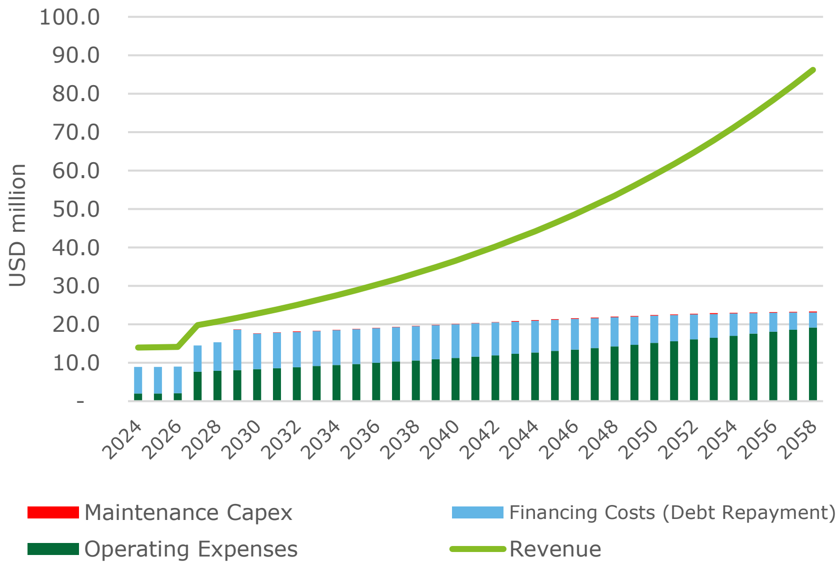
- The primary source of revenue is rental revenue, which will be received from tenant studio operators, and other users of the facilities. The tenant mix will include large 'household name' studio operators who will lease on a longer-term basis, and smaller studios via shorter-term leases.
- Our review of the Proposer's revenue is considered reasonable because of the experienced project team which guides revenue assumptions as well as sufficient growth and demand for movie & production studios identified through market research.
- Deloitte believes Proposer's operating expenses are reasonable, in light of the experienced Proposer team as well as risk mitigation through a Triple Net ("NNN") lease structure. The Proposer provided a draft Letter of Intent of lease terms they would enter into with tenants, which states that lessee(s)/tenants will reimburse the lessor for onsite controllable and non-controllable expenses (in line with a NNN lease structure).
- Hard costs, soft costs, and $6M project contingency (3.6% of total development costs) are considered in budgeting.
- The Proposer provided a project cost estimate of $163.9 million developed by Gensler on August 2, 2022. We analyzed the construction costs based on Gensler's feasibility analysis and concluded a normal variance from the Proposer's estimates.
    - Sound stages specifically, are complex buildings during this type of construction, in this case contributing to 42% of gross building area. As such, Deloitte utilized MVS data to benchmark against the Proposer's costs. Our analysis shows a minimal variance from the Gensler's estimate. We therefore consider the Proposer's budget reasonable.

1. CoStar Research (Ref 1)
2. CoStar Research (Ref 2)
3. https://filmflorida.org/news/business-community-leaders-unite/
4. IBISWorld "Movie & Video Production Industry in the US" February 2022

Financial Feasibility Analysis

Deloitte conducted a financial analysis based on the provided financial model by Proposer, and market research.

Proposed Project Financials Through Full Debt Repayment[1]



Project Sources of Funds			Project Uses of Funds		
Item	Amount (M)	%	Item	Amount (M)	%
Equity	$49.2	30%	Land/Closing Costs	$2.0	1%
Construction Loan	$114.7	70%	Hard Costs	$138.4	84%
			Soft Costs	$9.6	6%
			Financing Costs	$7.9	5%
			Contingency	$6.0	4%
Total Sources	**$163.9**	**100%**	**Total Uses**	**$163.9**	**100%**

1. The Financial Model Proposer provided only included 10-year Pro Forma projections (2024-2033). The model indicates that after 2028, all revenues and costs escalate at steady rates year-on-year. Based on this Proposer assumption, Deloitte extended all costs and revenues through maturity of the long-term loan to determine whether full amortization and repayment of the loan occurs.

Debt Parameters

- $114.7 million fixed-interest construction loan facility with interest-only payments from 2024-2028 (5 years) at a 6.00% interest rate.
- $125.0 million long-term senior loan to refinance construction facility with a 30-year amortization at a fixed 6.15% interest rate, fully amortizing in 2058.
- Under the proposed structure, the minimum DSCR (i.e., Debt Service Coverage Ratio) – the measure of money available in the period to cover debt payment, is 1.29x. From an industry perspective, a viable range would be 1.10x - 1.50x.

Equity Parameters

- $49.2 million (30%) of project costs will be paid by equity. Proposer has a Pre-Development Agreement signed with JSB Capital, a private equity fund. JSB Capital is expected to provide the project equity investment.
- The last 13 years of the 50-year lease (2059-2072) do not require debt service, and free cashflows are available for distribution to the Proposer. This concession tail highlights the robustness of the project's equity economics in later years.

Sensitivity Analysis

- To stress-test the uncertainty of long-term revenue growth following the provided 10-year pro-forma (post-2028), we lowered the Proposer's 5% YoY revenue growth to 2%, as a stabilized long-term inflation-linked growth rate.
- To stress-test the project's ability to refinance the construction loan into long-term debt at a materially higher-cost debt, we ran a scenario where we added +1.5% cost on top of the long-term debt's interest rate of 6.15%, totaling interest at 7.65%.
- Under the combined sensitivity scenario, the Studio Project projected cash flows result in a minimum DSCR of 1.13x indicating that there is sufficient cash flow to service the debt.

Project Risks & Mitigants (1 of 3)

Deloitte has reviewed the key risks and identified mitigants to them, where they are present.

Key Risks	Mitigants
Construction Capital Expenditure	
Risk of construction cost and schedule overruns.	The project will be developed under a Design, Build, Finance, Operate Maintain ("DBFOM") delivery model, which means that the Proposer bears responsibility for each component of delivery, including construction cost and schedule. Should this risk manifest itself, the Proposer will be responsible for paying the difference and facilitating construction completion. The Proposer has taken a mitigating step by engaging in a Memorandum of Understanding and is working on negotiating a full construction contract with AECOM Tishman, a leading design and construction firm. Additionally, in their proposed financial model, the Proposer has set aside $6 million (3.6%) as a contingency buffer for construction. This appears reasonable.
Niche asset with few immediate comparable projects in the region.	Production studios are niche assets, which imposes a risk in benchmarking project costs against other existing projects. Deloitte reviewed this proposal with the benefit of insights gained in other similar studio projects in the southeast. Utilizing Marshall Valuation Services ("MVS") data, Deloitte independently estimated construction costs based on site plans contained in the Gensler feasibility analysis. Our analysis concluded costs within a normal variance from the Proposer's estimates. Due to the non-standard nature of production studio assets, predictability of the final construction cost remains a risk that is borne by the Proposer.
Environmental and Permitting	
Environmental monitoring risk due to "Superfund" site status, especially with regard to fish tissue monitoring (every 5 years).	The Wingate site is described as "Clean Closure" having been cleaned 20 years ago and set for periodic monitoring. The last review was completed in 2021. The environmental monitoring risk appears substantially mitigated by the EPA decision in July 2019 to discontinue groundwater and sediment sampling as well as abandon monitoring of groundwater wells and methane. The remaining risk present is fish tissue monitoring, which is scheduled for every 5 years.
Permitting risk in case of further construction on the capped landfill, including from EPA as well as the relevant State, City and County environmental regulators.	The development plan under the proposed project anticipates building of facilities (sound stages, production offices, etc.) off the capped landfill. Should development plans evolve, and construction is needed on the landfill area, this will present a project risk. One of the Proposer team members, Mr. Michael Ullian, is a developer who specializes in redeveloping environmentally-impaired brownfield sites. His involvement in the project offers a degree of risk mitigation.
Permitting risk due to Building Plat approval needed from Broward County to break ground/begin construction in full.	The application for the Building Plat has been submitted, and an estimated approval date is expected sometime in Q1 2023. While unable to begin full construction in earnest, the Proposer has some permission to build on site before the Building Plat application is approved, which will allow for pre-work.

Project Risks & Mitigants (2 of 3)

Deloitte has reviewed the key risks and identified mitigants to them, where they are present.

Key Risks	Mitigants
Revenue/Demand	
Low level of detail in the revenue estimates.	Revenue estimates appear to be developed in part on market data from a 2020 CBRE Report titled "Viewpoint on Entertainment Production Facilities" and in part on the Proposer's market experience. The low level of detail behind the revenue estimates may preclude broad analysis of their viability. A mitigant to this is the experience of the Proposer team in owning, operating and managing similar studio assets in California. Additionally, as a rule of thumb, rent projections on "built-to-suit" assets such as this generally target 10% of total build cost. This project targets $12-18 million in rental revenue on a $163.9 million development cost, which aligns directionally with this rule of thumb.
Risk of Proposer's ability to operate a studio and attract tenants.	The Proposer has indicated that their strategy to attracting tenants will be largely based on a curated tenant mix. This will include large household name studio operators who will lease on a longer-term basis, as well as opportunities for small studios on shorter-term leases. The Proposer provided the 2020 CBRE Viewpoint on Entertainment Production Facilities which states that tenants are demanding more and newer spaces with better accommodations (such as higher ceilings), as opposed to older legacy studios. Based on the project site plan, the subject development could provide uniquely high-quality studios with above average national ceiling heights and square footages, potentially attracting a broader set of tenants. Additionally, one of the Proposer team members, Mr. Christopher Ursitti, has a long career as a Hollywood studio executive and studio owner, which adds a further degree of risk mitigation in this matter.
Risk of maintaining revenue growth at 5% YoY after the 10-year pro forma projections in the Proposer's Financial Model.	For the purpose of analyzing the financial feasibility of the proposed structure, Deloitte used the Proposer's financial model and its 10-year pro-forma projections and extended the projected revenue growth and cost increases linearly through 2058, which is the year in which the long-term debt fully amortizes. There is a risk that revenues do not grow linearly at 5% YoY after 2028, due to the unpredictable nature of long-term forecasting. This risk is partly mitigated by the Proposer's experience in operating production studio assets. A further mitigant is that our Sensitivity Analysis included stabilizing post-2028 revenues at 2% inflation-adjusted growth (3% lower than the Proposer's forecast), where the project's perceived ability to repay its debts remains unimpaired.
Operating and Maintenance Costs	
Risk of operating cost overruns.	The Proposer has provided a cost breakdown of total year 1 operating expenses which include major expense categories. Because of a Triple Net lease structure, these costs will be ultimately incurred by tenants on a pro rata basis. The risk of operating cost overruns is a potential in financial forecasts but will not substantially impact the financial feasibility due to its pass-through nature. The experience of the project team may also be considered a risk mitigant in negotiating tenant contracts with pass-throughs.
Risk of maintenance cost overruns.	Maintenance costs appear to be small in the financial model (around 1.2% of operating costs and 0.8% of financing costs) and they do not start until year 6. They reflect the need to offer new construction warranties to tenants every 5-10 years, as negotiated with each trade subcontractor. The risk of overruns is mitigated by the "headroom" available in the project cashflows, the pass-through nature of capital expenditures to tenants, and the ability of experienced management to negotiate the tenant contracts.

Project Risks & Mitigants (3 of 3)

Deloitte has reviewed the key risks and identified mitigants to them, where they are present.

Key Risks	Mitigants
Financing	
Interest rate risk.	The current interest rate environment is volatile and interest rates have increased in the past several years from historically low levels. The nature of the proposed financing structure, wherein the Proposer refinances their construction loan in 2028, implies that there is a risk of refinancing into a long-term loan. This is partially mitigated by the "headroom" in project cashflows (i.e., the excess free cash flow outstanding in each period to service costlier debt). Deloitte performed a sensitivity analysis by increasing the cost of the long-term debt by 1.5% and the project economics remained intact. Interest rates are unpredictable and should they increase beyond 7.65% there may not be sufficient cash flows in the project under the proposed structure.
Equity sponsor risk.	Equity sponsor risk is partially mitigated by the executed Pre-Development Agreement and ongoing negotiations for equity funding with JSB Capital. Additionally, should there need to be an equity sponsor replacement, there appear to be attractive project economics in place, with significant "headroom" in free cash flow and a 13-year concession tail (2059-2072) where there is no debt-service.

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