



CITY OF FORT LAUDERDALE
City Commission Agenda Memo
CRA BOARD MEETING

#19-0408

TO: CRA Chairman & Board of Commissioners
Fort Lauderdale Community Redevelopment Agency

FROM: Chris Lagerbloom, ICMA-CM, Executive Director

DATE: May 21, 2019

TITLE: Resolution Authorizing the Disposition of Property at 713, 717 and 723 NW 3 Street to Avenue D'Arts FLL, LLC and Approving an Award of \$3,000,000 from the CRA Development Incentive Program to Avenue D'Arts FLL, LLC – **(Commission District 3)**

Recommendation

It is recommended that the Community Redevelopment Agency ("CRA") Board authorize the disposition of property at 713, 717 and 723 NW 3 Street (Property IDs 5042-10-12-0520, 5053-10-12-0540 and 5042-10-12-0550) to Avenue D'Arts FLL, LLC, approve an award of \$3,000,000 secured by a 5 year forgivable mortgage from the CRA Development Incentive Program to Avenue D'Arts FLL, LLC for the Comfort Suites Hotel D'Arts, and authorize the Executive Director to execute the Purchase Contract and negotiate and execute the Development Agreement and any and all other documents or instruments necessary or incidental to consummation of the transaction, subject to the review of the CRA General Counsel.

Background

On February 14, 2017 the CRA Advisory Board, in response to an interest by the developer to construct a hotel at the NW corner of North Avenue of the Arts and NW 3th Street that included three city owned vacant lots, recommended that staff proceed to secure the lots from the City and issue a Notice to formally solicit development proposals for the site to allow the developer to submit a proposal for the CRA property. The location map, Broward County property appraiser information, and a copy of the minutes are attached as Exhibits 1, 2 and 3. On August 2, 2018, after the purchase of the property by the CRA from the City, Request for Proposal ("RFP") 12178-189 was issued for redevelopment of the CRA property and the Developer was the sole responder to this request when bids were received on December 17, 2018. The RFP was advertised in the Fort Lauderdale Sun Sentinel and the Westside Gazette. In addition, notice by mail was provided to all property owners within 600 feet of the property. The evaluation committee met on February 7, 2019 and unanimously recommended accepting the proposal from Avenue D'Arts FLL, LLC. The Developer's Proposal to purchase and redevelop the property and their funding request for the Comfort Suites Hotel D'Arts (Exhibit 4) was reviewed at the CRA Advisory Board meeting of February 21, 2019 and recommended

for approval (Exhibit 5).

Developer's Proposal

The developer's proposal is to purchase CRA property at its appraised value of \$355,000 and combine this property with adjacent property owned by the developer to construct a 5-story hotel that will be franchised as a Comfort Suites by Choice Hotels. It will consist of 100 suites on an approximately .85 acre site with the building fronting North Avenue of the Arts and parking in the rear along NW 3rd Street and to the north of the property in a covered parking first floor garage. The zoning is NWRAC-MUW (Northwest Regional Activity Center Mixed Use West). The new zoning district was created in 2014 to help meet the vision and goals of the Community Redevelopment Plan for the CRA area to create a vibrant community with a successful mix of uses defined by walkable streets, quality buildings and an exceptional public realm experience. The new form based code has a maximum 65 foot height restriction, provides standardized dimensional requirements to achieve a consistent form of pedestrian oriented development, and has design standards, reduced parking requirements and other requirements to encourage development on smaller urban sites. The new hotel will have a contemporary architectural style and clean lines with geometric features along the façade. The ground level will have floor to ceiling glass, active uses and amenities on the first floor and street improvements to create a friendly pedestrian environment. The hotel is within a CRA Focus Area. It is within walking distance to the Brightline-Virgin train station three blocks east of the site and the first hotel project west of the Florida East Coast Railway.

Company Background

The developer of the project, Hotel D'Arts FLL, LLC, is a new single purpose entity headed by Dr. Minesh Patel. It is a collaboration of Onyx Hospitality, LLC ("Onyx Hospitality"), Morpheus Group, LLC ("Morpheus Group") and Impact Investments 1, LLC ("Impact Investments"). The Equity breakdown for the venture is Morpheus Group (70%), Onyx Hospitality (15%) and Impact Investments (15%).

Onyx Hospitality was founded in 1986 and is a \$35+ million hospitality company located in Boca Raton, Florida headed by Sameet Patel, Chairman/CEO-MGRM and Mahendra Patel, MRG. Their specialty is managing, maintaining and improving properties of reputable brands that are already in the market. Their Portfolio includes Comfort Suites in Palm Bay, Florida, Best Western and Comfort Inn in Horn Lake, Massachusetts, Econo Lodge in Forest City, Arizona, Super 8 in Dania Beach, Florida and Relax Inn in Fort Lauderdale. Previous hotels include Best Western and Comfort Suites in Palm Beach, Florida and Comfort Inn in Deerfield Beach, Florida and others. Beside the new Comfort Suites in the CRA, other new proposed developments include a Hampton Inn in Fort Lauderdale, a Courtyard by Marriott in Memphis, Tennessee, a Holiday Inn Express and Suites in Collierville, Tennessee, a Comfort Suites in Sebring, Florida and a Tru by Hilton in Southaven, Massachusetts.

Founded in 2007, Morpheus Group was established to develop and manage hotels throughout the United States. Their portfolio has included several award winning franchises and hospitality brands including Marriott International, Inc., Hilton Worldwide,

InterContinental Hotels Group, Wyndham Worldwide and Choice Hotels International, Inc. The company continues to grow with rapid expansion planned for Florida and the Eastern United States. The Company is headed by Mahendra Patel, MBA, their President and Chairman, and Doctor Minesh Patel, MBA Vice President and CEO. The Patel's specialize in challenging developments, including reclaiming wetlands, relocation of ponds, repositioning and rezoning land, and land assemblages.

Impact Investments is headed by Joseph Poveromo and Branden Hertz who purchased the hotel site for the project. Mr. Poveromo is a licensed broker in North Carolina and Florida specializing in commercial real estate brokerage, investment sales, and site selection services. Avenue D'Arts FLL, LLC, a joint venture of Onyx Hospitality, Morpheus Group and Impact Investments, propose to acquire the CRA property and develop the project. The development team has the experience and background needed to implement and manage the development.

Project Cost and Financial Analysis

The Project represents a total capital investment of \$17,355,795, including land, hard cost, predevelopment and soft cost of \$14,780,795 and outfitting cost of \$2,575,000 including furniture, fixtures, equipment, technology and supplies. The development team is working with Meridian Capital Group, LLC, investment bankers who are assuming a maximum 65% LTC (loan to cost) to secure a \$11,651,250 loan to construct the project. They have also secured a Franchise Agreement with Choice Hotels International Inc. for the project.

The Developer is seeking \$3,000,000 from the CRA Development Incentive Program (DIP) for the project. The CRA Development Incentive Program is a custom incentive designed to meet the needs of a specific development project that represents an investment or total project cost that exceeds \$5,000,000 and creates a significant economic engine or destination project in the CRA. An Internal Rate of Return (IRR) Investment Analysis supports that the project is not financially feasible without the CRA incentive to the project. Using a five-year cash flow analysis, without CRA incentives, the project is not profitable at an IRR of 1.46%. With the requested CRA incentive, the projected IRR would reach 12.39% which is the minimum threshold the Developer needs to assume the development risk at this unproven location with the anticipated financial metrics including below market occupancy and below market Average Daily Rates. The incentive would be provided over three years as a forgivable loan disbursed at \$1 million each year in the form of construction cost reimbursements. The first payment would occur when the project receives its Certificate of Occupancy. A comparison of previous CRA DIP awards is provided below. Previous awards have ranged from 19.02% to 66.6% of the total estimated capital investment. This request for CRA funding represents 17.3% of the total estimated capital investment for the proposed Hotel D'Arts project or approximately 20% of the land, construction and pre-development cost.

| Project | Estimated Capital Investment (ECI) | DIP Award | DIP Award Percentage of ECI |
|-------------------|---|------------------|------------------------------------|
| YMCA | \$15 Million | \$10 Million | 66.70% |
| Jack and Jill | \$7.1 Million | 2.5 Million | 34.79% |
| Six 13 | \$33.5 Million | \$7 Million | 20.80% |
| Sistrunk Market | \$5.9 Million | 1.4 Million | 23.30% |
| Triangle Services | \$7.8 Million | 1.5 Million | 19.02% |

Economic Impact of Project

The Developer has secured the services of Walter Duke and Partners to perform an Economic Impact Study/Real Estate Evaluation for the project. The proposed hotel provides a significant contribution to the local economy. The IMPLAN model was used to determine the economic benefits of the hotel construction and operations on the surrounding areas. The local economic impact cost of the hotel construction, including the direct project construction cost spent in the local economy, plus multiplier effects of the hotel construction will exceed \$27 million. Construction and related service employment, plus induced and indirect employment, will support 135 jobs over the construction period, as well as supporting an additional 67 non-construction jobs.

Permanent economic impacts of the project include estimated hotel revenues of \$3 million and just under \$5.9 million in ongoing local activity including direct, indirect and induced economic effects. Hotel guest spending was estimated to support 100 permanent jobs as well as over \$11 million in ongoing local activity including direct, indirect and induced economic effects. The direct effect of employment by hotel operations is estimated to create 25 permanent jobs, which will include hires from the neighborhood. The impact of hotel operations will primarily impact the hospitality field where the majority of the employment and labor income will be created. Hotel employees will spend their earning at a number of places including food and beverage sales, restaurants, shopping and local services. The hotel will create a precedent in the CRA and neighborhood, which will encourage expanded development in the CRA. A successful hotel operation will increase the confidence of other operators in the area and spur additional development.

In addition to the economic impact of the project and encouraging additional development, the project will help advance cultural tourism, by providing a hotel destination in the northwest area. The Developer has agreed to guarantee that 20% of the anticipated 25 new hotel jobs will be filled by residents of the CRA area and will provide job training where necessary, working the CRA and their community partners to help assure these community benefits occur. With approval of CRA funding, the project will commence in 2019 and be completed in 2020.

Tax Increment Revenue Analysis

The project is estimated to generate \$882,755 in CRA Tax increment revenue to the CRA over the next five years until the Northwest-Progresso-Flagler Height ("NPF") CRA area sunsets in 2025. This is based on the current taxable value of \$267,920 and the estimated

value of land and building once constructed of \$14,781,592 with a 2.5% increase in value each year and based on a millage rate of 11.4011 mills collected by the CRA in its trust fund.

The estimated total cost to the CRA, adding the cost of the purchase of the vacant lots from the City (\$190,000) and subtracting the tax increment revenue to the CRA generated by the project (\$827,029) and the income from the sale of the CRA property to the Developer (\$355,000), effectively reduces the net cost to the CRA to incentivize this project to \$2,007,971.

| | |
|---|--------------------|
| Proposed Incentive Amount | \$3,000,000 |
| CRA Cost to Purchase 713, 717 and 723 NW 3 rd Street Lots from City | \$190,000 |
| Revenue from Sale of CRA Property | (\$355,000) |
| Est. TIF to be collected by CRA From Project | <u>(\$827,029)</u> |
| Total Cost to CRA to Incentivize Project | \$2,007,971 |

| Property ID | 2019 Current Assessment |
|--|-------------------------|
| 504210120540 CRA Property | \$ 28,460 |
| 504210120520 CRA Property | \$ 56,910 |
| 504210120550 CRA Property | \$ 56,910 |
| 504210120560 Developer Property | \$ 56,920 |
| 504310120580 Developer Property | \$ 56,930 |
| 504210120590 Developer Property | \$ 40,250 |
| TOTAL Assessed Value | \$ 267,920 |
| | After Completion |
| Estimated Assessed Value After CO Minus Base Value | \$ 14,513,672 |
| Estimated Assessed Value Year 2 Minus Base Value | \$ 14,883,211 |
| Estimated Assessed Value Year 3 Minus Base Value | \$ 15,261,990 |
| Estimated Assessed Value Year 4 Minus Base Value | \$ 15,650,237 |
| Estimated Assessed Value Year 5 Minus Base Value | \$ 16,048,191 |
| | |
| Total Over 5 Years | \$ 76,357,301 |
| | |
| TIF To CRA Over 5 Years | \$ 827,029 |

Consistency with the NPF CRA Community Redevelopment Plan

The NPF CRA Community Redevelopment Plan is designed, in part to stimulate private development of areas planned for commercial development. The project is consistent with the NPF CRA Community Redevelopment Plan which provides for direct physical improvements to enhance the overall environment, improve the quality of life and attract sound business and commercial development that provide employment and job opportunities. The CRA shall dispose of property it acquires to private and public persons for redevelopment purposes and per the CRA Plan, the CRA will establish incentive programs to address redevelopment obstacles. In addition, it calls for investing in development projects that create job opportunities for area residents, promotes public private partnerships and investment in the redevelopment area.

Resource Impact

Funds for this project totaling \$3,000,000 will be spread over four years. The current impact to Fiscal Year ("FY") 2019 is \$500,000 and is available in the account listed below. The balance will be appropriated as follows: \$500,000 in year 2 (FY 2020), \$1,000,000 in year 3 (FY 2021) and \$1,000,000 in year 4 (FY 2022). The first payment will occur when the project receives its Certificate of Occupancy in FY 2020. The second payment of \$1,000,000 will be disbursed one year after the project receives its Certificate of Occupancy and third payment of \$1,000,000 will be disbursed two years after the project receives its Certificate of Occupancy. Future payments are subject to annual budget appropriations.

| Funds available as of April 29, 2019 | | | | | |
|--------------------------------------|-------------------------------|---|----------------------------------|-------------------------------------|-----------|
| ACCOUNT NUMBER | INDEX NAME (Program) | CHARACTER CODE/ SUBJECT NAME | AMENDED BUDGET (Character) | AVAILABLE BALANCE (Character) | AMOUNT |
| 119-CRA091904-4203 | Development Incentive FY19 | Other Operating/Operating Subsidies | \$4,100,000 | \$850,000 | \$500,000 |
| PURCHASE TOTAL ► | | | | | \$500,000 |

Strategic Connections

This item is a *Press Play Fort Lauderdale Strategic Plan 2019* initiative, included within the Neighborhood Enhancement Cylinder of Excellence, specifically advancing:

- Goal 5: Be a community of strong, beautiful and healthy neighborhoods
- Goal 7: Be a well positioned City within the global economic and tourism markets of the South Florida region
- Objective 2: Facilitate a responsive and proactive business climate

This item advances the *Fast Forward Fort Lauderdale 2035 Vision Plan: We Are Community and We are Prosperous*.

Attachments

Exhibit 1 - Location Map

Exhibit 2 - Broward County Property Appraiser Information

Exhibit 3 - CRA Advisory Board Minutes - February 14, 2017

Exhibit 4 - Developers Proposal/Application for Funding/Proposed Plans/Illustrations

Exhibit 5 - CRA Advisory Board Minutes – February 21, 2019

Exhibit 6 - Resolution/Letter of Intent and Commercial Contract with Addendum

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Department Director: Clarence Woods, NPF CRA Manager