Memo from: Bob Sonnenblick

Memo to: Nevin Zimmerman and Owen Beitsch

Date February 8, 2018

Topic: Project feasibility study for the Panama City Marina & Civic Center Re-Development

The purpose of this report is to examine the over-all project feasibility of the proposed project. To accomplish this task, we must first analyze the feasibility/numbers of each individual component of the proposed development, and then aggregate those results into a financial review of the whole project.

The basic path that we are following is to take the newly-generated construction estimates from GAC Contractors on each component of the project, and compare them to the income projections for that same project component. Please note that GAC is a "local" Panama City general contractor, not a California general contractor, so these numbers are not only "recent" cost projections, they are "local" cost projections as well.

The one component of the project that is not budgeted by GAC is the new marina slips. This work is budgeted by Bellingham Marina Corp, who is The Nation's top marina builder. GAC does not do this type of construction.

GAC's hard-cost budget for the entire project is approximately $250 Million. Please note that The City's previous estimate for this was $200 Million. See Nevin's 2-10-16 memo. The importance of this increase is the bump in ad-valorum real estate taxes using 8.6 mils that will now come to the City upon this project's completion. This should now be close to $2.1 Million per year, based on hard costs-only. However, if the tax is based upon Property VALUE, we estimate this to be $350 Million upon completion and stabilization.

Ad Valorem Tax Numbers:
$350 Million x .0086 (mils) = $ 3,010,000 per year

Let's analyze each individual component of the project:

1. Hotel #1 will be a Marriott SpringHill Suites of approximately 150 rooms and suites. Representatives from Marriott Corp have been to the site twice, and have had numerous meetings with the developer. The GAC hard cost construction number is $22 Million. Add on a $5 Million cost for FF & E (interiors) to get to $27 Million. Then add on $8 Million for soft costs like construction loan interest, financing fees, deficits after opening, etc; bringing its total cost to $35 Million, not including land.

   Based on a $170 ADR and a 75% stabilized occupancy in the Year 2023, this hotel should have an annual rooms gross of approximately $7 Million. Using an

industry-standard profit margin of 40% on limited service extended-stay new hotels, this should generate a net income of $2.8 Million.
$2.8 Million of stabilized NOI divided by a $35 Million total cost = an 8% return.

Conclusion: this individual component is financially feasible based upon the assumptions shown in the analysis. An 8% return "works" in today's finance world.

Numbers: 150 rooms x 365 nights x $170 average rate (in five years) x 75% occupancy = $7 Million stabilized rooms gross. This is a limited service hotel, so no F&B is projected. A 1% Merchant Tax on this would be $70,000 per year in the Year 3 (stabilized) year. We project a 3% annual bump in this tax receipt.

The Transient Tax is 5 % of gross room rentals. This would be $7 Million x .05 = $ 350,000 per year, also with a projected 3% annual increases .

2. Next door to The Marriott will be a similar sized Hilton-branded hotel. This is their Homewood Suites brand. According to representatives from Hilton Corp, it is perfect for this type of unban/waterfront location. Its costs and its income projections should be very close to the SpringHill numbers next door. We are projecting the same $2.8 Million NOI and the same $35 Million component cost.

   Here is the one feasibility issue for this second hotel: Is the addition of 150 more hotel keys to this project going to "flood" the Downtown hotel market? In talking to both Marriott & Hilton, their response was "No". In fact, they both answered that the second hotel would HELP the overall Downtown hotel market and the project. It is important to note that this issue was extensively discussed.

   Numbers: 150 rooms x 365 nights x $170 average rate (in five years/ 2023) x 75% occupancy = $7 Million stabilized rooms gross. This is a limited service hotel, so no F&B is projected. A 1% Merchant Tax on this would be $70,000 per year in the Year 3 (stabilized) year. We project a 3% annual bump in this tax receipt.

   The Transient Tax is 5% of gross room rentals. This would be $7 Million x .05 = $ 350,000 per year, also with a projected 3% annual increases.

   Conclusion: Much like #1 (above), the numbers on this component make financial sense, and with the construction of a second hotel (with an additional strong reservation system like Hilton Corp's) it will add many more new visitors to Downtown. This, in turn, fuels the new retail and restaurant components of the project. It also will enable larger groups to book events at the new conference & meeting space within the newly refurbished Civic Center. Previously, the lack of quality hotel rooms available in the Downtown area was the major reason for the limited tourism that occurs there.

3. The re-do of the marina slips. Everyone involved agrees that the existing marina is both out-dated and an eye-sore. Bellingham has designed a beautiful new 236 slip marina which better fits today's boater market and will run efficiently & profitably for the future. It also contains several new "transient" (short term rental) marina slips to attract boaters from neighboring communities to come to The Project for dinner and/or weekends. This type of customer or slip does not exist today at the current marina (unfortunately).

   In terms of numbers, the Bellingham hard cost budget is $14 Million. We add on $5 Million for soft costs to get to a total component cost of $19 Million. With approximately 9,000 linear feet of new slip space (using a 40-foot average slip), our marina slip gross should be approximately $2.0 Million per year. Our NOI off of that should be $1.4 Million. The marina improvements appear very reasonable in terms of feasibility. The only issue here is that the number of lenders in todays construction lending marketplace who make construction loans on marinas is fairly limited.

   Numbers: 9,000 linear sq ft x $15 x 12 months = $ 1,620,000 gross slip rentals
   Transient slip rentals (per our operator) = 380,000 gross slip rentals
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   Total Slip Rental $2,000,000 gross per year

   A 1% Merchant Tax on this gross would be approximately $20,000 per year.

   Conclusion: In order for the project to work as a "whole concept", all parties involved agree that the existing (decaying) marina slips must be re-done and up-graded. It's current mix and tenancy are wrong, and are not suited for today's boating market. The new design and high quality of the new slips will make this segment of the project financially feasible for the first time in many decades.

4. Rental Apartments: We have 150 waterfront rental apartments designed within the project. This component is by far the hardest to judge in terms of feasibility. This is because the rents in the surrounding PC metro area for apartments are VERY LOW. The comps for this use are terrible. Existing rentals in the area range anywhere from $1.30 per sq ft per month up to $1.60 per sq ft per month. For new construction to "pencil-out", we need rents that are close to $1.90 /sq ft per month. Possibly, rents are so low in the market because there is simply no supply of first-class waterfront rentals that possess the kind of amenities that this project will have. But it will be a task to convince construction lenders on the ability to achieve this $1.90 rental rate. We are envisioning smaller units, possibly 900 sq ft for 1-bedroom units, 1100 to 1200 sq ft for 2-bedroom apartments and 1500 sq ft for a very limited number of 3-bedroom units. This is what the young "millenials" are looking for. Leasing these on-site apartments will be key to the project's success as they will create foot-traffic that the retail space and the restaurants need in order to be successful.

The GAC figure for the apartment hard cost is approximately $50 Million. If we can show that the $1.90 rents are viable in 2022, and we can do a HUD-type financing similar to what Mr Sonnenblick is doing on a proposed rental apartment project outside of Orlando, then this can work. But in conclusion, these types of quality apartments have never been built before in PC, so no one knows what rents can really be obtained here.

Numbers:
150 apartments with a mix of 50% one-bedrooms, 47% 2-bedrooms and 3% 3-bedroom units

One bedroom--- 75 x 900 sq ft x $1.90/mo rent x 12 months	= $ 1,539,000
Two bedroom—70 x 1150 sq ft x $1.90/mo x 12 months	= $ 1,835,000
Three bedroom – 5 x 1500 sq ft x $1.90/mo x 12 months	= $ 171,000

Apartment gross rentals would then be $3,500,000 per year, starting in 2022. No 1% Merchant Tax will be collected on these rentals from the tenants. Less $ 6,000 per unit of expenses, leads to an NOI of $ 2,600,000 per year .

Conclusion: No one can predict the future. No study or report can guaranty the accuracy of rental rate projections. This is a "best-guess" as to what rental rate these apartments can lease-up at in 2022. There are no "comps" in the PC marketplace for this type of rental unit & amenities. But these same rents have been obtained at other (new) Florida-based waterfront rental apartment projects. The feasibility for the lease-up of these units is strong, but the rental-rate feasibility is un-tested to date in this marketplace.

5. The Civic Center Auditorium. This asset has been a money-loser for The City for some time now. Annual deficits have approximated $400,000 to $500,000 per year. Mr Sonnenblick has brought in the nation's leading owner/operator of these types of facilities to re-invigorate and redesign this building, AEG Entertainment. The GAC estimated hard cost to do this work is $20 Million. This renovation also includes the addition of valuable, new meeting & conference space, as well as a new, large rooftop event-space that is unlike any place elsewhere in this market. To make this component financially feasible (as well as wipe out the existing deficits), there must be an increase in NOI by at least $1.5 Million per year upon completion of the work. That figure (according to AEG) is impossible. But the re-do of this building is integral to the success of the entire project, so it must be done, regardless. We believe the re-do of this building is linked to the success of the ENTIRE DOWNTOWN of Panama City. The good news is that now the large annual cash-flow deficit will be covered by the private sector, not by The City. But there is no one who would say that this building (on its own) will be financially feasible.

Numbers (a): AEG projects a gross sales figure of $ 3,000,000 per year after completion of construction/renovation etc. A 1% Merchant Tax on this creates $ 30,000 per year. This figure can be adjusted upwards by 3% per year thereafter.

Numbers (b): By privatizing the operation of this building, the City will save approximately $450,000 per year in short-fall deficits that it has been previously funding in order to cover operating losses. The City will also not have to spend $10 Million of its own cash that is needed to bring this facility up to current standards. The developer has budgeted this funding instead.

Numbers (c): A combination of the new conference space/meeting space/event roof and event (outdoor) lawn should generate a conservative gross volume of $ 5 Million. A 1% Merchant Tax on this would be $ 50,000 per year.

Conclusion: The nation's largest operator of these arena/concert hall buildings is very convinced of the feasibility of this component of the project. This is from meetings as recent as 1 week ago. They, however, condition this excitement upon the full, planned, renovation, upgrade, and expansion of The Building. They feel the current building and its systems have fallen into dis-repair. They also feel that the other project components must happen at the same time (new hotels, new restaurants, etc) for this auditorium to reach its full potential. In terms of financial feasibility, this building must be looked at as a "financial loss-leader" that anchors the entire project.

6. Retail: The new master plan shows approximately 150,000 sq ft of new waterfront-facing retail shops. This is the exact kind of feature that has turned around numerous other "under-performing" Downtown areas. It will be surrounded by a waterfront pedestrian Boardwalk which circles the entire property, and will be enhanced by lush landscaping and numerous seating areas & benches for the public to use. The GAC hard cost for this is $22 Million. When you add in Tenant Improvements and other soft costs, this component total cost should be approximately $30 Million. Our retail leasing expert, Madison Marquette LLC (who has leased several similar projects) estimates that we should lease-up at an average of at least $20 NNN. This rent makes this portion of the project financially feasible. Certain types of tenant mix for this space could generate sales volumes of up to $400 per sq ft ($60 Million) per year.

   Numbers: This 150,000 sq ft retail component's projected sales volume (per our two retail consultants) should be $60 Million, with the right type of tenant mix. A 1% Merchant Tax on this = $ 600,000 per year.

   Conclusion: At these (reasonable) rents, the numbers on this component make this segment work well. All of the retail experts who visited the site over the last year were also in unanimous agreement that this retail (and the entire project as a whole) would INCREASE foot traffic and sales volumes on nearby Harrison Avenue. This was a specific issue asked to all of them. However, they also felt that the project will also increase car traffic on Harrison Avenue. Because increased traffic is a legitimate issue for many locals, we encourage The City to look closely at this potential problem in the near future.

7. Restaurants: The current master plan envisions up to 5-6 free-standing restaurants on the waterfront. Each would have its own huge outdoor patio, facing directly on the bay & the great PC waterfront sunsets. Our numerous industry discussions have lead us to believe that this collection of restaurants can and will turn Downtown PC into a major regional draw for restaurant dining. The restaurants like to co-locate together, in order to give their diners are varied set of menus to choose from. This group will also be looked at by the customers as a major "anchor" for the project. Financially, the biggest issue with this is the large tenant improvement allowances required by the restauranteurs in order to entice them to pre-lease in a project. These can easily be in excess of $100 per sq ft from the landlord. These restaurants have a hard cost estimate of $7 Million from GAC. When you include soft costs & TI's, the total cost is $12 Million.

   Conclusion: Certain "project anchors" may have thinner profit margins for the landlord/owner, but they are essential for overall project success and feasibility. This segment is one of those.

   Numbers: Per Madison Marquette (our restaurant leasing consultant) these restaurants should average $20 NNN rents per sq ft. On 30,000 sq ft, this would be $600,000 per year. In terms of sales volumes, they estimate this at $15 Million per year. A 1% annual Merchant Tax on this volume would generate $150,000 per year to The City.

   Conclusion: Certain "project anchors" may have thinner profit margins for the landlord/owner, but they are essential for overall project success and feasibility. A grouping of good waterfront restaurants at this location will make this project a "40-mile draw" for local residents and tourists alike.

8. Parking : 1,300 parking spaces…Economically, these are required for project feasibility. No leasing can occur without them. GAC has budgeted these spaces at $28 Million of hard cost. That should equate to approximately $30 Million total cost. The City's initial response is to have these spaces free of charge to the public. Clearly, that concept does not help the project pro-forma cash flow. However, the more that is charged for parking, the less attractive the project becomes to the shopper. It appears that there may be PACE bonds available to The City to cover the cost of these garage spaces, at approx. 5% fixed interest-rate for 30 years.

   Numbers: With no charging for parking, there is no Merchant Tax projected from the parking structures. However, the ground floor retail shops within the garages should generate approximately $2 Million of annual sales. A 1% Merchant Tax on this should = $20,000 per year.

Conclusion: With free parking for all shoppers & customers, it is impossible to make this individual component even remotely close to financially feasible.

9. Movie Theatres & Entertainment: GAC has this 60,000 sq ft budgeted at $16 Million of hard cost. With soft costs added, this will become $22 Million total cost. We believe that this entertainment component will be essential to the project. However, rents for this type of use are not high, maybe $12 NNN.
   Numbers: Ticket sales/F&B sales are estimated conservatively at $3 Million.
   A 1% Merchant Tax on this would be $30,000 per year.

   Conclusion: While the numbers on this component are difficult, a movie theater multi-plex is still a great amenity to draw crowds to a project.

10. Green/Open space: There are 590,000 sq ft of open space & green areas. That is approximately 13 acres of un-built-upon land. This includes Plazas, walkways, bike-paths, rooftop green areas, our Great Lawn area, fountains, the closing of Government Street from cars into Pedestrian-only, The West Event Lawn, The Outdoor theatre, etc. This will cost $10 Million. There is no cash return associated with these wonderful project amenities, but the developer very much wishes to include all of them in the project in spite of their lack of financial feasibility. See attached master site plan.
    Numbers: No Merchant Tax on this segment.

    Conclusion: Totally financially un-feasible, but loved by the developer regardless.

11. The Lighthouse: $2.5 Million. The Developer very much supports the idea of this lighthouse and the War Memorial (flags) plaza being the centerpiece/iconic structure of this entire project. But we are truly saddened by the recent demise of Mr. Norm Gulkis. He was a wonderful guy. Unfortunately, some of the people involved in the Lighthouse project who have succeeded him are not very professional or business-like. We do not want anything to do with them (PS). With them involved in the Lighthouse, we no longer wish any involvement with it at all.

    Conclusion: It has no financial feasibility to the Developer at all. Maybe a public/charity 501 C-3 can be set up for donations to fund this wonderful structure, but only under different supervision.

12. Infrastructure: We are waiting for input from the City Manager on the final costs to get these individual sites to become "pad-ready" development sites. Also, there will be Central Plant and marina walls costs. These could all total $25 Million per GAC input.
    Numbers: No Merchant Tax for this component.

The ending conclusion to all of this (when combined together) is that the developer is strongly convinced of the overall financial feasibility of the project as a whole. Unfortunately, there are several individual components that do not have good financial cash flows. But those are the portions of the project that are very much needed as “draws” in order to make the rest of this project happen, and be sucessful.

The total project will cost approximately $300 Million. The financing structures that have been already discussed by city staff, when combined with the private funding from the developer and his bankers, should be enough to cover this full amount. It is the developer’s responsibility to raise this money (in full), prior to the start of construction. The developer is also required to post surety bonds for this amount, which guarantee the project’s on-time and on-budget completion.

The City’s own analysis of new tax collection and new job creation and new economic stimulus to Panama City as a result of this project will lead to the final answers on feasibility. But it is hard to believe that those conclusions would be worse than just leaving this superb waterfront site lying “fallow” and empty and under-used as it currently is. It will become even more empty once the City Hall usage moves inland. The Civic Center Auditorium building will only decline further if no new money is spent on its needed renovations. Its deficits will only increase for the City. The existing marina slips will only deteriorate further without new money to upgrade them.

We hope that this summary provides the facts and numbers for City staff and Commissioners to better examine the economic impact of this project. Mr Sonnenblick is planning to visit Panama City on Friday March 2nd, and he would be happy to meet with the mayor & commissioners & staff then to go over any questions re this analysis.

City Benefits summarized:

1. Transient Tax- 2 hotels- $700,000 per year, increasing annually by the CPI

2. Merchant Tax @ 1%: $990,000* per year, increasing annually by the CPI

3. Savings: $ 450,000 per year by having the private sector absorb the current operating deficits of The Civic Center Auditorium.

4. Projected Ad valorem taxes of $ 3,010,000 per year.

- = Note #1. No income is projected from Parking Garages. If a $2 daily parking fee is charged to customers, $100,000 in Merchant Tax could then be collected annually.