

June 16, 2015



Ms. Diane Colonna, Executive Director  
Margate Community Redevelopment Agency (MCRA)  
5790 Margate Boulevard, FL 33063-3699

**Re: Review of City Center Respondent Proposals**

Dear Ms. Colonna:

Redevelopment Management Associates (RMA) is engaged to provide summary analysis of the City Center RFP respondent proposals including company financials, proposed development pro forma statements, and to also advise the CRA on the level of risk, project financing, the level of contribution from the CRA necessary to meet any gaps in financing, and to identify any concerns or red flags. RMA has reviewed the responses to the Request for Qualifications and Request for Proposals, and submits the following summary for the proposals by New Urban Communities and AHS Development Group. Additionally, a summary of the development concepts, terms, and development and closing schedules is attached.

The Margate CRA has received two very positive proposals which validate the hard work that has been invested in assembling this opportunity and developing a vision for Margate's City Center and downtown. The CRA Board (City Commission), City and CRA staff, and your stakeholders deserve credit for providing an opportunity that has attracted two qualified, successful developers.

We look forward to continuing to assist the Margate CRA to help make the City Center project a reality.

Sincerely,

Kevin S. Crowder, CEcD  
Director of Economic Development

## Summary of City Center Respondent Proposals

### New Urban Communities

New Urban Communities is based in Delray Beach and are developers of urban infill and redevelopment projects. They have completed ten projects and have another three currently under construction. The projects range from less than one acre to 145 acres, and their projects include residential, mixed use and commercial uses.

#### Company Financials

According to New Urban Communities, they have secured more than \$150 million in acquisition, development and construction financing. They have letters of interest for the Margate City Center project from Regions Bank and BBX Capital.

Prior projects have primarily utilized combinations of internal and outside partner equity, and institutional debt financing from entities including Wachovia Bank, Ocean Bank, Regions Bank, and SunTrust. Some projects have also included partnerships with not-for-profits and CRAs.

#### Proforma Statements

The proformas for the three phases of the project are generally consistent with market conditions. Residential construction costs are projected to be between \$90-95 per square foot, with commercial construction costs of \$115 per square foot.

Projected residential rents are slightly higher than current market rates, but appear conservative considering the potential of the project to increase values in the area. Projected commercial rents are also higher than current market rents, but reflect optimism about the project's ability to position the commercial space in the market.

The proformas rely on stabilized residential vacancy allowance of 6%, with operating costs between 37-40% by year 7, which is consistent with this type of project.

The proformas for the three phases project Year 7 Cash on Cash Return of between 6.2 and 7.9%, with Year 7 Return on Equity between 11.6 and 13.4%, ranges which are both consistent with this type of product in the marketplace.

#### Project Financing

Year 3 debt coverage ratios for the three phases are between 1.11 and 1.22, and are projected to grow to between 1.43 and 1.67 by year 7. The proformas assume permanent financing rates of 5.0% with 70% Loan to Value. Equity investment is identified as \$18.8 million for phase 1, \$15.4 million for phase 2, and \$12.7 million for phase 3, for a total equity investment of \$46.9 million. Debt financing for the project is identified at \$100.4 million.

#### Gap Contribution

New Urban Communities proposes to pay a total of \$10,041,750 to purchase the site. This represents a 32.7% (\$4,871,360) discount from the property appraiser value of \$14,913,110, and a \$66.5% (\$19,958,250) discount from the recent appraised value of \$30 million.

Additional city/CRA costs include the Triangle Park, the Bandshell, Canal Walk, Boat Launch, Civic Building and Right of Way Improvements. The Developers estimated these costs between \$2-3 million.

## Summary of City Center Respondent Proposals

### Areas for additional review

- Residential construction costs appear to be at the low end of the range, especially for quality multi-family development that is place-making and can attract millennials and other target markets;
- Debt coverage ratios are low in the early years, especially if construction costs rise or projected rents cannot be achieved;
- Estimates provided by the developer for the public-sector costs for the public facility components are low.

### **AHS Development Group**

Miami-based AHS Development Group was founded in 2012, and are developers of market-rate housing products. They have completed one development of 216 units in Lake Worth, and are currently constructing 360 rental units in two projects. While the company is young, its leadership has significant experience with over \$450 million in commercial, industrial and residential development projects. AHS also owns its own internal construction group.

### Company Financials

AHS is funded by a private real estate equity group in Brazil. AHS has a portfolio of seven development sites of more than 40 acres and \$11 million in acquisition costs, as well as a development pipeline of more than 1,200 multi-family units.

### Proforma Statements

The proformas for the three phases of the project are consistent with market conditions. Construction costs are projected to be between \$110-120 per square foot, with the phase 4 hotel construction costs estimated at \$150 per square foot.

Projected residential rents are higher than current market rates, and reflect optimism about the potential of the project to increase values in the area. Projected commercial rents are slightly lower than current market rents, and the phase 4 projected hotel income appears very low.

The proformas rely on stabilized residential vacancy allowance of 5%, with operating costs between 38-54% by year 7, which is consistent with the project's product types.

The proformas for the three phases project Year 7 Cash on Cash Return of between 7.5 and 7.7%, with Year 7 Return on Equity between 12.8 and 14.5%, ranges which are both consistent with this type of product in the marketplace.

### Project Financing

Year 4 debt coverage ratios for the three phases are between 1.63 and 1.74, and are projected to grow to between 1.75 and 1.89 by year 7. The proformas assume permanent financing rates of 4.5% with 75% Loan to Value. Equity investment is estimated by RMA as approximately \$32.6 million, with debt financing for the project approximately \$98.2 million.

## Summary of City Center Respondent Proposals

### Gap Contribution

AHS Development Group proposes to pay a total of \$10,900,000 to purchase the site. This represents a 26.9% (\$4,013,110) discount from the property appraiser value of \$14,913,110, and a \$63.6% (\$19,100,000) discount from the recent appraised value of \$30 million.

Additional city/CRA costs include the Parking Garage, Community Center, Concert Stage and Boardwalk. The developers estimated these costs to be approximately \$6 million.

### Areas for additional review

- Residential rents appear high even for a project that introduces new product and consumer markets, and may be difficult to achieve, especially in the initial years;
- Commercial rents and hotel income projections appear overly conservative;
- Estimates provided by the developer for the public-sector costs for the public facility components are low.

## Summary of City Center Proposals

### New Urban Communities

#### Phase 1: (Parcel A), 736,960 sf

Commercial- 17,140 sf

398 Residential Units:

- 123 1-bedroom units
- 226 2-bedroom units
- 49 3-bedroom units

Civic and Community Facilities

- 7,000 sq. ft town square at the intersection of SR7 and Margate blvd.
- Open Canal Walk 23,780 sq. ft.
- 40,000 sq. ft. "triangle" Park
- 10,540 sq. ft. Pool and Patio for residents
- 4,000 sq. ft. Clubhouse for residents

#### Phase 2: (Parcels B, C, D, E) 443,301 SF, 10.17 acres

Commercial- 39,900 sf

312 Residential units

- 144 1-bedroom units
- 144 2-bedroom units
- 24 3- bedroom units

Civic and Community Facilities:

- 8,800 sf triangular shaped green on SR7/US441
- 4,000 sf central area with pool and cabana

#### Phase 3 (Parcels F, G, H, I, J, K) 408,118 sf, 9.37 acres.

Commercial- 39,310 sf

246 Residential units:

- 126 1-bedroom units
- 108 2-bedroom units
- 12 3-bedroom units

Civic and Community Facilities

- 30,000 sf park with band shell/performance stage and 3500 sf civic building
- 127,770 sf area for pool and cabana

### AHS Development Group

#### Phase 1 (Parcel A)

Retail – 14,000 sf

282 Residential Units

- 242 Apartments
- 40 Townhomes

Civic and Community Facilities

- Community Center – 15,000 sf
- 198 space parking structure
- Public Park – 60,000 sf
- Boardwalk – 30,000 sf
- Concert stage – 3,000 sf

#### Phase 2 (Parcels B, C, D)

Retail – 21,700 sf

182 Residential Units

- 134 Apartments
- 48 Townhomes

#### Phase 3 (Parcels F, G, H, I)

Retail – 48,600 sf

125 Residential Units (apartments)

#### Phase 4 (Parcels J, K)

Retail – 8,000 sf

Hotel – 120 Keys

#### Phase 5 (Parcel E)

Retail – 8,000 sf

Residential – 100 Assisted Living Apartments

## Summary of City Center Proposals

### New Urban Communities

Total of All Phases: 1,588,372 sf 36.46 acres

96,350 square feet of commercial uses

956 Residential units:

- 393 1-bedroom units
- 478 2-bedroom units
- 85 3-bedroom units

Civic and Community Facilities

- 85,800 sf of public squares, greens and greens with a band shell/performance stage and civic building, a canal walk and a signature town square.
- 3 private recreational areas with clubhouses and cabanas.

### AHS Development Group

Total of All Phases

Retail- 100,000 Square feet

- 61,700 SF- Food and Beverage
- 14,000 SF- Fitness Center

Multi-family Residential- 589

- 242 Garden-style apartments (1 and 2 bedroom)
- 88 Townhome's (3 bedroom)
- 261 Apartments

Independent Senior Living- 100 rental apartments

Public Amenities

- 60,000 square foot park
- 900 ft. long waterfront promenade
- 15,000 square foot community center

Hotel- 120 rooms.

Parking

- Residential- 791 spaces
- Commercial- 283 spaces
- Public Space- 198 spaces
- Hotel- 120 spaces
- Assisted Living- 130 spaces

## Summary of City Center Proposals

### New Urban Communities

#### Developer Terms

Event	Parcel(s)	Land Area (sf)	Purchase Price
Phase 1 Takedown	A	736,960	\$4,065,700
Phase 2 Takedown	B,C,D,E	443,301	\$3,319,500
Phase 3 Takedown	F,G,H,I,J,K	408,118	\$2,656,550
<b>Total</b>			<b>\$10,041,750</b>

- The development will generate \$12,385,166 in additional tax increment over the next ten years alone. This tax increment results in additional bonding capacity of \$35,377,003, assuming a 3.5% coupon on 20 year bonds.

#### Projected Development Schedule

Activity	Duration	Projected Start	Projected Completion
DA Negotiation and Approval	4 months	June 2015	October 2015
Phase 1 Design, Entitlements and Permitting	12 months	October 2015	October 2016
Phase 1 Closing	1 month	November 2016	November 2016
Phase 1 Development and Construction	24 months	December 2016	December 2018
Phase 1 Final Completion/Occupancy	1 month	January 2019	January 2019
Phase 2 Design Entitlements, and Permitting	12 months	January 2018	January 2019
Phase 2 Closing	1 month	February 2019	February 2019
Phase 2 Development and Construction	18 months	March 2019	September 2020
Phase 2 Final Completion/Occupancy	1 month	October 2020	October 2020
Phase 3 Design and Entitlements Permitting	12 months	October 2019	October 2020
Phase 3 Closing	1 month	November 2020	November 2020
Phase 3 Development and Construction	18 months	December 2020	May 2022
Phase 3 Final Completion/Occupancy	1 month	June 2022	June 2022

### AHS Development Group

#### Developer Terms

##### Purchase Price

- Phase 1- Parcel A: \$3,400,000
- Phase 2- Parcels B, C, D: \$3,000,000
- Phase 3- Parcels F, G, H, I: \$2,000,000
- Phase 4- Parcels J, K: \$1,500,000
- Phase 5- Parcel E: \$1,000,000
  - Total- \$10,900,000**

##### Economic Impact and Project Legacy

- Total economic impact over 50 years: \$1.6 billion. (NPV at 3% discount rate).
- Total direct jobs created: 1,261
- Total Estimated Land Payment \$11.25 million.
- Total Permit and Impact fees \$6.8 million
- Total MCRA Contingency fee \$1.37 million

#### Projected Development Schedule

Activity	Duration	Projected Start	Projected Completion
Phase 1- <i>Residential Design</i>	2 quarters	1 <sup>st</sup> quarter 2016	2 <sup>nd</sup> quarter 2016
Phase 1- <i>Residential Construction</i>	6 quarters	3 <sup>rd</sup> quarter 2016	4 <sup>th</sup> quarter 2017
Phase 1- <i>Public Space/Retail/Boardwalk Construction</i>	8 quarters	3 <sup>rd</sup> quarter 2016	2 <sup>nd</sup> quarter 2018
Phase 2- <i>Mix Use &amp; Townhouses Permitting</i>	4 quarters	1 <sup>st</sup> quarter 2017	4 <sup>th</sup> quarter 2017
Phase 2- <i>Mix Use &amp; Townhouse Construction</i>	8 quarters	1 <sup>st</sup> quarter 2018	4 <sup>th</sup> quarter 2019
Phase 3- <i>Mix Use Permitting</i>	4 quarters	4 <sup>th</sup> quarter 2017	3 <sup>rd</sup> quarter 2018
Phase 3- <i>Mix Use Construction</i>	7 quarters	4 <sup>th</sup> quarter 2018	3 <sup>rd</sup> quarter 2020
Phase 4- <i>Hotel Permitting</i>	4 quarters	4 <sup>th</sup> quarter 2018	4 <sup>th</sup> quarter 2019
Phase 4- <i>Hotel Construction</i>	10 quarters	4 <sup>th</sup> quarter 2019	2 <sup>nd</sup> quarter 2022
Phase 5/1- <i>Independent Living Building 1 Permitting</i>	4 quarters	1 <sup>st</sup> quarter 2021	4 <sup>th</sup> quarter 2021
Phase 5/2- <i>Independent Living Building 2 Construction</i>	4 quarters	1 <sup>st</sup> quarter 2022	1 <sup>st</sup> quarter 2023

## Summary of City Center Proposals

### Closing Schedule

Parcel A:	November 2016
Parcels B, C, D & E:	February 2019
Parcels F, G, H, I, J, & K:	November 2020

### Closing Schedule

Parcel A:	01/01/2016
Parcels B, C & D:	01/01/2017
Parcels F, G, H, & I:	10/01/2018
Parcels J & K:	07/01/2018
Parcel E:	01/01/2021