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**City of Riviera Beach, Florida**

**Marina District Redevelopment Project**

**Phase 1 Review**

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PFM Financial  
Advisors LLC

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August 18, 2020

Mr. Jonathan Evans, City Manager  
City of Riviera Beach  
600 Blue Heron Boulevard  
Riviera Beach, Florida 33404

RE: Marina District Redevelopment Project – Phase 1 Review



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Dear Mr. Evans:

PFM has completed its Phase 1 review of the City's Marina District Redevelopment Project. The Phase 1 scope of work included the following elements: (1) market feasibility of the development plan; (2) financial feasibility of the development plan; (3) infrastructure investments needed to support the development plan articulated by public and private responsibilities; (4) experience and ability of the developer to perform the project; and (5) financial capacity of the developer to prosecute the project. Our findings are summarized below and then discussed in more detail in the body of this report.

**MARKET FEASIBILITY OF THE DEVELOPMENT PLAN.** The development plan ("Plan") includes: (1) 130 room hotel; (2) 220,000 square feet of retail/restaurant space; (3) two parking garages sized for 2,000 spaces, along with 80 surface parking spaces; (4) attraction at Bicentennial Park; and (4) 320 rental apartment units. PFM concludes that this plan is not feasible. There is insufficient financial support for the parking garage needed for the Plan. The retail/restaurant component is too large for the marketplace. The attraction component is not sustainable. The residential component is undersized.

**FINANCIAL FEASIBILITY.** The Plan is not financially feasible. The \$47,400,000 parking garage cannot be supported by the Plan. The Plan lacks enough market support to be absorbed over a reasonable time horizon at profitable pricing.

**INFRASTRUCTURE INVESTMENT.** The Plan envisions the City committing over \$50,000,000 to the Plan. Most of this is to essentially guarantee the financing for the parking garage. The private commitment to infrastructure is less than \$1,000,000.

**EXPERIENCE OF DEVELOPMENT TEAM.** The Development team of ADP-Tezral (“ADP”) has no demonstrated ability or experience to undertake the Plan. The Plan includes multiple real estate products and complex management requirements.

**FINANCIAL CAPACITY OF THE DEVELOPMENT TEAM.** ADP lacks the financial capacity to undertake the Plan. The financial plan provided by the development team includes virtually no equity investment. Their total capital commitment appears to be less than \$1,000,000 compared to a total project cost in excess of \$100,000,000. The Plan relies upon: (a) the City to fund \$50,000,000 of project costs and (b) third party commitments for the balance of the project costs, primarily from Key Bank supported by New Market Tax Credits.

**RECOMMENDATIONS.** PFM recommends the following options:

Option 1: Request ADP to revise their proposal to include the following: (a) revise the Plan to reflect current market realities; (b) obtain sufficient equity capital to support the development program; and (c) fund the parking garage without City support. Request that this resubmittal be completed in no less than 90-days.

Option 2: Reject the proposal from ADP and delay the redevelopment project for 6 months to allow for improved market conditions.

Sincerely,

Hank Fishkind, Ph.D., Director  
PFM Financial Advisors, LLC

## Marina District Redevelopment Project – Phase 1 Review

### (1) Introduction

The City of Riviera Beach commissioned PFM to conduct a review and analysis of the proposal by ADP for Phase 2 of the City's Marina District Redevelopment Project.<sup>1</sup> The proposal was submitted July 22, 2019 and supplemented on May 6 and 8 of 2020.

Here we report on results from our Phase 1 scope of work that includes the following elements: (1) market feasibility of the development plan; (2) financial feasibility of the development plan; (3) infrastructure investments needed to support the development plan articulated by public and private responsibilities; (4) experience and ability of the developer to perform the project; and (5) financial capacity of the developer to prosecute the project.

### (2) Market feasibility of the development plan

The development plan ("Plan") includes four major elements: (1) 130 room hotel; (2) 220,000 square feet of retail/restaurant space; (3) two parking garages sized for 2,000 spaces, along with 80 surface parking spaces; (4) attraction at Bicentennial Park; and (4) 320 rental apartment units. Table 1 summarizes the Plan.

As shown in Table 1, the restaurant/retail component is planned for a total of 81,467 square feet of restaurant-type space. A proposed 40,000 square foot food hall and public market dominates the plan. Food halls have become very popular over the last decade. Typically, the halls include a number of artisan and local food stalls with a central core area for dining. Some halls consist entirely of sit-down restaurants while others include a mix of food and craft offerings.

Table 2 summarizes PFM's review of some of the more successful food halls across the U.S. These Food halls range in size from approximately 7,000 square feet to as much as 32,000 square feet. The average size hall is about 20,000 square feet. The proposed hall at 40,000 square feet would be one of the largest in the U.S. Most of the successful halls are in highly urbanized areas, not in smaller cities like Riviera Beach.

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<sup>1</sup> ADP/Tezral Joint Development Proposal, July 22,2019.

**Table 1. Summary of Development Plan**

<i>Category</i>	<i>Volume</i>
<i>Event Center Restaurant</i>	6,902
<i>Restaurant Row #1</i>	8,565
<i>Restaurant Row #2</i>	12,000
<i>Restaurant Row #3</i>	14,000
<i>Food Hall</i>	40,000
	=====
<i>Total Restaurant</i>	81,467
<i>Retail Marketplace</i>	40,000
<i>Retail Anchor</i>	45,000
<i>Residential Retail #1</i>	50,000
<i>Residential Retail #2</i>	18,000
	=====
<i>Total Retail</i>	153,000
<i>Hotel (rooms)</i>	130
<i>Rental Apartments</i>	320
<i>Parking Garage #1 (spaces)</i>	1,000
<i>Parking Garage #2 (spaces)</i>	1,000
<i>Hotel surface parking (spaces)</i>	80
	=====
<i>Total Parking Spaces</i>	2,080

Source: Revised Joint Development Plan of July 22, 2019, Page 9

An appropriately sized food hall is supportable in in the Riviera Beach marketplace. However, 40,000 square feet of food hall space all at once is likely to fail. A phased development plan for the hall starting with a more modest 5,000 to 7,000 square foot space can be supported in the market.

**Table 2. Selected Food Halls in the U.S.**

<i>Food Hall</i>	<i>Square Feet</i>
<i>Penn Station NYC</i>	8,000
<i>The Plaza Food Hall NYC</i>	32,000
<i>Gotham West Market NYC</i>	14,400
<i>Chelsea Market NYC</i>	18,400
<i>Plant Street Market Winter Garden</i>	20,000
<i>East End Market Orlando</i>	17,500
<i>Midtown Global Minneapolis</i>	25,000
<i>Ponce City Market Atlanta</i>	25,000
<i>Little Italy Food Hall San Diego</i>	7,000
<i>China Live San Francisco</i>	30,000
<i>Grand Central Market Los Angeles</i>	28,000
<i>Pine Street Market Portland</i>	18,000

Source: PFM all square footages are approximations

In addition to the food hall, the Plan calls for 41,467 square feet of additional restaurant space. The proposed food hall offerings would compete with the additional restaurant offerings. There is not enough demand in the marketplace to support both a 40,000 square foot food hall and an additional 41,467 square feet of restaurant space.

Today, there is enough demand to support between 10,000-15,000 square feet of restaurant space at the Marina location. Over the next 5-10 years, market demand will support an additional 10,000-15,000 square feet of restaurant space.

The Plan also includes an attraction located at Bicentennial Park, sized at approximately 7,500 square feet. While rides and attractions would provide entertainment and some drawing capacity, these types of uses have not proven to be sustainable. The size and location are not conducive for this use. Instead, consideration could be given to an event stage and band shell. With proper programming, these types of uses have succeeded in many locations in Florida and across the U.S. The facilities can be scaled to fit comfortably in the park.

As shown above in Table 1, the Plan envisions 153,000 square feet of retail space. The location is not particularly attractive for retail operations; it lacks the visibility and accessibility typically required for successful retail locations. At best, the location could be a destination retail venue. However, given the current state of retailing in the U.S., this seems improbable.

Furthermore, 153,000 square feet of new retail space is a large volume for most any location in today's retail environment. There is very limited demand for retail space at the marina. Optimistically, the site could support 10,000 square feet of convenience and neighborhood-oriented retail space.

There is strong demand for new residential product in the relevant marketplace. Building permit activity has accelerated over the last few years in Palm Beach County rising from 4,792 in 2018 to 5,743 in 2019. So far in 2020, even in the face of the Covid19 recession, activity levels have remained surprisingly strong. As a result, residential permitting and construction activity are likely to hold at or near 2019 levels this year.

As shown in Table 4, residential permit activity in Riviera Beach has been volatile from year to year recently, ranging from just 14 permits in 2017 to 309 in 2018. The wide variation was caused by permits for larger apartment buildings. Nearby cities in Palm Beach County have enjoyed fairly strong levels of activity since 2016. The data for 2020 are through April.

**Table 3. Residential Building Permits**

<i>City</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
<i>Riviera Beach</i>	28	14	309	124	88
<i>Palm Beach Gardens</i>	255	262	285	291	103
<i>West Palm Beach</i>	596	324	614	749	390
<i>Lake Worth</i>	39	43	142	99	244

Source: U.S. Department of Housing and Urban Development

These data suggest that not only would 320 residential units be supported in the Plan, but that the volume of residential offerings could be increased. Land for residential development in Palm Beach County is becoming scarce and land costs are escalating sharply. The marina location is particularly attractive for residential development with its water views and accessibility.

The Plan also includes a 130-room hotel. Prior to the Covid19 pandemic, there was sufficient support for the planned hotel development. Hotel occupancy rates were over 70% in Palm Beach County, the threshold at which additional hotel development is supportable. A number of new hotels have recently opened in West Palm Beach including The Ben and Hilton Canopy. The marina location can compete effectively for hotel business in the competitive marketplace. Finally, the developers report that XXX Hotels & Resorts has committed to develop a Marriott Residence Inn for the project. XXX's projects include the Palm Beach XXX.



### **(3) Financial Feasibility of the Development Plan**

As currently planned and structured, the Plan is not financially feasible for a number of reasons. First, as discussed above, many of the project's components are not economically feasible, lacking sufficient market demand. In particular, the retail and restaurant offerings are far too large for the existing and foreseeable market.

Second, there is no financing for the project. Although ADP claims that they have secured financing for the project, the funding commitments are conditional and uncertain.

For example, in their memo of May 6, 2020, ADP informs the City that they have secured a financing commitment from XXX for \$24 million in debt and equity. However, they then report that the final debt-equity structure is subject to a number of conditions including the assessment of the development agreement with the City, final architectural and competitive bids for construction. The so-called funding commitment from XXX is not a commitment. In XXX's letter of May 7, 2020 to XXX of ADP Solutions, it states in pertinent part the following. "This Letter of Interest is for discussion purposes only, and it indicates XXX readiness to proceed with its underwriting of the Marina II project on behalf of the borrowers."

Similarly, ADP provided a letter dated October 10, 2019 from YYY, a subsidiary of ZZZ, as evidence of their funding commitment of \$25,000,000. However, the "commitment" is conditioned upon: (a) obtaining New Market Tax Credits; and (b) approval of ZZZ's Investment Committee Board.

Finally, ADP provided a February 26, 2019 letter from XXX claiming to provide a commitment to finance up to \$75.1 million for 2,350 parking spaces in up to three public parking garages. However, this "commitment" is expressly subject to the City of Riviera Beach or the Port of Palm Beach (the "Public Entities") entering into a master lease for the garages obligating the Public Entities to completely fund the debt service for the garages.

The construction budget for the Plan exceeds \$100 million. The Plan envisions the developers, along with various partners, constructing and operating the various real estate products. Obviously, to do so requires substantial funding commitments from debt and equity investors. Without the financing needed for the Plan, it is not financially feasible. ADP has not demonstrated that the financing is available for the Plan as structured.

#### (4) Infrastructure Investments Needed to Support the Development Plan

Based upon ADP’s submissions dated May 6 and 8 of 2020, total support for infrastructure costs and related development funding requests total almost \$52 million, as shown in Table 4. The cost of the parking garage dominates the total at \$48 million. Although ADP notes that the costs for the parking study, pro forma, and architecture and engineering for the garage may be recaptured through the garage funding, these costs would remain costs to the City. Even excluding the parking garage, ADP is requesting nearly \$4 million in direct City cost support.

**Table 4. Developer Request for Infrastructure and Related Funding**

<i>Category</i>	<i>Amount</i>
<i>Complete Construction of Event Center</i>	\$2,000,000
<i>Public Market Infrastructure</i>	\$1,000,000
<i>West Side Patio Improvements</i>	\$100,000
<i>Pre-Development Fund</i>	\$150,000
<i>Update Hotel Market Study</i>	\$20,000
<i>Legal &amp; CPA Expenses for New Market Tax Credits</i>	\$75,000
<i>Parking Demand Study</i>	\$15,000
<i>Parking Pro Forma Garage 1</i>	\$15,000
<i>Architecture &amp; Engineering Parking Garage 1</i>	\$300,000
<i>Earnest Money &amp; Legal Expenses Land Acquisition</i>	\$200,000
<i>Parking Garage Construction Commitment/Lease</i>	\$48,000,000
	=====
<i>Total Developer Request from City</i>	\$51,875,000

Interestingly, many of the typical infrastructure costs associated with this type of development have not been included. These would typically include costs for utilities, roadways, and stormwater management.

#### (5) Experience and Ability of the Developer to Perform the Project

The Development team of ADP-Tezral has no demonstrated ability or experience to undertake the Plan. The Plan includes multiple real estate products and complex management requirements.

ADP Solutions describes itself as follows. “Our mission is to design strategies and assemble partners that will create socially responsible development, new investment growth, sustainability and quality of life in the communities we serve.”<sup>2</sup> ADP has extensive experience in consulting, designing community strategies for redevelopment, and fostering public/private partnerships.<sup>3</sup> However, ADP is not a commercial developer with capital and experience to undertake the Plan. Furthermore, ADP has not demonstrated experience with hotel or extensive restaurant and commercial space.

ADP Solutions’ most recent project, Stonecrest Resorts featuring the Atlanta Sports City, appears to have failed. Plans for the \$200 million sports complex were announced on February 2017. However, no development has occurred. Press reports indicate that the land was never purchased, no financing was secured, and multiple lawsuits have been filed against ADP. To date, ADP has refused comment.<sup>4</sup> Tezral Partners, LLC was formed by Tony Brown (of T. Brown Consulting Group) and Ezra Saffold (of All-Site Construction). Tezral is not a commercial developer and lacks the capital, track record, and experience to undertake the Plan.<sup>5</sup>

## **(6) Financial Capacity of the Developer to Prosecute the Project**

ADP clearly lacks the capital necessary to develop the project. As noted previously, their financial plan is predicated upon third parties providing all of the necessary capital. Ironically, one of those third parties would be the City itself, since the financing for the parking garage would require the City to enter a master lease essentially obligating itself to fund the parking garage. Furthermore, all the so-called financing commitments are strictly conditional.

It is telling that ADP has requested financing from the City for relatively modest cost items that developers routinely pay for including: \$15,000 for a parking demand study; \$20,000 estimated to update the hotel study for their own hotel; and \$75,000 to pay for legal and CPA expenses associated with the New Market Tax Credit program that they are depending upon.

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<sup>2</sup> <https://www.apdsolutions.com/>

<sup>3</sup> <https://www.apdsolutions.com/panola-slope>; <https://www.apdsolutions.com/neighborhood-showcase>

<sup>4</sup> <https://www.ajc.com/news/local/dreams-massive-sports-complex-stonecrest-fading-fast/aq31PsfToOeiaiZlhYUEAP/>

<sup>5</sup> <https://tezralpartners.com/#about>

## **(7) Recommendations**

Option 1: Request ADP revise their proposal to include the following: (a) revise the Plan to reflect current market realities; (b) obtain sufficient equity capital, not merely commitments, to support the development program; and (c) fund the parking garage without City support. Request that this resubmittal be completed in no less than 90-days.

Option 2: Reject the proposal from the development team and delay the redevelopment project for 6 months to allow for improved market conditions.