

**PLANTATION GATEWAY
CATALYTIC INVESTMENT STRATEGY
OCTOBER 2002**

Since the formation of the Plantation Gateway Community Redevelopment Agency (CRA) in 2000, the district corridor is in a significantly improved position to capture new development and reinvestment. There are a number of factors that have allowed for this, including:

- The completion of the roadway, landscaping, and lighting improvements;
- Increased home values and corresponding family incomes both to the west and east of the corridor;
- A dwindling pool of buildable sites throughout central and western Broward County;
- The central location of the corridor between Downtown Fort Lauderdale and the growing business corridors of Central Plantation and Sawgrass; and,
- City of Plantation's focused planning efforts that have provided the context for future investment in the corridor.

The confluence of these factors has provided the impetus for enhanced interest among many of the largest and best capitalized developers and investors in the South Florida region. Indeed, it is possible, without any further direct financial involvement from the CRA, that over the next several months new residential and commercial projects will be announced in the district that will highlight the relative underlying market strength in the area and serve as a market driven catalyst for future private investment. However, as the Lambert Advisory market analysis and subsequent preliminary financial analysis of prototypical projects indicates, in order to leverage this initial private investment to a significant degree, the CRA has a critical role to play. There are hurdles to overcome and the only entity which now has the capacity to clear these hurdles is the City of Plantation through its CRA.

This paper outlines a strategy through which the CRA will be able to leverage an initial \$2.0 to \$4.0 million in funding and future tax increment to realize broader redevelopment in the corridor. The strategy is based upon: 1) recent market research completed by Lambert Advisory LC (which updates a prior analysis completed in 1999) 2) a preliminary financial analysis of prototypical projects in the corridor which indicate a "gap" in funding between what the market can now support and the equity and debt needed to realize significant and sustained development and, 3) experience with other successful corridor redevelopment efforts throughout Florida and the United States.

This strategy paper revisits the obstacles that exist that have not allowed the market to seek broad redevelopment on its own despite strengthening

market trends. It also highlights some of the key market trends from the market analysis, details the resources and financing available for redevelopment as well as the limitations of those resources, describes key elements of the catalytic strategy for the CRA to in Plantation Gateway and outlines the steps necessary to achieve that strategy.

Obstacles to Redevelopment

While the obstacles which stand in the way of redevelopment in the District have been discussed continually as part of both establishing the CRA and over the past several years as the CRA has started its work, it is worthwhile revisiting these in the context of a detailed strategy for overcoming these hurdles. The principal obstacles include:

1. *Dispersion of Property Ownership* – One of the key obstacles with regard to realizing redevelopment within the Plantation Gateway District is the fact that ownership of properties is highly dispersed with the exception of a few key parcels. This dispersion of ownership means there are as many agendas and goals of property owners as there are owners. This makes it extremely difficult for private development entities to acquire and redevelop these properties except on the smallest scale. Some of the perceived principal agendas of property owners which stand in the way of redevelopment include:

- Waiting for Market Peak – Not unlike a stock market cycle, it is difficult for an owner of real estate to identify when the value of a property has peaked especially in an area which has been depressed for so long and suddenly becomes the focus of investment and government participation. For owners which do not have a compelling need to sell, this is one of the most difficult aspects of redevelopment.
- Properties Tied Up as Collateral – While in theory, property owners can only sell a property for the value they have the property appraised for, in practice the collateral value of an asset in a redevelopment area can be significantly higher than the cash value. Appraisers routinely have difficulty determining the actual value of large properties in areas such as the Gateway District and an experienced owner can exploit this. The reticence of some of the largest owners in the corridor to sell properties which clearly have as much as doubled in value then when they were first purchased may be tied to the high collateral valuations they have received on these properties.
- Tax Consequences – The selling of real estate triggers a capital gain which means that stable owners tend towards reluctance when selling cash flow producing properties. The exception is in cases where the equity in the asset is needed or can be placed in an investment which will produce a return which equals the return the

owner is receiving from cash flow plus an additional return to cover the capital gain consequences.

- Development Experience and Skill of Property Owners – It is likely that many owners of properties in the corridor could enhance the value of their property if they were to undertake redevelopment; however the skills associated with being a property owner vs. a property developer are quite distinct (and requires a different risk tolerance). The disincentives noted above to sell the properties combined with the limited ability of most owners to redevelop their own properties creates a situation where market driven reinvestment becomes a slow and tedious undertaking.

2. Lack of Parcel Depths – There is a general lack of parcel depth along much of the length of the corridor particularly along State Road 7 south of Broward Boulevard. This significantly limits the type of redevelopment that can occur due to the physical limitations of sites as it relates to parking, fire access, and ADA requirements. Therefore most of the redevelopment on these narrow parcels will occur either as an upgrade to an existing retail strip center, or be oriented to stand alone users such as drug stores, restaurants, and other similar retail.

3. Nature and Mix of Existing Development – The nature and mix of existing development within the Gateway which comprises a considerable amount of older worn buildings, moderate retail users, and other strip development makes it relatively risky for investors to invest in large and/or enhanced projects in the District. Despite the many aesthetic improvements within the District, which include roadway, lighting, and landscaping improvements, many buildings in the corridor still appear as if they have not been renovated since they were built in the late 1960's, 1970's, and early 1980's.

4. Lack of Market Visibility – Beyond the local market, it is unclear as to what extent the potential development opportunities within the Plantation Gateway are known within and outside of Broward County. This means that a smaller number of potential investors are aware of the opportunities in the Gateway District.

The strategies outlined at the conclusion of this document are aimed at overcoming each of these obstacles, either on a case-by-case basis or concurrently so that development and redevelopment can progress to the extent the market will allow.

Market Highlights

The strategy outlined herein is partially based upon a market study first completed in 1999 and updated September 2002. The most recent update identified a number of opportunities to realize redevelopment in the corridor

which did not exist in 1999. Additionally, most of the key conclusions in the 1999 report were further supported by the updated analysis.

Highlights from the market analysis that are relevant to the strategy are summarized in this section, with the full market study available under separate cover. Importantly, the changing nature of the market within Plantation Gateway during the past three years highlights the importance of updating the strategy once every several years to account for changing market dynamics and development.

- Demographics Surrounding Corridor Strengthening – Both to the east and west of the Plantation Gateway corridor, average home prices have increased at double-digit growth since 1998. Average home prices on a per square foot basis grew by 20 percent between 1998 and 2001. Based on this growth, it can be inferred that household incomes of this group of most recent home purchasers is higher than the income of their predecessors.
- New Retail Demand – The retail market in terms of both rental rates and occupancies in the corridor has significantly strengthened over the past three years, and it appears that the market is now at the point where the mix and quality of retail in the District can be upgraded. Although this was not the case in 1999, it is fairly clear that there is now demand for a large supermarket and potentially a discount general merchandiser along State Road 7 in Plantation. This is being dictated by the general strength of the surrounding housing market, the tremendous volumes in other Plantation stores, and an inability to find viable sites to the west of State Road 7.
- Residential Demand Continues to Strengthen – The 2002 market analysis indicates that demand for new residential development, both for-sale and for-rent, has strengthened since the market study of 1999, which first identified this demand. A number of the existing apartment communities in the corridor have already been acquired by new owners who have invested in upgrading the product; Additionally, there has been continued interest among rental as well as for-sale developers in the District. More importantly, the for-sale market is now at a point where construction of new homes and town homes in the price range of \$100,000 to \$150,000 can be supported. The specific limitation with regard to residential use is the limited number of viable sites, which can be developed for residential. Residential uses are not appropriately placed immediately fronting State Road 7. Therefore, the only opportunities for additional residential development exist along NW 42nd Avenue between Broward Boulevard and Sunrise Boulevard, along Peters Road, or as part of mixed use commercial developments on the larger parcels in the District.
- Professional Office and Flex Space Demand Continues to Strengthen - Despite a recent downturn in the Class A market in Broward County, office continues to strengthen for smaller buildings in Plantation. The

Gateway's central location with easy accessibility to courthouses, airports, key business districts and adjoining major hospital district, is well positioned to capture growth in the office market. However, current rents do not yet support new construction and there is a clear gap that exists in financing which makes it likely that the CRA will have to be a financial participant in the production of any new office product. With little or no public participation, potential does exist in the southern sub-district of Plantation Gateway for "flex" type office/light industrial space. This could be one-story in nature and could also serve as a strong anchor along the southern sub-district of Plantation Gateway.

- Mixed-Use Potential Exists – Although more difficult from a development perspective due to the nature of specialization in the development community, a number of properties in the corridor do lend themselves to joint development opportunities (i.e. retail/residential or office/residential). These should be encouraged given the prominent nature of these properties from a physical perspective and their ability to serve as signature projects for the Gateway.

The following table highlights the primary land uses, their relative market potential, and the likelihood for need of public financial assistance to fill financial gaps.

<u>Use</u>	<u>Relative Market Demand</u>	<u>Likely Need for Public Investment</u>
For-Sale residential	Strong	Low
For-Rent residential	Strong	Low
Flex (Industrial/Office)	Good	Low
Retail	Moderate	Limited
Office	Moderate	Likely
Sit Down Restaurant	Moderate	Likely
Hotel	Poor	Highly Likely

It should be noted that even in cases where there is strong market demand, CRA participation may still be needed in cases where key sites are held by owners that are not otherwise prepared to sell their properties in a private transaction. However, this investment by the CRA should be considered short term as opposed to long term in that the value of the properties which are being acquired can be recaptured once development of the properties begins. This is unlike some other uses, for example restaurant or office development, where the CRA's ability to recapture investment is less likely to come from the property in which the funds are invested but rather from enhanced property values surrounding the successfully redeveloped property.

Financing, Resources and Limitations

There are several financing options currently available, or which may be explored to support redevelopment within Plantation's Gateway. Some of these options were detailed in the original CRA plan although we further define these options herein based upon changing market conditions and related strategy. These options include:

1. Existing Bond Funds: Currently, the CRA has allocated \$2.1 million targeted to private development projects within the CRA. The \$2.1 million accounts for the private use portion of a general obligation bond, which totaled approximately \$22 million. An additional \$2.0 million has also been made available to the CRA but is principally targeted to public improvement projects in the District such as roadway enhancement, utility relocation or acquisition of land for a public purpose. While the use of the \$2.1 million is quite flexible in that it can be targeted to support any type of development or use, if it is used to assist private enterprise it must be leveraged in the form of a grant to a developer as opposed to a loan or land purchase due to the requirements of the tax exempt bond issue.

2. Tax Increment: The second financial resource that the CRA will eventually have is tax increment. Indeed, if it becomes clear that the increment will significantly increase over the next several years as new projects are announced, then a decision can be made to advance this increment. A portion of this forward funding, depending upon its size and the underlying support, may be able to occur without general fund backing or bond insurance. This most likely will occur in the case of for-sale residential development and/or a major retail development with credit anchors with long term leases. For example, the present value of a large retailer's property tax payment over 20 years (at some level of debt service coverage) could be bondable without any guarantee or insurance provided by the City. In essence, the issuer would be underwriting the retailer's likelihood of operating in the District until the bonds are repaid and upon the retailer's financial health. The District could then use the funding either to invest in other projects or support some of the capital costs of the retailer needed to attract the retailer into the district where they otherwise would have located outside of Plantation Gateway. This strategy is usually only employable in cases where the issuance of this debt is tied to a larger bond issue (or loan vehicle) due to the general nature of the bond markets to favor larger issuances.

3. Short Term Financing: The third financial resource is a short term loan, bridge loan or letter of credit which can be used to acquire properties. This should be used primarily in cases where properties can be quickly resold to private entities. The District will then be able to payoff any outstanding debt and reuse this financial resource for additional projects.

4. Capital Improvement Bonds: A fourth resource is related to the funding of capital improvements which can be forward funded through bonds if there is an expectation of long term cash flow as it relates to user fees. For example, water and sewer improvements can be completed utilizing the resources of a financial instrument (i.e. bond, loan, etc) if it is likely that new development in the District plus enhanced water/sewer charges over the long term can cover the actual cost and interest associated with these improvements.

5. Other Sources: Finally, the CRA will continue to be able to pursue other grants and funding sources as they become available. These include EDA, community development block grant funding, gas tax revenue, and infrastructure grants. Additionally, for specific projects, the City can utilize Section 108 loans which require the pledging of Community Development Block Grant funding as collateral, but which is otherwise guaranteed by the federal government.

Key Factors which Define Catalytic Strategy

Based upon the market analysis, a recent review of other tax increment efforts in Chicago, New Orleans, and Delray Beach, specific ownership and nuances of the Plantation Gateway market, and prototypical financial analysis of potential projects in the corridor, we have identified five key factors or conditions that define the catalytic strategy. These factors and conditions include:

- *Substantial Infrastructure Improvements* – One of the great advantages that Plantation Gateway has over other redevelopment districts is the fact that the most expensive infrastructure work (with the potential exception of sewers the cost of which can be covered by future user fees) is already complete. This has created a platform for utilizing available funding for substantial investment in specific redevelopment projects.
- *Existing Interest in District* – There is a significant level of interest in Plantation Gateway among major investors. Therefore, the CRA's strategy can orient itself to enhancing private redevelopment projects by filling financial gaps where they exist rather than having to serve as the project developer which would otherwise be necessary in an area with poorer market dynamics.
- *Need for both Large & Small Projects* – Insuring the development and financial health of large projects (those projects which need public assistance in excess of \$1.0 million) alone will not ensure the success of reinvestment in the district. Small in-fill projects, such as restaurants, façade improvements, and the attraction of key business users to the corridor will be as important to the health of Plantation

Gateway as attracting large scale investment and development. A portion of any available public funding or increment should be reserved for smaller projects, less than \$1.0 million and very small, less than \$100,000.

- *Visibility is Important* – The projects which the CRA invests in should be quite visible. Potential future investors in the corridor need to continually see progress. The more visible the redevelopment the wider the market interest.
- *Major Parcels Held by Recalcitrant Ownership* –A number of significant parcels well positioned for redevelopment in the district are currently held by one or more owners, who are either not immediately willing and/or able to develop the property, or sell the parcels for development. While it may be preferable to see these parcels developed during the early stages of redevelopment, it does not need to be a condition precedent of expending the CRA's available funding.

Catalytic Strategy

The catalytic strategy is a series of tasks and guidelines associated with evaluating and funding projects within the District. The strategy's main goal is to assist CRA staff and board members in evaluating and ranking projects on a case-by-case basis and to assist in deciding when and if the CRA should take a more active role utilizing incentives or outright acquisition and preparation of land and buildings for development.

It is important to note that no strategy can evaluate the merits of the CRA's participation in any individual project or measure the importance of any given project to the overall investment climate in the district. Rather, the strategy principally details a framework or "lens" through which viable projects can be identified and how to measure those projects with regard to their importance to the area. We have ordered the strategy elements with regard to their importance to the overall strategic effort.

The key aspects of the strategy follow:

- *Grants First/Acquisition Second*– The CRA should attempt to the extent possible, to provide grants to private entities as opposed to acquiring property for redevelopment. Given our experience, city government invariably pays more than private entities for land, and there is generally not the need to do so if private entities can work the terms of land acquisition out on their own. Additionally, the acquisition of sites creates more market risk for the City with regard to their ability to resell those sites if market conditions change between the time the site is acquired and resold. There are two exceptions to the "Grants

First" strategy as it relates to the Gateway. First, there will be cases where the District can acquire a group of smaller properties through the use of public powers and quickly resell the rolled-up properties to a private entity for a significant development effort. This is most likely to be needed in certain instances in the sub-district areas between Broward Boulevard and Peters Road and along Peters Road itself. As much as possible, the acquisition and disposition transactions should be completed simultaneously to decrease risk and limit the City's carrying costs. A second case where acquisition will be the preferred method is where the City needs to address physical planning goals which in turn will create development opportunities. For example, the clearance of marginal structures along Peters Road will both provide an enhanced entry into the City and provide some parcel depth for potential housing development between Peters Road and SW 11th Street.

- *Target Self Funding Projects to the Extent they Fit Into Overall CRA Plan* – While the initial \$2.1 million may be available to be spent on catalytic projects within the Plantation Gateway district, the CRA should attempt to the extent possible to limit the expenditure of all of these funds on one set of large development ventures. The most appropriate way of limiting the use of these funds for large projects, is by trying to attract projects which will produce their own increment to a level which will fund the needs of the project. For example, as noted above, a large retailer with a strong balance sheet could produce \$250,000 to \$300,000 in increment each year which could be front funded through a portion of a bond issue to help the retailer/developer build parking, acquire land, etc. without any further pledge from the City, CRA or any other future increment produced within Plantation Gateway. This clears up existing funding and increment for an additional wave of projects. The following table provides the methodology to determine if a project can be self funding. This analysis assumes that the big box retailer has a very strong balance sheet, is acquiring a property, but needs \$1.5 million in outside funding to build a parking structure on the site before the retailer will commit to acquisition of the property.

**Determination Analysis for Self Funding Project
 Example - National Big Box Retailer**

Total Development Cost (TDC)	\$24,000,000
% of TDC used for Property Tax Calculation	80%
Property Tax Basis	\$19,200,000
Mils	13.88
Annual Property Tax	\$266,496
Debt Service Coverage	1.25
Bond Term (years)	20
Bond Rate	7.5%
Cost of Issuances	2%
Reserve Requirements (1 year)	\$266,496
Net Bond Proceeds	\$1,864,000
Grant Required	\$1,500,000
Difference	\$364,000
Self Funding	YES

- Split Pool of Funding: Large and Small* – The CRA should split its funding availability into two pools: one for larger projects and one for smaller projects. The ratio of funding for larger to smaller projects in the initial years should be 2/3:1/3, because it is important that the largest projects do not dry up all of the funding available in the early years of development. We have noted the importance of this in almost every major TIF district we examined with the exception of TIF districts established solely for the purpose of attracting a larger employer (i.e. GM in Detroit). While the larger projects are highly visible and therefore have the opportunity to become the greatest catalysts and anchors for the District, the vast majority of investment by entrepreneurs will come from smaller entities for which momentum will have to be created as well. These projects will generally require less than \$1.0 million in funding assistance, and many will require less than \$100,000.
- Concentrate Initially on Visible Projects* – The initial concentration of assistance should be on visible projects, or primarily those projects along State Road 7, Broward Boulevard and Sunrise Boulevard which will be visible to a large number of people. Secondly, residential projects have a specific positive impact on attracting retailers. Therefore, residential projects (particularly for-sale) wherever located in Plantation Gateway have a special form of visibility and should be encouraged.

- *Develop a Competitive Structure for Awarding District Funds on an Annual Basis* – A dual Request for Interest/Request for Proposal (RFI/RFP) should be issued and widely disseminated which details the availability of funding, the terms for its use, and a criterion for ranking projects based upon private capital leverage, added increment value to the corridor, market and financial feasibility, consistency with CRA plan goals, visibility, capacity of entity, and level of site control. The level of importance placed in weighing each of the criteria should be a key area of discussion before the RFI/RFP is released although we recommend that a two stage selection process for project funding be used which sets a minimum level of site control and experience of the development entity or team utilizing the RFI and a more formal project evaluation under an RFP. Once investment proposals meet a basic set of criteria, the CRA can further evaluate the feasibility of the projects and importance to the overall development of the district. The RFI will establish all of the terms for use of the monies provided by the City and allow for a competitive process through which projects can be evaluated in relation to one another. It is likely in the best interest of the CRA to actually issue two RFI's, one for larger projects and one for those which are smaller. It is critical that the RFI be widely distributed to property and business owners in the corridor, developer's in South Florida, and the commercial brokerage community. Particularly as it relates to the smaller projects, the CRA may want to offer its services to assist small business owners and investors with their proposals. The RFP will serve as the main vehicle for evaluating projects.
- *Analyze Every Deal on a Case-by-Case Basis* – Every deal or proposal which will come before the CRA is going to be different, and it is incumbent upon the CRA to evaluate every deal on a case-by-case basis for financial need. Based upon the market analysis it is clear that some investment in the corridor will not require any CRA support, and it is important that these projects do not take away valuable resources from other important efforts. Likewise, an independent financial and development analysis of a project will be critical for determining need and formalizing agreements associated with the funding of projects. The CRA should also maintain the right on an ongoing basis to evaluate a project's progress and insure that monies spent by the CRA are being utilized as contemplated. It is important that the CRA also receive reports on a regular basis (quarterly or annual depending upon level of involvement) which details the performance of the development, and provides the CRA with the ability evaluate future investments based upon the performance of these initial projects.
- *Don't "Fall in Love" with a Particular Deal or Project* – This is a old but good business adage to follow when it comes to the business of redevelopment. The market analysis indicates that while it would be

preferable to see the development of specific major parcels in the District in the early stages, these do not provide the only option to realize reinvestment in the corridor. It is critical that success is not measured by consummating a single deal because if success is measured this way, it is likely that the CRA will have over-invested its resources.

- *Maintain Façade Improvement Program* – The CRA should continue to maintain a pool of money available for façade improvements due to the importance of improving corridor ascetics.
- *Identify Users as well as Sites* – The CRA should work closely with the commercial brokerage community to identify potential retail and office users for the corridor. The identification of a viable property, particularly as it relates to a stand alone retailer or restaurant will be much more directed if a particular user is already interested in the area and the CRA can then easily determine the best way of filling any gaps which may exist.
- *Maintain a Marketing Orientation* – The CRA should be continually marketing oriented. Continued contact with the local brokerage community, property owners in the district, local developers, and obtaining press coverage when projects come to fruition or new businesses are announced is very important to the building of momentum. Additionally, funding should be available for attendance at key trade shows such as the International Council of Shopping Centers, which is attended by every major retailer and retail developer in the nation.

Summary

Plantation Gateway has unique potential to become a model of redevelopment in South Florida; all of the market parameters and the basic infrastructure exist.

However, it is critical that the CRA take the first step in this strategy by quickly developing a Request for Interest/Request for Proposal, which serves both an evaluation and marketing need. The RFI/RFP process provides a structure for evaluating projects in a standard format while also allowing the broader real estate community to begin to understand the variety of opportunities that exist within Plantation Gateway.

While the \$2.1 million currently allocated for investment in a variety of projects in the corridor should be enough to constitute a first phase effort, it is clear that enhanced funding (on the order of \$6 to \$8 million based upon financial analysis) will allow for the development of between three and four major projects which will serve as substantial catalyst for future market

driven investment. We believe in excess of 50 percent of this funding will come from increment alone, while the remainder will have to be obtained from other funding sources. Although a cost benefit analysis has not been completed as part of this strategy, this level of investment appears quite modest given the potential gains and momentum which will be created.