

Lambert Advisory

Summary of St. Petersburg Pier Real Estate Market Assessment

Introduction

Lambert Advisory (Lambert) has completed its update to the real estate market research associated with the redevelopment of the St. Petersburg Pier (Pier). This is an update to a memorandum originally completed in 2010 (and referred to as 2010 Assessment).

This analysis aims to update a combination of economic and demographic data analysis, review of third party studies regarding the St. Petersburg and Pinellas County real estate market, interviews with a variety of investors, owners and operators of real estate throughout the City and region, as well as interviews with meeting planners, entertainment venue developers, and performance promoters beyond the local market.

Specifically, Lambert's research was focused on determining relevant changes in economic and market conditions affecting the Pier's potential redevelopment since the 2010 Assessment. The update herein focuses on the same potential uses for various Pier redevelopment options over the long term, including:

- Retail & Eating and Drinking establishments;
- Hotel;
- Event/Banquet;
- Marina;
- An entertainment attraction which would have a regional draw; and,
- A dedicated performance venue.

This summary document provides an overview of real estate market information and background and is aimed at arming the City and its design consultants with information which will ultimately allow them to determine the long term revenue/subsidy implications of various redevelopment decisions which may be made.

The summary herein represents an overview of information, analysis and findings that will be made part of a more comprehensive report to be completed during subsequent phases of the planning process.

November 3, 2014

Economic/Demographic Context

As set forth in the 2010 Assessment, The Pier is located within a very stable City and County, and conditions have largely strengthened since that time. The City of St. Petersburg has an existing population base of approximately 249,700 (April, 2013). Future projections by the Office of Economic and Demographic Research for the County suggest that both the City and County (with 940,000 people) will remain mostly flat over the next decade, with some periods of decline.

Looking more broadly, and considering the opportunity to strengthen The Pier as a regional, tourist and local attraction, there is a population base of more than 1.4 million people within 20 miles of the Pier, 407,000 residents within 10 miles, and within 3 miles approximately 70,000 residents. According to data obtained from the University of Florida Bureau Of Economic Research, the broader region (Tampa-St. Petersburg-Clearwater MSA) is projected to grow at a pace of 0.7 percent per year between 2015 and 2040.

However, as important as population growth is on a regional scale, the level of new and planned housing development in Downtown St. Petersburg is more telling. Since 2009/10, the Downtown area has added over 1,150 rental apartment units, with another 900± in the pipeline or under construction. A profile of recently built projects, projects under construction, or project in pipeline can be found on the following page.

November 3, 2014

Figure 1: Downtown St. Petersburg – Recently Completed, Under Construction and Projects in Pipeline

Recently Built			
<i>Name</i>	<i>Location</i>	<i>Year Built</i>	<i>Units</i>
Fusion 1560	1560 Central Avenue	2009	325
300 Urban Flats	300 10th Street S	2012	481
Urban Landing	320 4th Street S	2014	40
Modera Prime 325	235 3rd Ave. N	2014	309
Projects Under Construction or in the Pipeline			
<i>Name</i>	<i>Location</i>	<i>Status</i>	<i>Units</i>
Beacon 340	South Core Block 2nd & 3rd Ave S	UC	325
The Hermitage	7th & 8th Street and 1st & 2nd Ave S	Pipeline	348
<i>Name</i>	<i>Location</i>	<i>Status</i>	<i>Units</i>
333 Third	3 rd Ave S between 2 nd and 3 rd Streets	UC	300+
Tropicana Block	Between Central and 1 st Ave. N, 1 st & 2 nd Streets	Pipeline	Condos + 175 room hotel
Salvador	5 Ave. S, between 1 st and 2 nd Streets	Pipeline	74 condo units
Modern American Arts & Crafts Museum	Between 3 rd & 4 th Avenues N, between 3 rd & 4 th Streets	Pipeline (12/2014 start)	55,000 SF Museum, 320 space garage, restaurant

The primary population base that supports business activity at the Pier, with the exception of a small (but growing) very wealthy group of residents within and adjacent to Downtown St Petersburg, is largely middle income. As noted in the 2010 Assessment, Pinellas County residents had a median household income of \$45,650 in 2008, while the City of St. Petersburg had a median household income of \$44,069. The most recent data on income from the U.S. Census (indicated within the 2008-2012 American Community Survey (ACS) indicates Pinellas County had a median household income of \$46,051, while

November 3, 2014

the City of St. Petersburg reported a median household income of \$44,756. This represents a modest, but positive increase in household income regionwide during the past few years. The income in County is comparable to the statewide average of \$47,309, but the City lags slightly by roughly five percent. The incomes within a 3-mile area of the Pier are \$36,610 according to ESRI, a leading geographic information provider. The middle income profile of households both in a tight to broad area from which the Pier can draw local patrons is a positive factor in the ability to develop activities at the Pier which will appeal and be supported by a large group of residents.

In the effort to provide updated employment data for Downtown St. Petersburg, we rely upon the most recent employment data provided by the U.S. Census Center for Economic Studies which is from 2011, the latest year available. While this data is somewhat dated, it does indicate that 25,000 people are employed in Downtown St. Petersburg (which is similar to the Florida Agency for Workforce development data), but also provides more in-depth data that reports nearly 28 percent of Downtown employment is in health care and another 17 percent in Public Administration. According to the Florida Department of Economic Opportunity, construction, education and health services, along with professional and business services are projected to grow more than all other employment sectors in Pinellas County through 2021. Construction is projected to be among the strongest growth sectors at 3.3 percent annually between 2013 and 2021, which is a notable change from 2010 when the real estate industry reeling from the housing crisis that started in 2007 and bottomed around 2010/11 Health care is projected to grow by 2.7 percent annually during the same period, which portends well for Downtown St. Petersburg. In 2010, Business employment (Finance and Insurance, Real Estate, Professional Scientific and Technical Services, Management of Companies and Enterprises, and Administration and Support) represented 22.4 percent of total employment in Downtown, but has grown to 23.1 percent at present. As noted in the previous study, the business activity is not particularly well located for lunchtime traffic from the Pier's perspective; Downtown workers are nonetheless an important potential market for after work meals and drinks as well as client entertainment.

As reported in 2010, visitors made up over 70 percent of the over 1.0 million annual visits to the Pier. Visitor growth within Pinellas County increased from 4.7 million in 2000 to a peak of 5.3 million in 2007. Subsequently, visitors declined modestly through 2009 as a result of the broader economic downturn. However, since 2009, the number of visitors to Pinellas County has risen each year reaching record levels in 2013 of 5.6 million people. As was the case in 2010, the Midwest US continues to provide the most visitors to the County at nearly 29 percent, followed by visitation from the Northeast US at roughly 23 percent, while Florida residents made up just fewer than 13 percent. However, International visitation accounted for 26 percent of total visitation in 2013, up from 17 percent in 2010. This trend has relevant implications for the future growth in Downtown St. Petersburg, particularly from a retail, dining and entertainment perspective.

Visitor expenditures steadily increased from \$84 per person in 2004 to \$101 per person per day in 2008, remaining relatively flat during the following two years. According to 2013 data from the Pinellas County CVB, the average expenditure increased almost 20 percent over the past four years to \$118 per

November 3, 2014

person per day. Based on the 2009 visitor surveys, 37.2 percent of expenditures were spent on accommodations, and approximately \$317 per person per trip is spent on entertainment, food. However, 2013 survey figures report 46.4 percent of expenditures were spent on accommodations, and approximately \$322 per person per trip is spent on entertainment, food, and shopping. These are all positive economic indicators for Downtown and, specifically, Pier redevelopment opportunities.

As set forth within the 2010 Assessment, there were several important factors which can be taken from the economic/demographic analysis and profile of local residents, workers and visitors affecting Downtown St. Petersburg. Following is a summary update to relevant these factors:

1. There is a dense and stable population base at the downtown, City, and regional level from which the Pier can draw patrons if an activity or series of activities can be identified which differentiates the Pier from standard offerings in the area. In 2010, there were general *indicators* supporting positive growth during the next few years. However, recent census data and, importantly, new and planned housing development, only affirms a positive forecast;
2. There is no revising the concept that enterprise activities developed at or adjacent to the Pier will only flourish if they attract locals in addition to tourists. In the peak year (2007), approximately \$1.6 billion was being spent by all tourists to Pinellas County on food, shopping and entertainment purchases assuming all of those purchases were in Pinellas County. Today, this is closer to \$2.1 billion based upon 2013 figures. For comparison purposes, visitor expenditure translates to the retail and entertainment expenditure of approximately 70,698 households in Pinellas County or approximately 17 percent of total households in Pinellas County. Given this, attracting local residents and expenditure to the pier is critical to the long term growth and success of businesses located on or adjacent to the project. Attracting the local market to the Pier over the long term is central to the success of any enterprise developed; and,
3. The growth of the Downtown will continue to depend upon the regions relatively dense population and continued growth. Indeed, Downtown is already capturing more than its fair share of housing growth given the level of new and planned development. Additionally, and discussed further below, Downtown's retail and entertainment sector has experienced solid improvement during the past few years. However, expenditure at the Pier is still unlikely to come as a result of inherent growth in population or incomes. In line with our initial findings in 2010, the Pier related development activity will need to be differentiated from what currently exists in Downtown or fill a gap which exists in the region. Fortunately, the Pier and upland areas from a business perspective have some inherent strength including a location downtown, extraordinary views, relationship to the water, existing sense of place and draw, and emotional historic attraction.

November 3, 2014

Retail/Restaurant Opportunity

Principal findings related to the opportunity to support restaurants and retail at The Pier include the following:

- In 2010, Lambert prepared a Retail Trade Model that uses an area's demographic and economic attributes, as well as consumer, worker and visitor spending trends and habits to determine the amount of supportable retail; both on a present (2010) basis and in the near future (within 5+ years) in the Pier's trade area (3 mile radius). At that time, there was an estimated 85,000 residents with a household income of \$38,913 and 23,000 workers. Based upon the model, the Pier's trade area was able to support 182,000 additional square feet during the 5 year projection period. Accordingly, it should be noted that approximately 70 percent of the demand fell into categories such as grocery stores, pharmacies, and general merchandisers (i.e. Target) which are unlikely to find an adequate site in the trade area given these store's large footprint. The remainder, or approximately 38,000 additional square feet was in the food and beverage category. This would include demand for both well positioned vacant space as well as new space. Our updated model indicates the trade area will now be positioned to absorb 256,000 square feet between 2015 and 2020, largely in the same categories as was demanded over the past 4 years. However, the lack of new construction downtown of retail space and the current high occupancies substantially enhance the Pier's market position as long as the Pier and associated uplands are appropriately linked to the fabric of the Downtown by insuring that a continuous physical and commercial link exists between Downtown and the Pier. A few restaurants located 1,000 feet into Tampa Bay at the pier head is disassociated from the core of the City and will act as such in relation to attracting local expenditure and downtown residents and workers;
- In the 2010 Assessment, we estimated there was 338,000 square feet of occupied retail space in St. Petersburg downtown (including the movie theatre at 72,000 square feet), with the largest category being restaurant and bars with nearly 100,000 square feet. Clothing, art galleries, jewelers in sum make up less than 10 percent of the total occupied space Downtown. Since that time, new retail space added to the market has been limited to minimal amounts of (less than 20,000 square feet) street level space under new apartment/residential complexes and/or new restaurant space along 1st Avenue South. However, the most notable change to the market is the repositioning of the 132,000 square foot Baywalk complex, which is now called Sundial. The transition represents a shift from specialty/entertainment to more of an up-scale lifestyle center which is currently promoting tenants such as Ruth's Chris, Tommy Bahama, Locale Market, Florida Jean Company and Diamonds Direct among others. The Sundial is still undergoing its lease-up stages and is currently 40 percent occupied – compared to 70 percent occupancy of the Baywalk center in 2010. However, recent reports indicate the project will have all but four spaces filled by the end of the year. Among the other centers profiled as part of the 2010 Assessment including centers such as Janus Landing, Plaza Tower, Beach Drive retail and other

November 3, 2014

surrounding retail (but excluding the Pier), there is approximately 370,000 square feet of space. In 2010, the occupancy level among this retail set was roughly 78 percent; however, this has improved considerably since and is now estimated to be higher than 90 percent. This represents a lease up of approximately 58,000 square feet within these retail properties during the past four years. This activity is in line with forecast back in 2010, which observed the market at a low point during the economic downturn. Furthermore, the relationship between the merchandise categories did not change significantly, although growth in the apparel and soft goods offerings does appear to be somewhat stronger than predicted in the 2010 assessment and largely the result of Sundial. We still anticipate that there is likely to be further development of supermarkets in Downtown given some gap between demand and supply (potentially at the upscale end of the market) or pharmacies in the future, which is should be hastened by the new and planned residential development. Otherwise, the majority of investment in retail space in the core of Downtown will continue to be in eating, drinking and entertainment;

- As the economy has improved during the past four years, rental rate growth has generally followed suit. In 2010, top-tier rents in Downtown St. Petersburg were broadly in the \$20-\$25 per square foot range (NNN), which was below level needed to support new construction of a substantial amount of retail space. As a result, and with the exception of Sundial, most of the retail in the core downtown occurs in existing buildings or has been developed within the ground floor of a mixed use building. However, at present, rental rates among most of the surveyed properties have increased 15 to 25 percent on an aggregated basis and are approaching levels that support new development. Comparatively, other key tourist or retail destinations in the region including Ybor, Channelside, John's Pass, Tyrone Square Mall, etc. have had mixed results during the past four years. Channelside continues to struggle and was recently sold to the owner of the Tampa Lightning, John Pass Village is under new ownership and in the midst of repositioning with new shops after Hubbard's Marina filed Chapter 11 as a result of the recession and the Tyrone Square Mall is holding its own with the biggest problem being tenant turnover. However, there are very little vacancies and space seems to fill quickly.
- Since the 2010 Assessment, the modest increase in net new retail supply within Downtown St. Petersburg reflects the conclusions observed within the study at that time. We still expect that within the next 5± years, there would be development of an additional supermarket (likely at the high end of the market and potentially beyond the Locale at the Sundial), additional pharmacy, and some further eating and drinking establishment investment. We would expect that an appropriately configured Pier and upland area would continue to be attractive for restaurant and associated bar investment which is differentiated from what currently exists in other areas of downtown and leverages the views, location on the water, and relationship to marine activities to the greatest extent possible.

November 3, 2014

- The analysis herein maintains that that non-restaurant retail at the Pier will be challenged going forward given current market dynamics unless a major non-retail/restaurant attraction or draw substantially increases tourist and local visitation to the Pier.

Hotel

Although the Pier area is highly unlikely ever to accommodate hospitality, downtown hotels are important component of the overall market support for joint development on the Pier and as a result we have highlighted the trends in the downtown hotel market below.

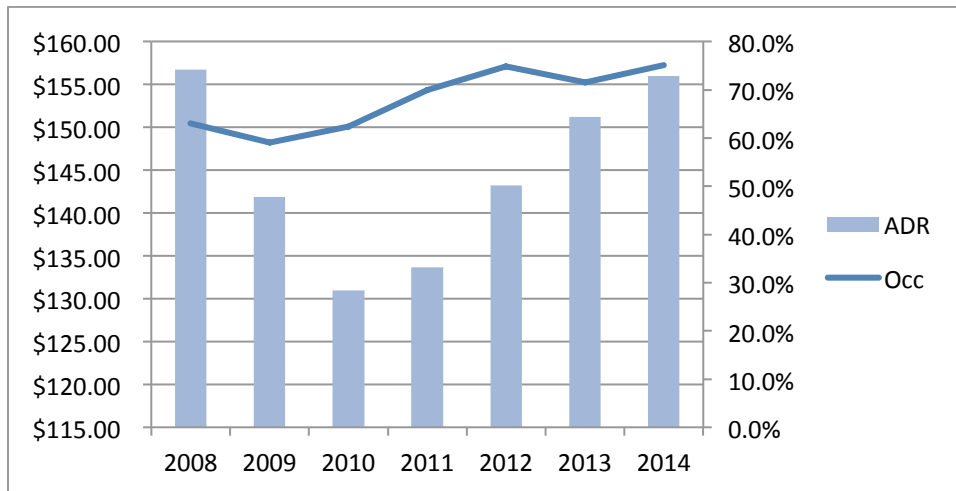
Principal findings associated with the hotel market in Downtown St. Petersburg and the relationship to future opportunities for development at the Pier includes the following:

- As highlighted within the 2010 Assessment, occupancy rates for hotels throughout the County were on a steady decline from 74 percent in 2005 to 68 percent in 2008 (the most recent data at the time). However, during that same time, average hotel room rates actually increased from just under \$80 per night to over \$100 per night in 2008. Yet, the market has dramatically corrected itself over the past four years. According to the CVB, occupancy rates have increased during the past 5+ years to reach 75 percent, while ADR has increased to \$156.
- Specific to the Downtown St. Petersburg hotel market, we profiled the major Upscale and Upper Upscale hotels based upon data from STR – which was not part of the 2010 Assessment. These hotels include: Courtyard Marriott (128 rooms), Hilton Bayfront (333 rooms), Hampton Inn (91 rooms), Vinoy (361 rooms) and Indigo (76 rooms).

November 3, 2014

Figure 2: Downtown St. Petersburg – Select Hotel Performance Profile

Source: STR



As shown above, occupancy among the select Downtown hotels increased from below 60 percent in 2008/2009, to a projected 75+ percent in 2014. Accordingly, ADR increase dramatically from \$132 in 2010, to \$156 for projected year 2014. Since 2010 this represents an increase in revenue per available room (Revpar) of \$79 to more than \$115, or a greater than 30 percent increase in the past four years.

- At the time of the 2010 study, the Grand Bohemian Hotel – a high end hotel – had been approved for development, but was reportedly postponed given economic conditions. Presently, the project is currently in limbo, although there has been some talk of the development group restarting the project.
- As part of the 2010 Assessment, it was noted that the opportunity for near term hotel development was not warranted; and, it was more likely to be an opportunity five to seven years down the road. In fact, market conditions have certainly strengthened and the opportunity for hotel development in Downtown St. Petersburg is closer in view. Today, the Kolter Group has a 170 room full service hotel planned for its mixed use downtown development project and we would expect that additional hotels will continued to be planned in the downtown to the extent that the visitor market continues to grow.

November 3, 2014

Banquet and Meetings

As was the case in 2010, banquet and meeting space as a stand alone enterprise rarely can support its own capital cost given the relative cost of building out catering kitchens; however, we still believe that the Pier provides a high profile/highly desirable local space for events and meetings.

There does remain a substantial amount of banquet and meeting space in Downtown St. Petersburg hotels which can accommodate very large groups. Hotels such as Vinoy and Hilton will primarily serve the majority of events planned for over 300 people, as they can accommodate the often required hotel room blocks. In the absence of any new hotel at the Pier, stand-alone banquet and event space should not compete directly with the downtown hotels; rather, it should focus on smaller events servicing the local resident and business community. As noted in 2010, if capital issues associated with the build out of a catering kitchen are a major issue, the banquet/meeting space can be designed into a large destination restaurant which principally services the space out of the restaurant kitchen.

Based upon discussion with a number of local venues and planners as part of the update analysis, event conditions have improved in concert with the economy, and it can be expected that a dedicated banquet/meeting facility can accommodate 4 to 6 events per week, with an average attendance of 100 guests, or 20,000 to 30,000 annual attendees – an increase of 10 to 15 percent above 2010 estimates. Accordingly, pricing for food and beverage services have generally improved as well.

Marina

Despite the presence of over 660 municipal slips adjacent to the Pier (which maintain a nearly 100% occupancy), there is potential demand to accommodate larger local and transient vessels and provide additional courtesy docks for locals.

Based on preliminary estimated from information collected to date, the marina market appears to have improved since 2010, though results are mixed, and summarized as follows:

- Boater registration in Pinellas County declined by 6.2 percent from 2010 to 2013 (1.3 percent per annum).
- Despite the decrease in registrations, among five marinas surveyed as part of this study, including four public marinas and the Harborage Marina in downtown St. Petersburg, the overall average rental rate increase by nearly 2 percent, from \$9.18 per lineal foot/month to \$9.34 in 2014.
- The overall occupancy rate among four of the five marinas, declined marginally, from 94.9 percent in 2010 to 93 percent in 2014. This was largely the result of a sharp drop in occupancy at the Clearwater marina, from 95 percent to 75 percent.

November 3, 2014

- Although registrations have moderated during the past few years, the trend toward larger average size of vessels which require in water dockage rather than trailering continues to grow.

Concurrent with the 2010 Assessment, transient slips will be particularly welcome by any Pier oriented development. Access to the Pier via the water is currently very limited given the very small number of safe courtesy docks available and expanding the ability of boats to safely access the pier via the bay (including addressing the wave attenuation requirements) will both support any enterprise activity at the Pier and create a market for visitors with larger vessels to dock and be present to make purchases at the Pier thru the morning, afternoon, and evening hours.

Regionally Oriented Entertainment Attraction

With the exception of museums (including important museums in planning such as Mr. James' discussed Museum of Southwestern Art) that mostly cater to adults, there are limited non-cinema entertainment attractions for families with children in Pinellas County. While this may be a carryover from the past when the demographic profile of the County was older than it is today, the lack of organized for-profit entertainment activities for families in a County the size of Pinellas is something of an anachronism. While the City of Clearwater is developing a Marine Aquarium, the majority of family entertainment options in the region are not only located in Hillsborough County, but are on the far side of Tampa. Families in Pinellas County must travel long distances to go to a waterpark, zoo, or theme park. Furthermore, families in the City of St Petersburg must travel to the northern part of Pinellas County to attend a simple family entertainment center. One of the clear opportunities at the Pier is to develop family and child friendly oriented pay-as-you-go or gated activities given the Pier's central location, high profile, available parking, and surrounding support activities such as eating and drinking establishments on and adjacent to the Pier.

November 3, 2014

Figure 3: Select Regional Attractions Profile

Type of Venue	Avg. Annual Attendance	Admission Price Range
Themed Attractions		
<i>Busch Gardens</i>	+4 Million	\$65-\$80
<i>Adventure Island</i>	600,000	\$40
Aquariums		
<i>Florida Aquarium</i>	700,000	\$18-\$25
<i>Clearwater Marine</i>	600,000	\$15-\$20
Museums		
<i>Salvador Dali</i>	+370,000 (2011)	\$15-\$17
<i>Sunken Gardens/Great Explorations</i>	95,000	\$4-\$8
<i>Science & Industry</i>	580,000	\$10-\$24
<i>Museum of Fine Art</i>	100,000	\$10-\$17
<i>Lowry Park Zoo</i>	+1.1 Million	\$20-\$25

Our research suggests everything from arcades to waterpark type activities to larger rides could be supported and flourish on or adjacent to the Pier given the limited competition from family attractions within the County and the substantial distances local families must travel for such attractions.

Certain type of family oriented draws, however, must be considered with substantial care from the perspective that to be competitive in today's market including, maritime discovery centers, aquariums or children's museums for example, require substantial non-recoverable capital investments from public or not-for-profit sources. Recent examples range from \$26 million for the Tampa Museum of Art to as high as the \$350 million expansion and renovation of the Cleveland Museum of Art. Unless a benefactor, public or private, is identified we caution against planning the Pier's redevelopment and repositioning around a heavily subsidized conditioned use, several of which has been a point of discussion to date.

Dedicated Performance Venue

Dedicated performance venues, more specifically amphitheatres, have the capacity to draw a great deal of people to downtown St. Petersburg and the Pier for events during peak utilization periods. The amphitheatre market; however, is very constrained by set requirements established by promotion companies and touring acts that need to be catered to and which are constantly changing.

November 3, 2014

The State of Florida has five amphitheatres that rank among the nation's strongest including the Ford Amphitheatre in Tampa – located approximately 22 miles northeast of the Pier. Another area venue, the St. Pete Times Forum, is among the top grossing indoor venues in the world. Although Tampa Bay has two top venues that both seat approximately 20,000 people, the lack of a moderately sized performance venue between 4,000 and 5,000 seats in a market the size of Tampa Bay given its location in the touring rotation offer an opportunity to support this use at the Pier. While minor league baseball stadiums in the region have served this “escalator band” market in the past, a dedicated performance venue offers an open calendar and quality of venue desired by promoters and acts which a stadium cannot.

Our promoter interviews indicate that the facility could be utilized between 12 and 24 times per year. While this would increase pedestrian activity and traffic during discrete periods of time which could support local businesses, for much of the year the facility will be dark and given that the capital cost of the facility is unlikely to be recoverable (although operations should support themselves), we recommend that the inclusion of a performance venue on or adjacent to the Pier only occur in conjunction with a larger development program which includes other entertainment uses which will operate over a much longer calendar. Also, due to the ever-evolving nature of the industry, and the multiple factors that affect the feasibility of such venues, a more holistic market assessment for this type of use would need to be completed.

Summary Conclusions

There are several overriding conclusions which we can draw from our analysis to date and we believe may assist the City and design team as they consider various options for redeveloping the Pier.

1. The market for retail/restaurants, residential, and hotel development has substantially improved from when we completed our initial analysis in 2010. Particularly as it relates to retail/restaurants and family entertainment. The timing is especially good for the Pier given the continued revitalization of these sectors Downtown. However, while the market is stronger, many of our other conclusions as it relates to positioning the Pier to benefit from this. The strong market dynamics continue to exist today and are reiterated or reinforced below.
2. In order for a revenue generating activity on or adjacent to the Pier to flourish it must be attractive to both visitors and locals over the life of the Pier. A visitor attraction which brings a small number of locals to the Pier on a once-a-year basis is unlikely to support the capital and operating costs associated with enterprise activities. However, there are several design features that will encourage the regular presence of locals at and around the Pier. These include:
 - a. Activating the upland areas, length of pier, and pier head so there is a continuous flow of activity, venues, or options to purchase food and drinks along the full length of the

November 3, 2014

upland and pier areas. Without a continuous flow of activity any activity at the pier head is naturally disengaged from the Downtown and any existing local activity in the area;

- b. Encourage and design for increased recreation and other marine activity in and around the pier. This includes the proposed water taxi stop which would bring regular commuter activity to the Pier area and businesses. Landing at foot of the pier will help upland and pier businesses attract commuter expenditure for dinners with families, drinks after work on a Friday (or other) night, and a general regularity of flow of local daily pedestrian traffic in and around the facility; and,
 - c. Consider reducing the length of the pier so that activities along the pier do not have to cover so much distance and can be better co-located and flow can occur more naturally given there is only demand for a relatively modest amount of retail and restaurant space. Physical planning studies completed contemporaneously with our 2010 analysis indicated that views back to the downtown our out to the bay would not be significantly compromised by shortening the pier by 300 to 400 feet. We recommend revisiting the shortening of the length of the pier because we believe it would actually make for a better visitor experience and better support business activity along its length and for the upland areas.
3. Without substantial other activity which drive traffic to the pier (i.e. entertainment use), restaurants are the only retail oriented use which we believe can perform reasonably well on or adjacent to the Pier. We see the opportunity to support three types of food and beverage facilities going forward
- a. Quick Service Restaurants (QSR) which provide the opportunity for grab-and-go at low cost for visitors;
 - b. Destination upscale restaurant(s) potentially with a banquet component which by being elevated would capitalize on the views back to downtown and out to the bay; and,
 - c. Ground floor restaurants and bars which would capitalize on being out on the water and adjacent to marina slips.

We estimate that any reconfiguration of the existing pier structure or new structure(s) on the pier or upland could absorb between 50,000 and 60,000 square feet of restaurant, bar, and banquet space (moderately larger than our 2010 estimates). Further expansion of this program or additional demand for retail space will depend upon other traffic generating uses driving expenditure at the Pier in the future;

4. We continue to believe there is substantial opportunity to incorporate family entertainment elements into the Pier redevelopment program including waterpark type features, arcades and certain well positioned rides. The lack of competition in the County enhance the market potential to accommodate these uses and the chances of identifying a private investor who would take the risk associated with these ventures;

November 3, 2014

5. While an amphitheater style performance venue with capacity between 4,000 and 5,000 could be quite successful at the Pier, success is defined as covering operating expenses and in a Florida context being booked between 12 and 24 days out of the year. Given the limited utilization of such a facility, we would recommend that this type of venue be considered only in conjunction with another more heavily utilized entertainment use;
6. As a result of the growth for larger boats and tremendous regulatory constraints on supply of slips, we believe there is long term rationale for adding additional wet slips at or adjacent to the Pier for larger vessels. Additionally, transient slips and the expansion of available short term courtesy slips in the Pier area will only enhance the ability to attract and accommodate boaters who would otherwise not be able to dock adjacent to the Pier and visit associated activities on and adjacent to the Pier;
7. While a major aquarium, marine discovery center or similar type facility could be a draw for the Pier, we strongly suggest that the city consider these uses only to the extent that a dedicated funding source for capital and operations is identified during the planning process. These facilities invariably require substantial public or foundation fiscal support and cannot support themselves through operations.

Funding Options

One of the major challenges associated with many large scale public investment projects which are considering private business activity (i.e. food and drinking places) to operate on the publicly owned asset such as the Pier is to identify appropriate methods of leveraging private investment for private use activities on publicly owned land. In the case of the Pier, this would include any restaurants, retail, family entertainment or other revenue generating uses which might be built on the pier or adjacent upland areas and generate rental revenue for the City.

What is particularly challenging in the case of the Pier as it relates to attracting private capital for the development of private use activities (with the exception of small scale concessions or kiosks) is the 10-year maximum lease term now imposed for any private use.

There are few private investments that include the development of significant buildings that can be amortized within a 10-year time frame. For example, while a restaurant could amortize its interior build out investment including kitchen equipment over a ten year term, invariably the building within which the restaurant is located (four walls, roof, plumbing, electrical, etc.) will take a substantially longer time period for an investor (even a public sector investor) to achieve an adequate or acceptable return on that investment. Therefore, investors will need a lease in excess of 10 years to be able to be confident that an adequate return can be realized from that investment.

November 3, 2014

In light of the largely conflicting constraints of the City in terms of lease term, and investors/owners in terms of having appropriate time to realize an adequate return, we recommend the City exploring several potentially financially viable and legal avenues as it relates to leveraging private funds for the development of private use activities associated with the Pier redevelopment. These include the following with the full caveat that while these strategies may have been employed in other cities under similar circumstances, each of the below need to be reviewed and analyzed in relation to the St. Petersburg City Charter and any ordinances and rules which may apply:

- *Ten Year Leases for Destination Restaurants* – While unlikely to be a common occurrence, restaurant operators which have the financial capacity to build their own stand alone restaurants may consider the construction of a restaurant under a ten year lease given the relative high investment of interior build out in relation to building capital costs. We would expect that a restaurateur might consider a reasonably short lease under certain circumstances including a significantly reduced ground lease rent to the City, ability to validate customer parking in City owned spaces, a certain level of comfort that the City is likely to extend a popular restaurant’s lease at the end of the lease term and a high profile location which provides a unique competitive advantage in relation to other restaurants in the area. While the City may be able to achieve this type of lease structure in unique cases, we caution the City into thinking more than one or two high profile restaurants in high profile locations can be developed utilizing this structure;
- *Ten Year Leases Converting to Right-to-Use License* – Another option, if permissible under the rules which govern the Pier, is to establish a 10 year lease for any major private investment on the Pier but convert the lease to a right-to-use license for the investor/operator when the asset reverts to the City. As long as the asset is well maintained by the lessee consistent with strict lease requirements at the end of the 10 year period rent, the ground rent would convert to a license fee which would be subject to market conditions at the end of the 10 year lease term. Under the terms of the conversion, the lessee is assured a continued right to occupy and the City is able to reset rent to current market. This structure, if allowed, may find reasonable market acceptance. Indeed, while a bit shorter than we would generally recommend, a ten year “rent reopener” is not unheard of in private ground leases as long as the terms of establishing how the reset rent is transparent and specified at the outset. The lease to license structure would larger mirror a rent reopener structure in a continuing lease with the exception of that in the case of the Pier there would be a transition from lease to license-to-use. Indeed, although municipalities are treated differently than counties under the State of Florida’s constitution, there is ample precedent of projects built on County owned land by private entities, where the built project actually reverts to County ownership immediately upon Certificate of Occupancy. In these cases the developer/operator continues to enjoy all of the benefits associated with a lease although the asset is owned by the County for the entire term of the agreement. While this structure is usually employed to avoid the payment of ad valorem tax (which could not be avoided anyway under current state law as we understand it through a transfer of ownership to

November 3, 2014

the municipality as opposed to a County), the structure outlined above may provide a way for the City to allow for longer occupancy by the lessee on the property without running afoul of the 10 year lease term limitation.

- *City Pre-Leases Space and Finances Improvements* – While the City is certainly not in the real estate development business, if the City were able to negotiate a series of 10 year leases with “credit” tenants (tenants with strong balance sheets) in theory the City should be able to participate in the non recourse debt markets as any other borrower for long term debt (25 to 30 years) as long as the City is able to identify 20 to 30 percent of the total cost of development which would otherwise be an investor’s equity in a private loan transaction. There are compelling aspects to this strategy to realize the development of commercial space in the sense that the City would be able to leverage the private debt markets not unlike a private sector investor and would realize the benefit of not only ground but facility rent. However, the challenges with this scenario are not only related to the City’s ability to finance long term debt under a non-recourse scenario but identifying the 20 to 30 percent “equity” investment on behalf of the City which would otherwise be funded privately.