Summary of St. Petersburg Pier Real Estate Market Assessment

Introduction

Lambert Advisory (Lambert) has completed real estate market research associated with the redevelopment of the St. Petersburg Pier (Pier).

Our research includes 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 how the Pier's redevelopment and under various configurations would support certain real estate uses over the long term. These uses included:

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

The revenue model for the pier has required a $1.2 to $1.5 million annual operating subsidy from the City of St. Petersburg over the last decade. This despite the fact that the decade has spanned both periods of some of the strongest local economic activity in a generation and some of the weakest.

The principal goal of our analysis will be to penultimately help determine alternative ways the subsidy can be mitigated through a repositioning of the existing facility or to estimate the range of subsidy required under various pier redevelopment scenarios now under discussion by the Task Force.

This summary document provides an overview of real estate market information and background leading up to the Task Force meeting of March 5, 2010 and is aimed at arming the Task Force with information which will ultimately allow it 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.

Economic/Demographic Context

The Pier is located within a very stable City and County. The City of St. Petersburg has an existing population base of approximately 245,000. 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, 414,000 residents within 10 miles, and within 3 miles nearly 85,000 residents. According to a University of Pennsylvania study, the broader region (Tampa-St. Petersburg-Clearwater MSA) is expected to continue to grow at a pace of 1.6 percent per year once the negative impact on growth from the current recession on population is diminished.

The primary population base that supports business activity at the Pier, with the exception of a small very wealthy group of residents within and adjacent to Downtown St Petersburg, is largely middle income. According to the US Census, 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. This is comparable to a statewide average of $48,637. We estimate income within a 3-mile area of the Pier to be approximately $38,900. 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 addition to a relatively dense local and regional population base, Downtown St. Petersburg is home to over 23,000 employees comprised mostly of health care, education and business professional workers. According to the Florida Agency for Workforce Development and the Florida Research and Economic Database, these labor market categories are projected to grow more than any other sector in Pinellas County by 2017. Health care and education employment, which currently employs an estimated 6,600 workers downtown at various hospitals and the University of South Florida St. Petersburg campus, is projected to grow 2.4 percent annually by 2017 in Pinellas County. Business professionals make up 40 percent of downtown employment. This employment category is projected to grow 16.4 percent countywide by 2017 coming out of recent slump. Although not particularly well located for lunchtime traffic given the limited time most employees have for lunch, from the Pier's perspective, downtown workers are an important potential market for after work meals and drinks as well as client entertainment.

Visitors, which reportedly make up over 70 percent of the over 1.0 million annual visits to the Pier, grew within Pinellas County from 4.7 million in 2000 to a peak of 5.3 million in 2007 and realized only a slight decline in 2008 to 5.2 million even given moderating economic conditions throughout that year. The annual 2009 data was recently released and indicates a very modest decline in visitation to 5.0 million visitors to the County despite the worst economic climate in over a generation. Consistent with traditional, Florida west coast/east coast patterns the Midwest US had the most visitors to the County with 32 percent of total visits, visitation from the Northeast US had market share of 25 percent of total visitors and Florida residents represent 10 percent. International visitation was 17 percent of the total.

Visitor expenditures steadily increased from $84 per person in 2004 to $101 per person per day in 2008. In 2009, per person per day spending stayed essentially the same at $100; moreover, this translated to $638 per person/trip including accommodations. 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, and shopping. These are the dollars which the Pier is fighting to capture.

There are several important factors which can be taken from the demographic analysis and profile of local residents, workers and visitors:

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. To the Pier's benefit, there is no indication that the profile of this population base will change dramatically over the next decade;

2. Enterprise activities developed at or adjacent to the Pier will only flourish if they attract locals in addition to tourists. In peak year 2007, approximately $1.6 billion was being spent by <u>all</u> tourists to Pinellas County on food, shopping and entertainment purchases assuming all of those purchases were in Pinellas County. For comparison purposes, this translates to the retail and entertainment expenditure of approximately 73,100 households in Pinellas County or approximately 18 percent of total households in Pinellas County. Even at 5.3 million peak visitors, the depth of the expenditure for any of the goods and services which will be offered at the Pier will remain local. Attracting the local market to the Pier over the long term is central to the success of any enterprise developed; and,

3. Given the projections of flat or modest decline in population growth over the next decade in the City and Pinellas County, expenditure at the Pier is unlikely to come as a result of inherent growth in population or incomes. Enterprises, to be successful at the Pier are going to have 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 strengths including a location downtown, extraordinary views, relationship to the water, existing sense of place and draw, and emotional historic attraction.

Retail/Restaurant Opportunity

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

- Lambert applied the Lambert 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 presently and in the near future in the Pier's trade area (3 mile radius). Within this area there are nearly 85,000 residents with a household income of $38,913 and 23,000 workers. According to the Lambert Retail Trade Model, the Pier's trade area will be able to support 182,000 additional square feet of retail than currently is demanded by 2015. This would include demand for both well positioned vacant space as well as new space. It should be noted that approximately 70 percent of this demand falls 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 is in the food and beverage category.

- Based upon an order-of-magnitude on-the-ground survey, we estimate there is currently 338,000 square feet of occupied retail space in St. Petersburg downtown. This includes the movie theatre (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. While the amount of occupied retail space is at a low due to the current economic climate, we do not believe that the relationship between the merchandise categories will change dramatically as the economy recovers. While we would expect 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, there is nothing that implies that there will be large growth in apparel and other soft goods offerings in smaller shops Downtown. Rather, we expect that in the near to midterm, the majority of investment in retail space in the core of Downtown will be in eating and drinking and entertainment;

- In general, rental rates Downtown have not supported new construction of large amounts of retail space. Generally, top St. Petersburg downtown rents in strong economies of $25-$26 per square foot net of utilities, taxes, and other direct costs are not enough to support new construction of a substantial amount of retail space for a private investor in downtown locations. As a result, and with the exception of Baywalk, 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. Current rents given economic conditions in St. Petersburg are well below peak levels noted above. As part of our analysis we also examined other key tourist or retail destinations in the region including Ybor, Channelside, John's Pass, Tyrone Square Mall, etc. to determine the rental premium in these destinations and found little or no premium from other

strong retail nodes with the exception of the Tyrone Square Mall. The Mall, considered the strongest financial performer in the region, enjoys a 30 to 40 percent premium over other retail nodes.

- While it does not appear that there is significant demand for new retail space in Downtown St. Petersburg, we would expect that within the next five to ten years there would be development of an additional supermarket (likely at the high end of the market), 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.

- All of the data suggests 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

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:

- According to the Pinellas County CVB, occupancy rates for hotels throughout the County have been declining since their peak year in 2005 (74 percent) to the present level of just below 68 percent. During this same time, average hotel room rates have increased from just under $80 per night in 2004 to over $100 per night in 2008. When broken down by hotel size; however, occupancy remains highest among those with more than 100 rooms, as does the average room rate at just over $115 per night.

- For the City of St. Petersburg and Downtown St. Petersburg, Lambert has been able to estimate performance for these hotels through interviews and other third party data. Within five miles of the Pier there are 37 hotels with just over 3,000 hotel rooms. The majority of these hotels are independently operated (57 percent) and are located along the 34th Street North corridor. Specific to Downtown St. Petersburg, there are 10 hotels with over 1,200 rooms. Additionally, the Grand Bohemian Hotel – a high end hotel – has been approved for development; however, construction has been postponed.

- While there are 1,275 hotel rooms in Downtown St. Petersburg, there is limited high-end product. Performance for downtown hotels last year was softened, represented a decline from FY2007/2008. In 2009, the average daily rate (ADR) for downtown hotels was approximately

$110 to $120, but the previous year ADR was closer to $130. Also, occupancy levels dropped from close to 70 percent in 2007/2008 to the low 60 percent range in 2009.

- To support new construction of limited service hotels (i.e. similar to the Marriott Courtyard or Indigo) would require an achievable occupancy of between 70 to 75 percent and an ADR in 2010 dollars of between $120 and $130 at a minimum. The addition of a full service hotel (similar to the Hilton or Vinoy) would likely be triggered at a lower occupancy, but would require higher average daily rates to support the construction, enhanced operating and amenity costs. As a result, and given the visitor trends and present economic conditions, the short term opportunity to develop additional hotel product in Downtown St. Petersburg is limited. However, although the hotel market will likely remain soft for the next 2 to 3 years, Downtown St. Petersburg is a central location for hotels and as part of a longer term development program over the next seven to ten years, we believe there is potential for up to two additional hotels downtown (above what is presently operating) – one limited service and one full service hotel. To the extent that it is approved within the context of the overall plan, the Pier and associated upland are a strong location for hotel development once the market stabilizes and begins to demand new rooms again.

Banquet and Meetings

Banquet and meeting space as a stand along enterprise rarely can support its own capital cost given the relative cost of building out catering kitchens; however, based upon out interviews of banquet/meeting space at the Pier should support its own operations and become a high profile/highly desirable local space for events and meetings.

There is a substantial amount of banquet and meeting space in Downtown St. Petersburg hotels which can accommodate very large groups. Indeed, for the majority of events planned for over 300 people, event and meeting planners generally require a substantial block of hotel rooms. As a result, any space dedicated at the Pier redevelopment for banquet and meetings, based upon our discussions with event and meeting planners, should not try and compete directly with the downtown hotels but should be sized to accommodate groups of less than 300 attendees. Although not ideal given the coordinating challenges, if capital issues associated with the buildout 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.

It can be expected that a dedicated banquet/meeting facility can accommodate 3 to 4 events per week, with an average attendance of 100 guests, or 15,000 to 20,000 annual attendees. Whereas room rentals can offset expenses, profits are generated through the food and beverage services offered. Below is a general breakdown of market revenue for food and beverage per attendee:

- Breakfast: $9 to $12
- Lunch: $20 to $25
- Dinner: $32 to $40
- Beverage: $10 to $20

Higher quality venues and/or catering services generally achieve revenue premiums of at least 10 to 20 percent above market average. The high-end of the event market reaches $80 to $90 per head, with premiums well above this range for exclusive events.

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. Lambert examined marina trends throughout the county to determine if marine oriented development can be sustained at the Pier.

Although patterns have been interrupted by the most recent economic downturn, a long term trend exists where the average size of boats continues to grow with the fastest growing category of vessels being those boats over 80 feet in length.

According to the Department of Highway Safety and Motor Vehicles, throughout the region comprised of Pinellas, Hillsborough, Manatee and Pasco Counties, there were 123,810 vessels registered in FY2009, 35 percent of which were registered in Pinellas County. Over the last ten years and despite the recent economic downturn, vessel registration for the region has remained strong and fairly steady, especially for vessels over 40 feet. Currently there are 1,522 boats registered in the region over 40-feet in length.

Slip supply, which is heavily impacted by regulatory constraints, has not kept pace with the demand for larger vessels. Throughout the set of local marinas for which we have data, there are over 5,000 slips (split roughly 50%-50% between wet and dry); however, only 3.7 percent, or 188 slips can accommodate vessels over 60 feet.

Given the extraordinarily difficult permitting conditions, marina slips continue to be in demand. Likewise, given trends in boat registrations, larger slips for both year round and transient docking will be increasingly in demand.

Because of the “boat park” nature of the municipal marina, 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 courtesy docks available and expanding the ability of boats to access the pier via the bay 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 which are heavily adult oriented, 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. 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.

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, 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.

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.

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 Task Force as it considers various options for redeveloping the Pier.

1. 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;

2. 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 recommend that any reconfiguration of the existing pier structure or new structure(s) on the pier or upland be planned to accommodate between 30,000 and 40,000 square feet of restaurant, bar, and banquet space. 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;

3. We 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;

4. While an amphitheatre 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;

5. While there is no short term potential due to existing market constraints to support a hotel at or adjacent to the Pier, over the longer term the property is well positioned to attract hotel development when demand for new rooms exists again. We would caution that any decision to support hotel development at the Pier must be carefully considered in context to the potential development of hotel properties on privately held land in the City;

6. As a result of the growth in demand for larger boats and tremendous regulatory constraints on supply, we believe there is long term rational 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. "The Pier" would not be The Pier without a pier, and thereby the City would lose a major drawing card for Downtown St. Petersburg. What the configuration, size or length of the pier is less important from a marketing/positioning perspective than the fact that a pier in some form or fashion continue to exist;

8. The distance restaurants, entertainment activities, or hotels are out into Tampa Bay does not significantly impact the marketability of those uses one way or another from our perspective. Without a immediate connection to the core of Downtown via an activated pedestrian connection (i.e. with interesting places to stop along the way) it makes little difference from the perspective of the marketability of uses if the revenue producing activities occur on the upland adjacent to the Pier, 100-feet or 1,000 feet into the Bay unless views are substantially negatively impacted. As long as vehicular access to the front door of the activity is maintained for drop off and pick up and there is reasonable access to parking within walking distance of all activities,

there is little or no negative revenue consequence we believe in bringing development closer into the upland or placing the development on the upland.