May 4, 2024

Memorandum

To: City of Miami Beach
Miami Beach Redevelopment Agency

From: PFM Financial Advisors LLC

RE: **Convention Center Hotel Project Financing Considerations**

Introduction

The following memo is intended to inform and support the City of Miami Beach (the "City") and the Miami Beach Redevelopment Agency (the "RDA") on certain financing considerations related to the Convention Center Hotel project (the "Project"). The Project contemplates an 800-key hotel to be developed under a Development and Ground Lease Agreement (the "Lease") that was executed on July 31, 2018 between the City and MB Mixed Use Investment, LLC (the "Developer").

The capital raise associated with the Project is currently estimated to be $589 million.[1] The Developer intends to finance the capital raise with a construction loan of $400M (68%) and equity. The Developer has indicated that it cannot raise sufficient equity to finance the balance of the Project and has requested a $75 million grant from the RDA to fund a budget gap.

PFM Review

PFM has reviewed the Developer's pro-forma analysis to confirm the operating assumptions that support the analysis. From an operating perspective, the pro-forma assumptions with respect to hotel occupancy, Annual Daily Rate (ADR) and revenue per available room (RevPAR) are consistent with data for comparable hotels as of year-end 2022, with the application of those general assumptions in Year 1 of operation in 2027. The pro-forma assumes an annual growth rate of approximately 4% to the ADR through stabilization in 2030 with occupancy at approximately 80% at stabilization which is consistent with occupancy levels pre-COVID. These assumptions are generally consistent with what other convention hotels are experiencing. "Many convention centers reported strong booking pace for 2023, which supported demand and strong RevPar for associated hotels"[2].

The market environment for the development of "Big Box" hotels (hotels that are 800+ keys) has been challenged in recent years due to increased interest rates and inflationary pressures on construction costs. There are multiple examples of local communities that have aided in the financing of hotel projects,

[1] *"MBCC Hotel Financial Model – 3.21.24"*
[2] *"U.S. Big Box Hotel Trends & Recovery" – JLL Hotels Research, November 2023*

including the Savannah-Georgia Convention Center Authority for a hotel that will complement the expansion of their convention center, the Indianapolis City-County Council to support an 800-room Signia by Hilton Indianapolis and the Georgia World Congress Center Authority to support a 1,000-room Signia by Hilton Atlanta.[3] PFM is also aware of proposed convention center hotels requiring financial assistance in Raleigh, NC and New Orleans, LA.

PFM has independently reviewed the pro-forma provided by the Developer to analyze the projected return requirements through metrics such as the Stabilized Yield on Cost, Levered IRR and Cap Rate, among others. The Developer has stated that the limiting factor in its ability to raise equity for the Project is the equity yield, which is calculated as the projected equity distributions for the annual period of April 2029 – March 2030 divided by the total equity contribution (also referred to as the cash on cash return). PFM believes that the return objectives included in the Developer's pro forma are reasonable and standard for the project-types. The Developer will not be able to achieve financial close without some form of financial assistance, as the cash on cash return is projected to be 12.6% in FY2030.

The Developer has requested that the RDA provide a grant in a par amount of up to $75 million, which will enable the Developer to meet its stated equity yield requirement. The grant could be funded from available cashflows generated within the RDA and would be subordinate to the RDA's outstanding 2015 Bonds. PFM has also reviewed the plan of finance provided by the developer's investment banking team and finds it to be suitable for this type of investment. The City's finance team would seek to structure such a grant to be paid solely from available cashflows and be amortized as quickly as possible in order to minimize the added interest expense from their financing, which would also be serviced solely from the available cashflows of the RDA.

Additional Considerations

The RDA has been successful in negotiating for financial consideration over time in return for providing a grant. In addition to in-kind benefits, the RDA will receive subordinated participating payments from annual net operating income and a transaction fee under a capital event.

Conclusion

The City previously entered into a Lease with the Developer for an 800-key hotel. Market conditions, including rising interest rates and inflationary pressures on construction costs, have resulted in a challenging environment to develop a Big Box hotel without public subsidy. The Developer has requested a $75 million grant from the RDA in order to plug a budget gap in its capital raise. The Developer has

[3] *"2023: A Year of New Challenges and Opportunities for Hoteliers" – Hotel & Leisure Advisors*

agreed to provide financial considerations over time to the RDA in return for a potential grant to achieve financial close.