



Marketability and Financial Feasibility of the 3-Corners Plan

City of Vero Beach

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Assignment

- ◆ The City retained PFM to assist with the redevelopment of the 3-Corners Project.
- ◆ PFM will provide the following:
 - Our opinion on the marketability and financial feasibility of the City's development plan
 - Assist with development of Request for Qualifications (RFQ)
 - Assistance with prequalification of potential developers/development partners
 - Support the City's analysis of the developer proposals in response to the RFQ
- ◆ This report presents our findings concerning the marketability and financial feasibility of the Community Plan for the redevelopment of 3-Corners ("Plan").



SUMMARY OF FINDINGS



Summary of Findings – The Plan

- ◆ The Plan is well conceived, and it is financially feasible.
- ◆ The Plan is marketable and likely to attract experienced and well capitalized developers.
- ◆ The keystone of the Plan is a hotel.
- ◆ A 3-to-5-star hotel is both feasible and necessary for the Plan. The hotel comprises:
 - 150-to-225 rooms averaging 900+sqft with kitchenettes along with hotel cottages
 - 3,000 square feet of meeting/banquet space
 - Full amenities including spa, fitness, 2 or more restaurants, and beach tram access
- ◆ At least 4 restaurant pads, as per the plan located in the NE corner along with space for retail shops, are feasible and necessary for the Plan's success.
- ◆ The outdoor tropical feel/theme is attractive and a competitive plus.
- ◆ The hotel can include space for public events/concerts etc.
- ◆ The development can accommodate and benefit from the public access green space.
- ◆ 99-year ground lease is a workable structure.



PLAN OVERVIEW



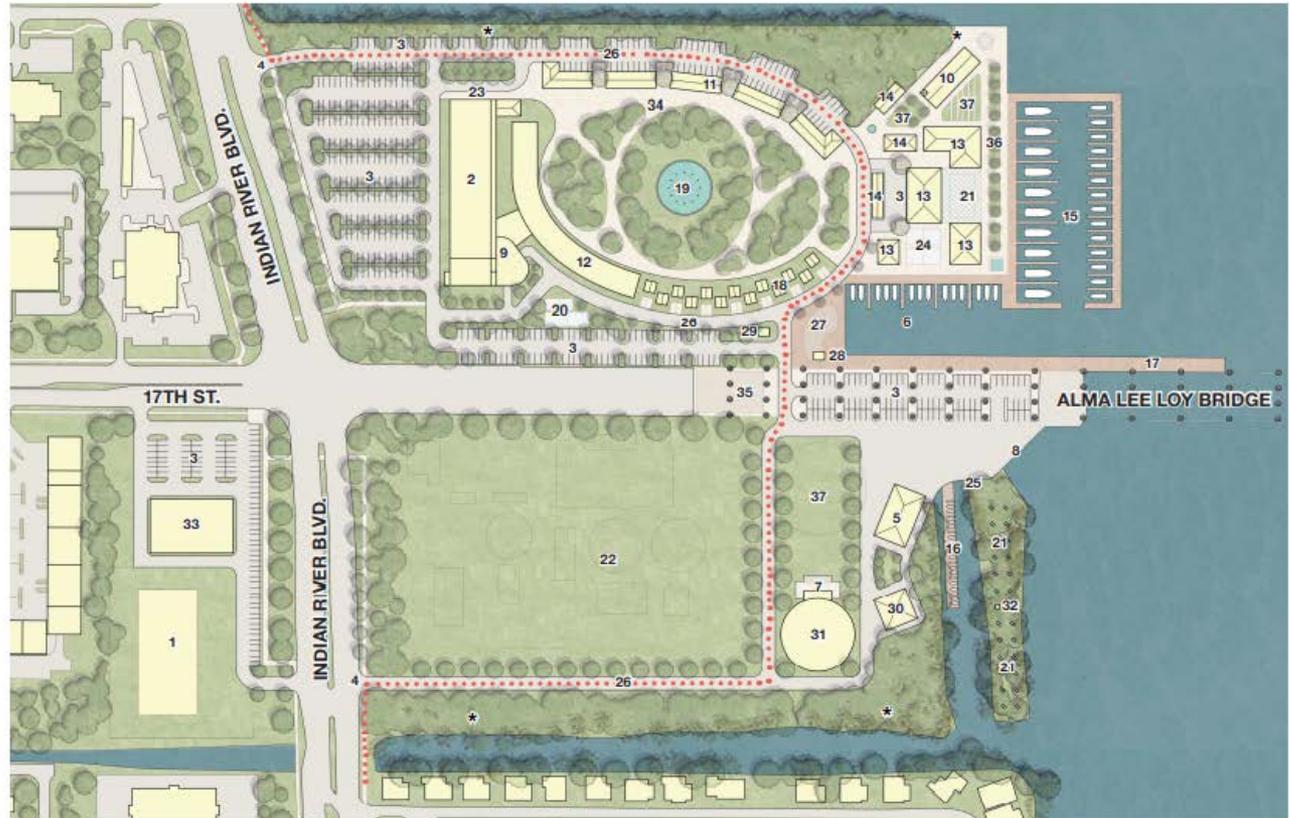
Community Plan

Community Plan

Scenario Three: Annotated Steering Committee Plan

LEGEND

- 1 NEW FPL SUBSTATION
- 2 COMMERCIAL/ HOTEL/ CULTURAL CENTER
- 3 PARKING
- 4 BOULEVARD ENTRANCES
- 5 YOUTH SAILING
- 6 HARBOR
- 7 PERFORMING STAGE
- 8 SMALL BOAT LAUNCHING RAMP
- 9 CULTURAL/ EVENT CENTER LOBBY
- 10 WEDDING CHAPEL/ MEETING HALL
- 11 RETAIL/ FLEX SPACE
- 12 HOTEL
- 13 RESTAURANTS
- 14 RETAIL
- 15 DAY DOCK MARINA
- 16 SAILBOAT PLATFORM
- 17 FISHING PIER
- 18 HOTEL COTTAGES
- 19 SPLASH FOUNTAIN
- 20 HOTEL OUTDOOR RECREATION
- 21 PLAZA / SMALL EVENT STAGE
- 22 FIELD
- 23 HOTEL LOBBY ENTRANCE
- 24 SAND VOLLEYBALL/ RECREATION
- 25 KAYAK/ PADDLEBOARD RENTALS
- 26 PARK DRIVE
- 27 SKATE PARK
- 28 BAIT SHOP
- 29 SNACK SHACK/ BIKE TRAIL HEAD
- 30 ENVIRONMENTAL RESEARCH CTR.
- 31 VISUAL/ PERFORMING ARTS CTR.
- 32 PUBLIC RESTROOM
- 33 GENERAL COMMERCIAL
- 34 PARK/ OPEN SPACE
- 35 SKATE PARK ALTERNATE
- 36 PROMENADE
- 37 LAWN / GREEN
- BIKE TRAIL
- * BOSQUE OF LIVE OAKS AND SABAL PALMS





Community Plan Parameters

- ◆ Summary of project data for the approved community plan shown is shown on the right.
- ◆ The site can accommodate up to 1.8 million square feet of development.
 - Up to 627 hotel rooms or
 - 350 residential dwellings or
 - Some mix
- ◆ Current plan uses 303,530 square feet
- ◆ Plan envisions a 99-year ground lease to a developer who will develop all the uses in accord with the approved community plan

Project Parameters		Volumes
Acreage		20.92
Square Feet		911,275
Maximum Site Density		Volumes
Maximum Square Feet		1,822,550
Maximum dwelling units		350
Maximum hotel rooms		627
Community Plan		Volumes
Hotel/Conference Center		225,900
Retail/Restaurants		60,800
Meeting/Event Hall		16,830
		=====
Total		303,530



HOTEL FEASIBILITY



Overview of Vero Beach Hotel Market- 3-to-5 Star Properties

- The relevant market is 3-to-5 star properties.
- This market includes 20 properties with 1,652 total rooms.
- The directly competitive set comprises 3 properties: Disney, Kimpton, and Costa d'Este.
- All are luxury properties, well maintained and well operated, but none of them are new.

Market Summary	Volumes
3-to-5 Star Hotels	20
Number of Rooms	1,652
Average Occupancy Last 12 Months	66%
Average RevPar Last 12 Months	\$57

Competitive Set	Year Built	Rooms	Meeting sqft
Disney's Vero Beach Resort	1995	211	2,024
Kimpton Vero Beach Hotel & Club	2006	111	1,580
Costa d'Este Beach Resort	2007	94	3,056



Brands in the Market

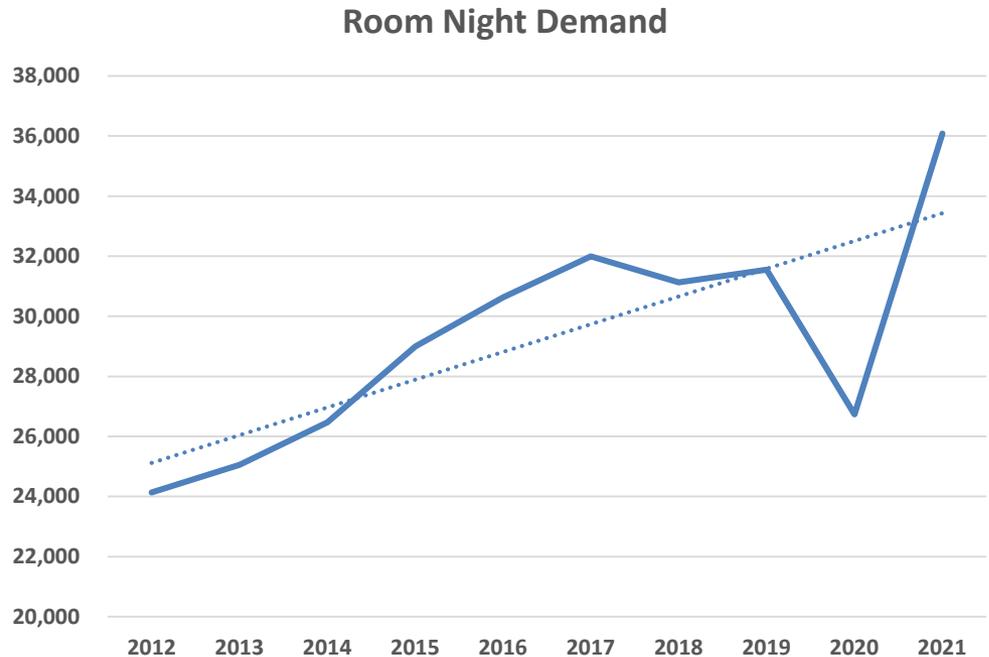
- ◆ Many of the major hotel flags are in the market.
- ◆ However, none now offer their top-tier hotel brands (ie, JW, Ritz, Waldorf). This presents a good opportunity for the new hotel in the Plan.
- ◆ Several notable flags are not in the marketplace including Hyatt, Four-Seasons, Westin, Fairmont.
- ◆ Therefore, there is a significant competitive space for a new hotel.

Brand	# Properties	# Rooms
Best Western	1	56
Hilton	3	233
Marriott	2	163
Holiday Inn	2	169
Kimpton	1	111
Disney	1	211
Staybridge	1	109



Demand has Grown Steadily

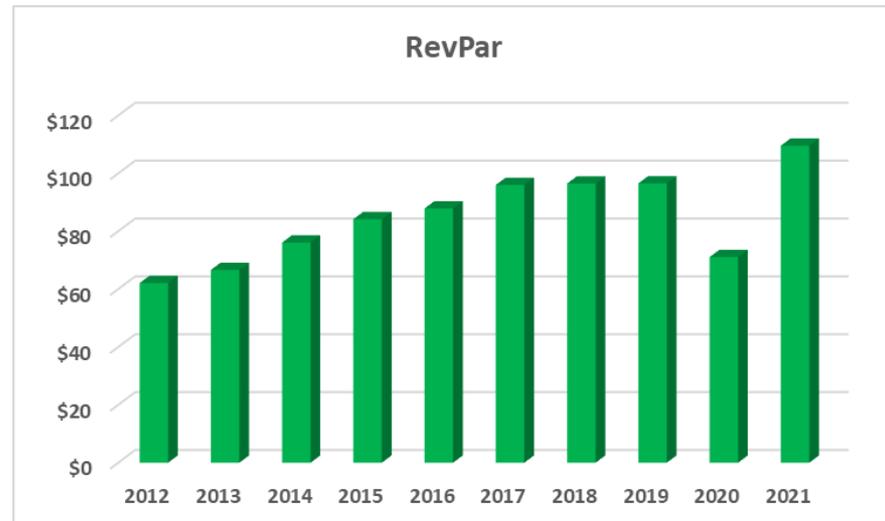
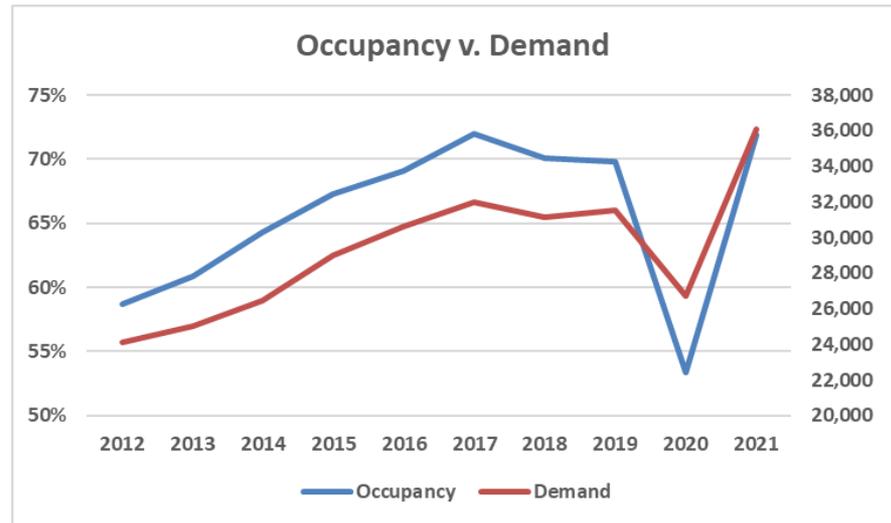
- ◆ Room night demand is a key driver for the feasibility of new hotel in the marketplace.
- ◆ Room night demand has grown steadily since 2012, except for the pandemic lock-down period.
- ◆ Room night demand rebounded strongly after the lock-down ended.
- ◆ Room night demand has grown by nearly 16,000 room-nights per year since 2012.





Rising Demand has Supported Rising Occupancy Rate and RevPar

- ◆ The growth in room night demand pushed up occupancy rates steadily since 2012, except for the lock-down.
- ◆ Rising demand and higher occupancy rates supported stronger revenue per occupied hotel room (“RevPar”).
- ◆ These key market metrics have now reached levels that support new hotel development.





Can the Market Support a New Hotel in the Plan? YES.

- The hotel occupancy rate has averaged 72% in 2021, and room night demand is up 14% compared to 2019.
- RevPar is at its highest level ever at \$110 and stands 13% above 2019.
- Growth in market demand measured by room nights, has averaged about 16,000 since 2012.
- The last directly comparable hotel, Costa d'Esta was built in 2007.
- All these factors strongly support development of a new 3-to-5 star hotel.
- A new 200-room hotel operating at 75% occupancy would absorb 54,750 room nights.
- If no new rooms are added to the comparable market, organic growth alone would support a new hotel delivered in 2026. This would be consistent with the timing anticipated in the Plan.
- A new hotel in a redeveloped 3-Corners would attract many new customers to the market growing room night demand above its historical average growth of 16,000/year.
- A new hotel in a redeveloped 3-Corners would also compete strongly in the existing marketplace probably taking market share from its competitors.



Market Characteristics of a Competitive Hotel for the Plan

- ◆ Ultimately this will be determined by the developer. But PFM expects the following.
- ◆ Business Model – a new hotel will likely be structured as condo hotel where individual units are marketed and sold but are managed by the hotelier. This is currently the most widely utilized business model.
- ◆ Room size/features – condo hotels require units to have kitchenettes. Room size must compete with Kimpton at 900 square feet for a standard room and Disney with larger rooms.
- ◆ First class business meeting facilities and banquet capacity for 200+ is needed for the hotel.
- ◆ A full amenity package is vital for success. The competitive set offers restaurants, spa, fitness, pools, bars, coffee shops, boutique shopping, and direct beach access.
- ◆ The Plan can support all these amenities, except for direct beach access. It will be important for the hotel in the Plan to provide beach access via a jitney and offer a beach club. South Beach Park would be a logical location.
- ◆ In this way the 3-Corners hotel can advertise and can offer the full array of amenities needed to succeed.

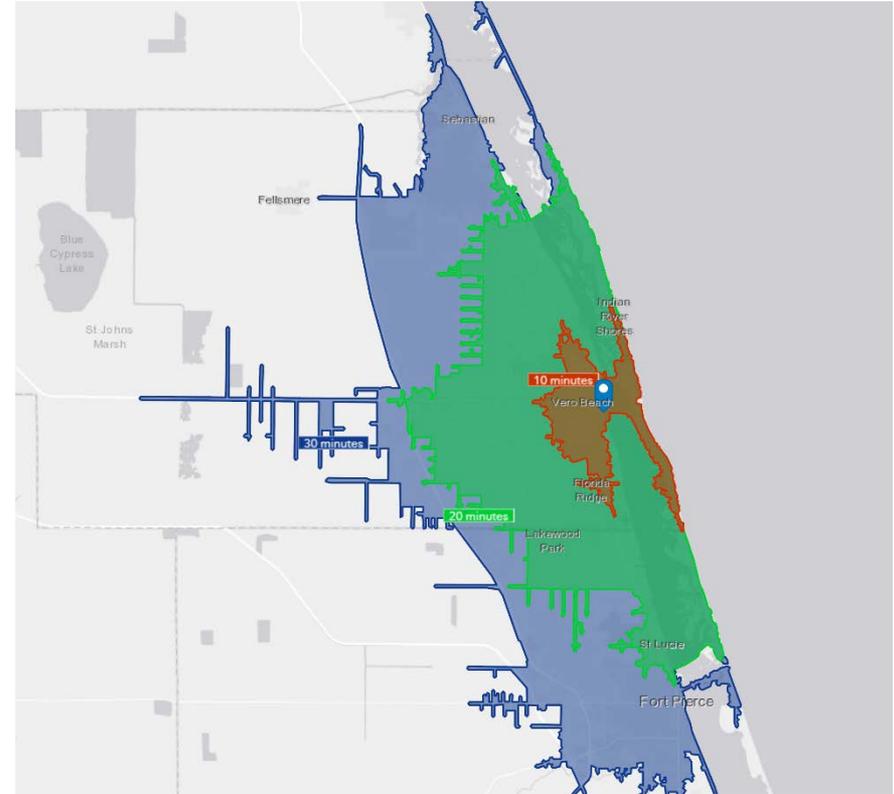


RESTAURANT AND RETAIL FEASIBILITY



Overview of Vero Beach Households

- Given the scale and content of the proposed development, PFM recommends a 30-minute drive time as relevant for analysis of potential visitors and consumers.
- Within 30 minutes drive of the 3-Corners site, there are approximately 100,000 households, and 238,000 residents.
- Median household income is \$52,803 with an estimated median disposable income of \$44,970 per year.



Source: ESRI



Restaurant & Retail Demand

- ◆ Retail and restaurant demand are generally at or above the national average
 - Significant restaurant spending growth projected through 2026 (~20%)
- ◆ Among residents within 30 minutes drive of the proposed site, 25% went to a restaurant four or more times per month in the past year
- ◆ Smaller, but still growing, demand for bars is another positive factor (~20% through 2026)

	2021 Consumer Spending	2026 Consumer Spending	Project Spending Growth
Food	\$781,514,163	\$938,783,919	\$157,269,756
Food at Home	\$467,577,413	\$561,687,343	\$94,109,930
Bakery and Cereal Products	\$59,776,821	\$71,811,454	\$12,034,633
Meats, Poultry, Fish, and Eggs	\$100,772,393	\$121,033,703	\$20,261,310
Dairy Products	\$47,053,059	\$56,537,559	\$9,484,500
Fruits and Vegetables	\$90,769,617	\$109,044,994	\$18,275,377
Snacks and Other Food at Home (10)	\$169,205,522	\$203,259,632	\$34,054,110
Food Away from Home	\$313,936,750	\$377,096,576	\$63,159,826
Alcoholic Beverages	\$52,803,013	\$63,449,409	\$10,646,396

Source: ESRI



Restaurant & Retail Potential

- Overall, the 30-minute drive area around Vero Beach has more demand for food & drink places than there is supply.
- Restaurants have a slight surplus – that is more supply than demand – but demand trends should cover this surplus over a relatively short time horizon (less than 5 years).
- Bars offer a significant opportunity area, with local demand over 5x current supply.
- Waterfront eating and drinking options are particularly limited, increasing value of the chosen locations within the Plan.

Industry Group	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/ Surplus Factor	Number of Businesses
Food Services & Drinking Places	722	\$289,808,611	\$279,090,467	\$10,718,144	1.9	488
Special Food Services	7223	\$4,635,481	\$2,072,725	\$2,562,756	38.2	10
Drinking Places - Alcoholic Beverages	7224	\$23,347,245	\$4,639,638	\$18,707,607	66.8	19
Restaurants/Other Eating Places	7225	\$261,825,885	\$272,378,104	-\$10,552,219	-2.0	459

Source: ESRI



Potential for 3-Corners Site

- The Three Corners project offers significant retail potential, even when discounting the induced demand of the new Hotel development.
- According to market data, Vero Beach has approximately 276,000 SF of occupied restaurant space.
- This represents an average spend of approximately \$108 per SF in 2021.
- When considering the proposed size of the restaurant component of this project, it represents over \$6.5 million in potential restaurant spend in 2021, and could grow by as much as 20% by 2026.

Total Restaurant SF	Restaurant Spending 2021	Spend per SF
276,538	\$29,851,412.00	\$107.95

Estimated Restaurant/Retail SF	Estimated Spend
60,800	\$6,563,169.80

Source: ESRI; Costar; PFM



Can the market support additional restaurant demand? Yes

- ◆ Despite possibly the worst-case scenario for the restaurant industry over the past 18 months, nationwide foot traffic to restaurants is down less than 2% from two-years ago, according to Placer.ai.
- ◆ In addition, lifestyle centers are seeing a surge in visitors as open-air shopping experiences become more desirable and major restaurants and retailers flee indoor malls.
- ◆ With a confluence of positive factors increasing foot traffic – growth of outdoor retail centers, population and spending growth, plus the inclusion of a significant hotel – the 3-Corners site can support the recommended restaurant and retail spaces.



RECOMMENDATIONS TO IMPROVE MARKETABILITY OF THE PLAN



Jitney Service to Beach and Add a Beach Pavilion

- ◆ Each of the competitive hotels offers direct beach access and beach amenities.
- ◆ Providing a jitney service to the beach along with a beach pavilion with food and beverage services makes the Plan hotel competitive.
- ◆ This type of offsite beach access with beach-side facilities has worked well for other hotels without direct beach access including: Ritz Carleton Sarasota, Ritz Carlton Naples, and Naples Grande.
- ◆ South Beach Park is a logical destination and location for the pavilion.
- ◆ The pavilion can be open to the general public in addition to hotel guests.
- ◆ The jitney and pavilion are best operated by the hotelier to assure the quality of service.



Dockmaster and Marina Expansion

- ◆ The marina facility needs a dockmaster to manage operations.
- ◆ The addition of a building to house the dockmaster, restaurant and bar would be optimal. This would control and energize this space.
- ◆ The marina is an important amenity. To maximize its utility consider allowing overnight docking and expanded dockage to accommodate large vessels. There is significant demand for dock space.
- ◆ The combination of the hotel, restaurants and redevelopment of 3-Corners will be a very attractive destination for boaters. Consider envisioning a mini version of Pier 66 in Ft. Lauderdale which has attracted boaters with its hotel and other amenities.



South Parcel Development and Programming

- ◆ Plans for the South Parcel need further development. A developer investing \$100M+ on the north parcel will want comfort that the south parcel will be developed, operated and managed at a high level supportive of the investment in the north parcel.
- ◆ The City should consider developing a portion of the field in the south parcel with a band shell/performing arts stage. Alternatively, the City could find a P3 partner to develop and operate the facility.
- ◆ Regardless of business structure, the south parcel must be carefully programmed and intensively managed, so that it is a successful location and contributes to the success of the northern parcel.
- ◆ There are many companies that develop and manage these types of event spaces. Ft. Lauderdale is in the process of retaining a P3 partner now for this very purpose.