Memorandum

To:	**David Margolis, B.C.S., City Attorney, City of Clearwater; Michael Delk, Assistant City Manager, City of Clearwater; and Jay Ravins, Finance Director, City of Clearwater**
From:	HR&A Advisors, Inc.
Date:	**October 10, 2023**
Re:	Clearwater Bluff Sites City Hall Proposal Evaluation

Executive Summary

Overview and Purpose

At the request of the City of Clearwater, HR&A was tasked with reviewing the revised proposal from Gotham Property Acquisitions, LLC (Gotham) and The DeNunzio Group for the redevelopment of the City Hall Site in Downtown Clearwater, as submitted in April 2023, along four key lines:

(a) Review Gotham's revised plans, financial model, and financial assumptions to assess their accuracy in light of the site and current market conditions;
(b) Based on that analysis, confirm or disconfirm the extent of the financial feasibility gap claimed by Gotham in that revised proposal;
(c) Assess the economic and fiscal benefits that would be created by the project to provide a clear accounting of costs and benefits to the City of Clearwater; and
(d) Outline considerations and recommendations around the City's response to the revised proposal.

HR&A reviewed materials that Gotham provided pertaining to their Original Proposal submission in July 2022, their Due Diligence Analysis, and their Revised Proposal with Reduced Purchase Price submitted in April 2023 and evaluated changes in the proposal's programmatic and financial assumptions, economic and fiscal impacts, and overall financial offer. This memo provides a summary of our core findings.

Background

In response to the City's Call for Development Concepts in June of 2022, Gotham's initial proposal (the "Original Proposal") offered a $15.4 million purchase price and proposed a two-tower concept that would deliver 600 residential units and 25,000 square feet of retail. This proposal was accepted by the City and formalized in a Development Agreement between the City, Gotham, and The DeNunzio Group that established a minimum threshold of 500 residential units and a purchase price of $15.4 million, among other terms. After undergoing a due diligence period as part of that development agreement, Gotham presented a Revised Proposal to the City Council in April of 2023, responding to changing real estate market conditions and tighter capital markets which were impacting the financial viability of the Original Proposal, noting that there was approximately an $80 million gap in project feasibility. The proposed modifications to the plan included changing the design from two towers to one, reducing the number of units from the minimum of 500 in the Development Agreement to 400, retaining the initial parking subsidy as noted in the development agreement and seeking an additional subsidy of $4 million, and proposing two approaches to altering and deferring payment to close the full financial gap.

Key Findings

HR&A reviewed Gotham's financial models and conducted independent benchmarking exercises across a wide range of assumptions, including residential rents, insurance costs, operating expenses, property taxes, impact fees, cap rates, financial return metrics, and development costs. To support a review of construction costs, HR&A retained Dharam Consulting, a construction cost estimation consulting firm. Below, we highlight five key findings from our analysis, which are expanded upon in the body of this memo.

1. **Based on HR&A's review of Gotham's financial model, most real estate market assumptions employed are in alignment with market trends, industry standards, and prior transactions.** Recognizing that there is complexity and nuance in real estate assumptions, HR&A found three items worth further discussion:

    a. Cap Rates.[1] Gotham's underwriting of cap rates is reasonable and reflective of current market conditions but could be seen as overly cautious, as the metric is meant to approximate valuation farther out in the future. The 5.25% cap rate assumption is justified in today's market, but could compress in future years closer to the building's sale, generating greater returns for Gotham, and decreasing the size of the overall financial gap. Based on HR&A's research and understanding of the market, we do not believe that negotiating with Gotham on cap rate assumptions is likely to be seen as a source for closing the financial gap.

    b. Operating Expenses. Gotham's operating expense assumptions were provided by a property management consulting firm with access to proprietary property management data. While Gotham's operating expense estimates are higher than those that HR&A could evaluate with public data, it is assumed that Gotham's vendor's dataset is a more accurate source of information. Nonetheless, because the proprietary data was not provided to HR&A, it could not be reviewed in detail and verified for applicability to the project, and therefore our analysis is deemed inconclusive.

    c. Construction Cost Estimates. In its review of construction cost estimates, Dharam Consulting identified assumptions in Gotham's estimate that are lower than they would estimate, including relatively low contingencies, suggesting a low level of risk tolerance in their estimates in this early design stage. Any increases to their construction cost estimates would possibly outweigh all savings produced by adjusting cap rates and operating expenses. These have since been reviewed with Gotham and their construction firm, both who stand by their working estimates, and Gotham has committed to stipulations that it would accept construction cost risk.

2. **HR&A's review of Gotham's financial model and independent research into market conditions identified a financial gap of approximately $76.5 to $80.0 million under the Revised Proposal.** Under the April 2023 Revised Proposal, Gotham stated a financial feasibility gap of approximately $80 million, identifying two alternatives with a series of potential approaches to fill the gap:
    a. Reduction of the building program to a single tower with 400 units that allows for reduced construction costs, shorter construction period, and faster lease up (reduction of $55.5 to $56.0 million);
    b. Maintaining the City's parking contribution of $17 million, that would otherwise be reduced proportionally with the reduced program's decrease in parking spaces ($4.8 million);
    c. One of the following approaches to land pricing and timing of payment:

[1] A cap rate is the ratio of a property's income over its cost or value, and is used to calculate the potential rate of return of a real estate investment.

i. Reduction in the purchase price of the site from $15.4 million to $7.6 million (reduction of $7.8 million), to be repaid upon stabilization and no later than five years after closing (savings of $3.4 million);
ii. Purchase money mortgage for full purchase price of $15.4 million, with no interest for 10 years;

d. An additional City contribution ($4 million);
e. An additional commitment from the development team to close the remaining gap, ranging from $500,000 to $4 million, depending upon (c)i or (c)ii.

Based on HR&A's review of financial assumptions, assuming variable assumptions on a cap rate given the discussion above, we believe a financial gap of approximately $76.5 to $80.0 million is substantiated.

3. **The proposed reduction in apartment units is warranted given market dynamics.** In addition to reducing construction costs and development timeline, reducing the number of units right-sizes the development to account for absorption of new residential units in the market. 400 units is on the larger end of residential projects in the surrounding market and, assuming the need to retain a one-tower development scheme, delivery of an even greater number of units at once brings risk of oversupply and slow absorption.

4. **While fiscal impacts of the Revised Proposal are less than the Original Proposal given the reduction in scale, they remain net positive to the City.** The table below summarizes the total value of payment of purchase price, total cost of subsidy, inclusive of parking, impact fees, an additional City contribution, and total fiscal impact. The purchase money mortgage structure introduces a risk of non-payment to City, which is discussed further on page 26 of this memo, and totals are therefore shown including and excluding the payment.

Table 1: Financial Offer Comparison (In Present Value Terms in Year 2023)

	Due Diligence Analysis (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)	**Revised Proposal** (April 2023 Model – Original Purchase Price)
Purchase Price PV[2]	$14,515,977	$6,364,880	$10,801,250
Subsidy (10-Year PV)[3]	($15,187,225)	($19,997,668)	($19,997,668)
Fiscal Impact to City (30-Year PV)	$37,432,739	$27,333,302	$27,333,302
Net Financial Impact to the City:			
Impact without Purchase Money Mortgage Payment (30-Year NPV)	$22,245,513	$7,335,633	$7,335,633
Impact with Purchase Money Mortgage Payment (30-Year NPV)	$36,761,490	$13,700,514	$18,136,883

[2] Assuming a 3% discount rate and 3% inflation.
[3] In reviewing areas of potential subsidy, the City's $1 million contribution to the pedestrian bridge was considered. As the project represents both a developer contribution and City capital contribution towards an offsite public improvement, HR&A has elected to exclude the City's cost as public subsidy, as it is not a direct contribution to the private development project.

Together with the adjacent Harborview site, the development of the City Hall site is intended to activate Downtown Clearwater by generating new foot traffic and spending, including a new year-round population to Downtown, as well as new visitors and workers. The project also represents a scale and quality of development that Downtown has yet to see, and its presence creates a new market comparable by which other projects can follow. The development of both projects is more than the sum of their parts – collectively, they represent a seminal investment in Downtown Clearwater that builds upon the City's investment in Coachman Park.

In addition to fiscal impacts, the development of the old City Hall site will generate substantial economic development benefits for the city of Clearwater. The Revised Proposal will result in $12.1 million in total permanent economic impact, creating 85 permanent full-time-equivalent jobs across the region. The construction period will create 2,395 jobs during that time, with a total one-time impact of more than $322 million.

5. **Building on a long-term coordinated plan to spur activity in Clearwater's downtown, the redevelopment of the old City Hall site represents an important part of that effort, and therefore warrants further efforts by the City to explore if satisfactory terms can be reached with Gotham.** HR&A recommends the City negotiate a counterproposal with Gotham to address three areas of risk:

    a. Financial Gap and Payment Timing: The City should work with Gotham to identify viable means to close the financial gap, with both sides considering measures. Both approaches proposed by Gotham involve a purchase money mortgage, which defers payment to the City for 5 and 10 years, respectively. Under these two approaches, the City would be upfronting all subsidies and receiving payment from Gotham up to 10 years later. In addition, the purchase money mortgage concept introduces the risk of non-payment if the developer were to default over the 10-year period and/or if there were more senior lenders before the City that Gotham needed to make whole. This risk needs to be properly mitigated, and HR&A details a variety of options on page 26 of this memo.

    b. Re-negotiation: To avoid the risk of project delay through subsequent rounds of negotiations, the City and Gotham should see the agreement reached as part of the negotiation of the Revised Proposal from Gotham as a best-and-final offer. The amended Development Agreement should clearly establish that Gotham will be responsible and absorb any real estate market, financial, and construction risks moving forward. This is particularly important in the case of construction costs, given that Dharam Consulting's review suggested possibly low estimates and contingencies in current estimated being used by Gotham. Following discussions with Gotham, they have asserted confidence in their construction cost estimates and have agreed to absorb all construction cost risk. They have also agreed that once the due diligence period is over, they will not come back to the City for further negotiations or in request of further public subsidy.

    c. Project Completion: The City should seek to establish firm construction commencement and completion deadlines in the amended Development Agreement, particularly if Gotham does not pay the City for the purchase of the site upfront, to minimize the risk of Gotham "sitting" on a vacant site waiting for the market to turn, a situation where the City would have little to no recourse under current terms. Gotham has provided closing conditions it would agree to, including a completion guarantee, a guaranteed maximum price from a reputable general contractor, and full entitlements.

Background and Introduction

In May 2023, HR&A was hired to assist in the evaluation of a revised proposal from Gotham Property Acquisitions, LLC (Gotham) and The DeNunzio Group for the redevelopment of the City Hall Site in Downtown Clearwater. Over two decades, the City of Clearwater has sought various strategies to better leverage its waterfront and activate its downtown.

HR&A has worked closely with the City over the years to reposition over 66 acres of Clearwater's downtown waterfront. HR&A led the original Imagine Clearwater master plan, which identified opportunities for catalytic investment downtown, near Coachman Park, including three City-owned Bluff sites: a vacant lot, the City Hall Site, and the Harborview site. Subsequently, in 2018, HR&A conducted feasibility analyses for the three Bluff sites to inform the procurement of a development partner.

An initial solicitation in 2019 failed to identify a suitable development team. In 2021, over 50 local and national developers were informally invited to submit conceptual ideas for redevelopment of the three Bluff sites. Only two responses were received, with concerns voiced over the riskiness of developing when the future of other nearby parcels is unknown. Finally, on June 9th, 2022, the City put forth a Call for Development Concepts specifically for the City Hall and Harborview Sites.

The June 2022 Call for Development Concepts prompted 3 proposals. The proposal teams consisted of Chicago-based GSP Development; Elevate Clearwater, a collective of various developers; and The Bluffs, comprised of New York-based Gotham Property Acquisitions, LLC (Gotham) and local firm The DeNunzio Group.

Of the three proposals, the Gotham-DeNunzio proposal offered the most multifamily rental units, while Elevate Clearwater had the most retail square footage. Both Elevate and Gotham-DeNunzio proposals offered a $15.4 million purchase price for the City Hall site, aligned with third-party appraisals the City had made available. In contrast, GSP offered roughly $3.5 million for both sites and was not seeking incentives for their proposed mixed-use development. Of note, Elevate Clearwater explicitly sought incentives and proposed using $5 million of City CRA funds to build parking. The Gotham-DeNunzio proposal did not mention specific CRA funding, but it did say they were interested in further discussion of how the development incentives mentioned in the RFP could be used by the project. The Gotham-DeNunzio proposal also included two towers on the City Hall Site, with planned green retail corridors and connectivity from Osceola Avenue to the park.

After extensive discussion, City staff ranked the Gotham-DeNunzio proposal first and Elevate Clearwater second. The Clearwater City Council then decided to move forward with the Bluff proposal in June 2022. On August 4th, 2022, the City Council approved a 30-year Agreement between the City, Gotham, and The DeNunzio Group. This Development Agreement established a minimum number of 500 multifamily units, a purchase price of $15.4 million and a holding term. It also set the City contributions to include up to $2 million for a pedestrian bridge, all development fees, and $22 million to cover the cost of parking on both sites, with up to $17 million specifically for 600 spaces on the City Hall Site. The sale and development of these properties then went to a referendum, which asked:

> Shall the Clearwater City Charter be amended to allow the City, instead of selling the vacant City Hall and a portion of the former Harborview sites to the highest bidder at a public auction, to sell the properties to Gotham Property Acquisitions and The DeNunzio Group; who will create approximately 600 apartments and 158-key hotel, retail, entertainment, restaurants and cultural uses available to all Clearwater residents, as further described and limited by City Ordinance 9597-22?[4]

The referendum passed in November 2022 with support from more than 66% of residents.

---

[4] "Downtown Bluffs Development Proposal and Nov. 8 Referendum," City of Clearwater (November 2022).

On April 20, 2023, following months of exchanges with staff, Gotham presented a revised proposal to City Council for the City Hall Site, responding to changing real estate market conditions and tighter capital markets, which were impacting the financial viability of the original proposal. The modifications to the plan included changing the design from two towers to one, reducing the number of units from the minimum of 500 in the Development Agreement to 400, seeking additional subsidy of $4 million, and proposing two approaches to altering and deferring payment to further close a financial gap, which is further detailed on page 26 of this memo.

In June 2023, HR&A was tasked with understanding the financial, economic, and fiscal implications of this revised development proposal for the City Hall Site to support the City in its decision-making.

To evaluate the revised development proposal for the old City Hall site and recommend a path forward, HR&A conducted the following tasks:

- HR&A reviewed materials provided by Gotham regarding the original and new program, including the Development Agreement.
    - This included architectural plans, hard cost estimates, operating expenses, and financial models for the 525-unit proposal and the latest 400-unit proposal. In addition, a geotechnical engineering report and updated market study conducted by Gensler were provided with materials for the 400-unit proposal.
    - General plans for the Harborview site were reviewed for context only – this memo is not meant to be an evaluation of the Harborview site proposal.
- HR&A conducted independent research into the current market conditions to evaluate Gotham's assumptions and model inputs.
    - HR&A engaged with Gotham and DeNunzio to understand their assumptions and changes.
    - HR&A also contracted with Dharam Consulting to perform a review of the construction costs from Gotham. Dharam Consulting reviewed estimates from Moss and Coastal, two construction companies from which Gotham solicited construction cost estimates, and produced a bottom-up estimate that was reconciled with Coastal and Gotham over two work sessions.
    - In addition, HR&A investigated comparable properties for information on common programs, rents, vacancies, and lease-up periods.
- HR&A compared Gotham's latest proposal to other publicly available transactions to understand the fairness of the proposed changes.
- HR&A analyzed the economic and fiscal impacts and benefits of each proposal from Gotham.
- HR&A identified areas of sensitivity and potential risk for the City in moving forward with Gotham's latest proposal.

Throughout this process, HR&A engaged with City staff, as well as directly with Gotham and the DeNunzio Group.

Proposal Evaluation

Summary of Proposals and Agreements

HR&A reviewed materials that Gotham provided pertaining to their Original Proposal submission in July 2022, their Development Agreement from August 2022, the initial Due Diligence Analysis from January 2023, and their Revised Proposal from April 2023. The Revised Proposal has two versions – one with the original purchase price and one with the reduced purchase price. A timeline is shown below for reference.

Table 2: Timeline for Development of the Clearwater Bluff Sites

Timeline	
June 2022	The City puts out a Call for Development Concepts for the old City Hall & Harborview Sites.
June 2022	Gotham-DeNunzio submitted its Original Proposal, suggesting Gotham build two multifamily towers with 600 apartments on the City Hall Site.
August 2022	A Development Agreement was signed by the City & Gotham-DeNunzio.
November 2022	Clearwater voters approved the sale of the Harborview & City Hall Sites
December 2022	As part of its original due diligence period, Gotham solicits hard costs from two construction firms, Moss and Coastal, for a 525-unit, two tower project with a plinth and three levels of an underground parking garage.
January 2023	Gotham contacted the City to inform them that the costs for the 525-unit project created a significant gap and requested additional time for due diligence to work on alternatives. The City granted that additional time through April 30th.
March 2023	Gotham and the City met to discuss findings from Gotham's pre-development planning work, reviewing options to close the identified gap including the reduction of units, modification of parking, and alternative funding options (including a purchase money mortgage). In addition, Gotham solicited revised construction hard cost estimates from Moss and Coastal for a 400-unit, single tower project.
April 2023	Gotham presents a Revised Proposal to the City with 400 units, one level of underground parking, and a single tower. To move forward, Gotham presented two financial approaches involving a purchase money mortgage. To provide the City time to review options for closing the gap, the City Council approves the amendment for the contract extending due diligence through October 31st,
May 2023	HR&A is retained to review Gotham's Revised Proposal.

Gotham began its due diligence period in November 2022, based on a 525-unit, two tower project. As the due diligence period continued, changing market conditions led Gotham to consider the 525-unit project infeasible, so they asked the City in January 2023 for additional time to investigate other options. This led to the creation of a single tower scenario of 400 units, which is documented in their April 2023 financial model, and was presented to the City in April 2023. As reported by Gotham, these changing market conditions included:

- Hard costs increased significantly since the June 2022 proposal due to inflation and site specifics (a January 2023 geotechnical engineering report found that building more than one level of underground parking is extremely expensive and thus cost-prohibitive).
- Operating insurance costs more than doubled, increasing overall operating expenses (excluding real estate taxes).
- Rents decreased modestly across the Clearwater-Tampa-St. Petersburg region since Summer 2022.
- Securing equity and debt has become more challenging.

- Interest rates increased 350 basis points (bps) since July 2022, making the project more expensive to finance.

Due to these trends, Gotham noted that they were not able to see the returns they and their investors wanted with the 525-unit, two tower project. With 525 units, Gotham was estimating a 4.5% Yield to Cost (YTC), as opposed to their desired YTC of 6% or even their July 2022 estimate of an acceptable 5.5% return.[5] Gotham thus proposed a single tower, reducing construction by one year, and eliminating two levels of underground parking. Gotham also decreased the number of multifamily units proposed to 400, despite this being a departure from the requirements of the Development Agreement, which requires 500 to 600 units to be constructed at the site. The change helped address challenges related to the prohibitive cost of building more than one level of underground parking due to subsurface conditions.

When inquired about the possibility of incorporating additional units within a single tower concept, Gotham expressed concerns with the ability of the market to absorb more than 400 units in a single leasing cycle, considering the Heron in Tampa had 419 units and had a long leasing period, as well as research from their consultant Gensler that recommended leasing cycles of no more than 250-300 units. Additionally, Gotham and DeNunzio claimed that height was a major discussion point in the November 2022 referendum and that decided to not exceed the height of the neighboring Water's Edge in their one-tower concept.[6]

Table 3: Program Comparison

Assumption	**Original Proposal** (June 2022)	**Development Agreement** (August 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Gross SF	998,000 SF	-	1,080,097 SF	618,314 SF
Retail SF	25,000SF	Up to 40,000 SF	14,000 SF	15,900 SF
Residential Units	600 units	500-600 units	525 units	400 units
Parking Spaces	600 spaces	Subsidy contribution is based on 600 spaces	548 spaces	440 spaces
Underground Parking	3 levels	-	3 levels	1 level
Stories	27 stories	Can be up to 289 ft tall	26 stories	28 stories

Source: Gotham

To meet a 6% yield-on-cost, Gotham proposed two approaches in an April 2023 presentation to City Council, both for a single-400-unit tower with reduced parking:

- The first approach Gotham put forth for consideration would reduce the purchase price from $15.4M to $7.6M, delivered as a purchase money mortgage at 0% interest, to be paid upon stabilization but not later than 5 years from closing.[7] Under this approach, Gotham also seeks an additional $4M in City contributions and an exception to the Development Agreement to retain the entire $17M the City committed for parking, despite now delivering less than 600 spaces. Gotham then committed to closing the remaining financial gap, estimated at approximately $4M.

---

[5] Yield to Cost (YTC) = Net Operating Income / Total Development Cost – net of subsidy and hard cost escalation. For more information on the project's estimated financial returns, see page 14.

[6] The City, however, noted that this is not a major area of concern to them and that they would be comfortable and open to Gotham exceeding the height of their Revised Proposal. This is in part because the Downtown Core is a zoning district intended for high density use, and the district has no height limitation. In addition, the City Council and voters at the 2022 referendum expressed a desire for 600 housing units, and so the City understands that might mean a taller building is needed to accommodate the desired number of units.

[7] According to Gotham, the net present value of the $7.6 million purchase money mortgage is $3.4 million.

- Alternatively, Gotham's second approach proposes a $15.4M purchase money mortgage with no interest for 10 years.[8] Gotham cites their ability to make this project viable due to changes to the program, shorter construction and lease up duration, and value engineering. Similar to the first approach, this strategy asks for an additional $4M City contribution. It also seeks to retain the entire $17M in parking set aside in the Development Agreement, despite having less than 600 spaces.

Table 4: Development Budget Comparison

	Original Proposal (June 2022)	**Development Agreement** (August 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)	**Revised Proposal** (April 2023 Model – Original Purchase Price)
Acquisition Costs	$15.4M	$15.4M	$15.4M	$7.6M (with a purchase money mortgage)	$15.4M (with a purchase money mortgage)
Sources					
Debt	$227.8M	-	$204.4M	$117.2M	$122.1M
City Funds: Parking + Other	-	$17M (minus $30,000/space if fewer than 600 spaces are delivered)	$15.44M	$21M (including additional $4M ask)	$21M
City Funds: Bridge	-	Up to $2M	$1M	$1M	$1M
City Funds: Permit + Impact Fees	$939.4K	CRA will pay all permit/impact fees on Gotham's behalf (estimated at $939.4K in proposal)	$1.2M	$952.3K	$952.3K
Purchase Money Mortgage	-	-	-	$7.6M (fully paid in Year 5)	$15.4M (fully paid in Year 10)
Equity	$122.6M	-	$118.7M	$65.3M	$61.5M
Total Sources	**$350.4M**	**-**	**$340.6M**	**$213.1M**	**$222.0M**
Total City Funds Requested	**-**	**Up to $19M + permit/impact fees**	**$17.64M**	**$22.95M**	**$22.95M**
Levered Yield on Cost (Untrended)	5.10%	-	4.52%	5.87%	5.97%
IRR	17.0%	-	-6.0%	14.3%	14.2%

[8] According to Gotham, the net present value of the $15.4 million purchase money mortgage is $12.2 million.

City staff reported finding the proposal purchase money mortgage unsatisfactory, as the deferral of payment presents some level of risk of nonpayment, explaining the following ramifications. While the purchase money mortgage would be a legally binding agreement, and while we are unaware of Gotham defaulting on any such commitments to date, if for some reason the City was not paid by Gotham, there could be political challenges for the City to bring a lawsuit against a developer in its Downtown. This is especially true as the City is looking to catalyze development Downtown and create a new market for investment. In addition, if the City were to somehow pursue a lawsuit and win, the payment would likely not be easily accessible cash, with lenders likely having first call, and the City's main recourse could become possession of the building, which would not be suitable for a City government that has no interest in managing an apartment building or disposing of a challenged asset.

Assumptions and Inputs Evaluation

HR&A reviewed materials that Gotham provided pertaining to their Original Proposal submission in July 2022, their Due Diligence Analysis, and their Revised Proposal with Reduced Purchase Price submitted in April 2023. Below is a summary of the evolution in key assumptions and inputs that have the greatest impact on the overall financial performance of the development model. HR&A conducted benchmarking exercises to understand how assumptions align with the Tampa metro area market and sensitivity analyses to understand how assumptions may or may not drive a feasibility gap. A further review of all assumptions and their evolution across proposals can be found in Appendix D.

In summary, HR&A found that most real estate market assumptions Gotham employs are aligned with market trends, industry standards, and prior transactions we have analyzed. Recognizing that there is complexity and nuance in real estate assumptions, HR&A found three items worth further discussion, which are discussed at greater length in the table below among the other assumptions reviewed:

- **Cap Rates.** Gotham's underwriting of cap rates is reasonable and reflective of current market conditions but could be seen as overly cautious as the metric is meant to approximate valuation farther out in the future. The 5.25% cap rate assumption is justified in today's market but could compress in future years closer to the building's sale, generating greater returns for Gotham, and decreasing the size of the overall financial gap. Based on HR&A's research and understanding of the market, we do not believe that negotiating with Gotham on cap rate assumptions is likely to be seen as a source for closing the financial gap.
- **Operating Expenses.** Gotham's operating expense assumptions were provided by a property management consulting firm with access to proprietary property management data. While Gotham's operating expense estimates are higher than those that HR&A could evaluate with public data, it is assumed that Gotham's vendor's dataset is a more accurate source of information. Nonetheless, because the proprietary data was not provided to HR&A, it could not be reviewed in detail and verified for applicability to the project, and therefore our analysis is deemed inconclusive.
- **Construction Cost Estimates.** In its review of construction cost estimates, Dharam Consulting identified assumptions in Gotham's estimate that are lower than they would estimate, including relatively low contingencies, suggesting a low level of risk tolerance in their estimates in this early design stage. Any increases to their construction cost estimates would possibly outweigh all savings produced by adjusting cap rates and operating expenses. These have since been reviewed with Gotham and their construction firm, both who stand by Gotham's working estimates, and Gotham has committed to stipulations that it would accept construction cost risk.

Table 5 provides a detailed summary of the assumptions reviewed and HR&A's findings.

Table 5: Assumptions and Inputs Evaluation

Assumption	Gotham Assumption (Revised Proposal)	HR&A Opinion
Residential Rents	$3.61 per square foot	According to conversations with Gotham on June 22, they indicated that because there are no direct comparable properties in Clearwater itself, they identify rents by looking to the mature markets in Tampa and St. Petersburg. They approached a rent assumption by assuming a 15% discount on prevailing St. Petersburg rents and a 20% discount on Tampa rents, equal to $2.97 for St. Petersburg and $3.44 for Tampa. While Gotham's assumption of $3.61 slightly exceeds the high end of this range, it is in line with a discount on individual comps, including the Heron in Tampa (20% discount is equal to $3.76) and the Asher in Tampa ($3.44). Compared to the most comparable multifamily product in Clearwater, 1100 Apex and The Nolen, Gotham's assumed rents represent an approximately $1.40 premium, or 65-70%, over existing product. Because of the unprecedented nature of this project, these rent estimates represent some risk for Gotham in its execution of the project. Understanding Gotham's approach to the project, and the product it seeks to deliver, the $3.61 represents a reasonable assumption for rents per square foot for Gotham's underwriting of a new construction, top-of-the-market product that does not currently exist in Clearwater. **HR&A Opinion:** Sound
Insurance	$1,800 per unit	HR&A found that average insurance premiums per multifamily unit were lower than this in the Tampa metropolitan area at roughly $700-$730 per unit.[9] However, insurance premiums have increased dramatically in the past year across states with climate-related risk, with a particularly sharp surge in Florida. Estimates of projected increases over the course of 2023 vary from 20% to 50%, suggesting insurance costs per unit could reach $1,100 if on par with the larger region. Gotham's insurance assumptions could fall within the realm of feasibility given the rapid escalation and uncertainty around insurance premiums into the future but are currently relatively high. **HR&A Opinion:** Higher than existing, but reasonably sound given rapid escalation
Operating Expenses	$8,039 per unit/year (exclusive of taxes and inclusive of insurance)	Gotham's operating expense assumptions originate from the property management consulting firm Greystar, whose estimates are based on ~30 comparable properties across Florida.[10] HR&A has not seen detailed operating expense data for this set of properties due to confidentiality. In a benchmarking exercise, HR&A identified alternative

[9] CoStar; Trepp, "Impact of Rising Insurance Costs in Major Coastal Multifamily Markets," June 2023.
[10] Comparable properties include 31 properties with an average of 324 units per property located in Southwest Florida, Southeast Florida, and North Florida markets.

Assumption	Gotham Assumption (Revised Proposal)	HR&A Opinion
		operating expenses that are slightly lower than Gotham's. HR&A found that prevailing annual operating expenses, inclusive of insurance, but exclusive of taxes in the Tampa metropolitan area are roughly $6,100 - $6,700 per unit, according to CoStar.[11] Operating expenses per unit in the Central Pinellas and North Pinellas submarkets fall on average in the middle of this range, at $6,500 exclusive of taxes.[12] Using the Central/North Pinellas average, with an additional 35% premium on the costs of insurance to account for recent substantial increases in insurance premiums in Florida (as described in the row above), results in an average operating expense of about $6,700 per unit, or 20% less than Gotham's assumption.[13] HR&A assumes that Greystar's proprietary dataset is more comprehensive and reliable than the data available on CoStar, but because Greystar has not provided the detailed data on their 30-property comp set, it is not possible to evaluate whether the dataset is appropriate for the project under consideration. **HR&A Opinion:** Inconclusive, likely sound but trending conservative
Property Taxes	$5,750 per unit/year	Gotham employs an income approach to estimating property tax. Given the Pinellas County Property Appraiser's practice of leaning heavily on an income approach, HR&A conducted an independent calculation of the projected property tax revenue based on an income approach, which provided a similar result to Gotham's assumptions. The use of an income approach and the resulting estimated property taxes are reasonable. **HR&A Opinion:** Sound
Impact Fees	$663,495	Per the Development Agreement, the Community Redevelopment Authority will pay the City all impact fees incurred by the development on behalf of Gotham. The assumed impact fees account for multi-modal impact fees and water and wastewater impact fees. Multi-modal impact fees are calculated based on the project program, with a designated fee per unit by use. The Revised Proposal calculates multi-modal impact fees based on the Original Proposal program, with 600 residential units and 25,000 square feet of retail. Estimated impact fees based on the program in the Revised Proposal are approximately

[11] CoStar; HR&A Analysis for Florida Apartment Association, 2020

[12] CoStar; average operating expenses per unit for 4 and 5-star multifamily properties in the Central Pinellas and North Pinellas submarkets. The City Hall site is located on the border between these two submarkets. The average of operating expenses per square foot exclusive of property taxes for the two submarkets, $5.57, is close to the average for the overall Tampa market of $5.70. The Tampa market includes the City of Tampa, St. Petersburg, Clearwater, Dunedin, and extends north to Spring Hill and east to Plant City. The Central/North Pinellas submarket average is 9% below the high mark of $6.08 per square foot in North Tampa.

[13] Insurance premium based on National Multifamily Housing Council (NHMC) 2023 State of Multifamily Risk Survey and Report

Assumption	Gotham Assumption (Revised Proposal)	HR&A Opinion
		$450,800. While an almost 50% difference, updating impact fees based on the updated program has minimal to no impact on return metrics. **HR&A Opinion:** Relatively high, but limited in material impact to findings on financial valuation
Cap Rates	5.25%	Gotham assumes a 5.25% cap rate in its Revised Proposal, up from 5.00% in the Due Diligence Analysis, a significant increase that impacts the project's internal rate of return and presumably, the target yield to cost, as explained in the next paragraph. Nationally, multifamily cap rates have increased, from 3.80% - 4.25% at the beginning of 2022 to 4.7% - 5.3% in Q1 2023, and 80% of investors project an increase in multifamily cap rates in the Southeast US over the next year.[14] Gotham's cap rate assumptions align with cap rates for the Tampa and St. Petersburg markets, which had cap rates of 4.90% and 5.00% in Q1 2023, respectively. While understanding current and short-term trends in cap rates is important, the cap rate is used to calculate the property's exit value at least 10 years in the future, as well as refinancing at stabilization. Given the projected expansion of the multifamily market in the Tampa market over the next several years, further cap rate compression could occur; decreasing cap rates would generate a higher IRR.[15] A return to a 5.00% cap rate would generate a 15.1% IRR, 40 basis points above Gotham's current projected IRR of 14.7%. The 5.25% cap rate assumption is justified in today's market but could compress in future years closer to the building's sale, generating greater returns for Gotham, and decreasing the size of the overall financial gap. **HR&A Opinion:** Reasonable given current market dynamics but potentially conservative
Financial Returns	6% YTC	Gotham uses Yield to Cost (YTC), a metric representing the net operating income divided by the total development cost, as its primary metric of feasibility and to determine the size of the gap in feasibility. Shifts in assumptions that impact the YTC, including changes in the residential market impacting operating revenue, and changes in construction costs and financing impacting the development cost, reduce the YTC. Conversely, increasing net income or decreasing development costs increases the YTC, and therefore reducing the gap in feasibility and need for subsidy. Gotham requires a 6% YTC return threshold, based on a risk premium applied at a risk-free rate. There is typically a relationship between the risk-free rate, cap rate, and YTC.

[14] PWC National Investor Survey, Q1 2023.
[15] Ibid.

Assumption	Gotham Assumption (Revised Proposal)	HR&A Opinion
		HR&A typically sees developers use anywhere between 75-150 basis points as a premium over a cap rate to arrive at a YTC threshold. [16] **HR&A Opinion:** Sound
Development Costs	$210.5 million (inclusive of acquisition costs, hard costs, soft costs, and financing costs)	Gotham is assuming hard costs of $175 million, inclusive of $160 million in direct costs, general conditions, and general contractor insurance, based on information from the cost estimate provided by the construction firm Coastal; $2 million for the elevated bridge; $4.8 million for a 3% escalation and $8.2 million as 5% contingency. Coastal is a preeminent builder in the region with a substantial track record of estimating and building large-scale multifamily projects. Dharam Consulting, a professional cost consultant, undertook a review of Coastal's estimate. They found that direct trade cost estimates could be $29 million higher than what Coastal is projecting, largely because of higher plumbing, electrical and finishes costs. When applying the same contingencies and markups that Gotham and Coastal employ in their estimates, the $175 million in Gotham's model would compare to $195 million in Dharam Consulting's estimate, an increase of $20 million. Dharam Consulting recommends higher contingencies than Gotham and Coastal have assumed, specifically given that the project is early in the design stage. If Dharam Consulting's recommended escalations and contingencies were to be used, total hard costs would be in the $227 million range, $52 million higher or a 30% increase from the $175 million in Gotham's model. Following Dharam's initial review, findings were presented and discussed with Gotham at the end of August, and Gotham expressed disagreement with Dharam's estimates. Gotham argued that Moss and Coastal are active builders in the region and have more reliable and current data, and that the process of seeking initial bids served to compare two independent sources, which relatively aligned. Gotham also expressed concerns with the contingencies Dharam Consulting had used, indicating Gotham could handle and absorb the construction risk. HR&A found soft costs and financing costs ratios relative to hard costs to be aligned with typical market ratios.

[16] When HR&A spoke with Gotham on June 22, they indicated that they assumed a premium of 100 bps over cap rate to arrive at YTC. They departed from this assumption in the written notes that they provided following that call, in which they explained that the YTC is driven by UST increases in recent quarters, and articulated that investors typically require a 6.5% YTC for a project like this in today's context. They explained that they are able to settle for 6% given that this project is located in an Opportunity Zone. Despite this additional explanation, HR&A finds Gotham's original rationale of cap rate plus premium to be a stronger and more sound explanation of how they arrive at the YTC threshold.

Assumption	Gotham Assumption (Revised Proposal)	HR&A Opinion
		Further discussion of this topic appears in *the Risk Assessment and Recommendations* section of this memo, and HR&A believes that commitments by Gotham could remove construction cost overages as a risk to the City if formalized into the development agreement. **HR&A Opinion:** Hard costs, particularly contingencies and escalation assumptions, could be low, underestimating potential changes and trade cost shifts. Commitments made by Gotham adequately address risk.

Fiscal Impact Comparison

In order to help gauge the costs and benefits of the project for the City of Clearwater, HR&A estimated the annual recurring sales, property, and utility tax revenues that the redevelopment of the old City Hall site will create for the City of Clearwater, Pinellas County, the State of Florida, and other local taxing jurisdictions. Sales, property, and utility taxes and franchise fees represent the most impactful public revenue streams. Tax revenue estimates assume that all taxes in the City, County, and State that would now apply to the Project would remain in place over the next 30 years, and that these taxes would retain the same tax formulas and rates now in effect. Sales taxes measure the impacts of spending both onsite at the Clearwater Bluffs site and offsite in retail areas in proximity to the site, such as Cleveland Street, created by introducing new residents to downtown. Property taxes measure the impacts of net new residential units and retail space. Utility taxes and fees measure the impacts of net new residential units. This analysis does not examine fiscal impacts from the proposed redevelopment of the former Harborview site.

Sales Tax: HR&A estimated retail spending onsite by assuming average retail sales of $706 per square foot across retail space at the Old City Hall site.[17] This results in roughly $110,000 in annual County sales tax revenue and $670,000 in annual State sales tax revenue from the Revised Proposal. The City receives an annual reimbursement of State and County sales taxes, HR&A estimates the amount of that reimbursement in Table 14 on page 22.

In addition to direct spending at retail onsite, HR&A estimated the offsite retail spending potential that could occur from the project's new residents at nearby retail establishments within the City of Clearwater. This is expected to have the greatest impact in Downtown Clearwater, including Cleveland Street retail, as well as support new retail establishments to be developed at the Harborview site. HR&A estimated that this spending would generate approximately $80,000 in total annual sales taxes for Pinellas County.

Table 6: Sales Tax Revenue from Direct Onsite Spending (Stabilized Year)

	Original Proposal	Due Diligence Analysis	Revised Proposal
Onsite Retail Square Footage	*25,000*	*14,000*	*15,900*
State Sales Tax (6%)	$1,060,000	$590,000	$670,000
County Sales Tax (1%)	$180,000	$100,000	$110,000
Total	**$1,240,000**	**$690,000**	**$780,000**

[17] Retail Maxim Annual Store Productivity Survey, 2019, adjusted for 2023 dollars.

Property Tax: Gotham estimated property tax revenue generated by new development based on an income capitalization methodology. This methodology closely aligns with the approach favored by the Pinellas County Appraiser's Office. Gotham estimates $5,750 in property taxes per unit in 2022 dollars, which translates into $6,675 per unit in 2029, the first full year of operations after stabilization. These assumptions generate $2.6 million in total property tax revenue per year starting the first full year of operations after stabilization for the Revised Proposal across the City, County, and CRA[18]. Approximately $1.5 million of that revenue, including taxes levied by the County for its General Fund and Health Department, and the City's General Fund, goes to the Clearwater Redevelopment Authority (CRA) until it sunsets in 2035. After 2035, CRA contributions revert to the respective taxing authorities unless the CRA is renewed.

Table 7: Annual Property Tax Revenue (2022 $)

	Original Proposal	Due Diligence Analysis[19]	Revised Proposal
Residential Units	600	525	400
Total Mill Rate	20.3621	20.3621	20.3621
Total Property Tax per Unit	$5,750	$5,750	$5,750
Total Annual Property Tax Revenue	**$3,440,000**	**$3,020,000**	**$2,300,000**

Table 8: Annual Property Tax Revenue by Entity (2022 $)[20]

	Original Proposal	Due Diligence Analysis	Revised Proposal
Annual CRA Revenue (through 2035)[21]	$1,815,000	$1,585,000	$1,210,000
Annual City Tax Revenue (after 2035)[22]	$995,000	$870,000	$665,000
Annual County Tax Revenue (after 2035)[23]	$815,000	$715,000	$545,000
Annual School Board Revenue	$1,010,000	$885,000	$675,000
Annual Other Tax Revenue	$620,000	$550,000	$415,000
Total Annual Tax Revenue	**$3,440,000**	**$3,020,000**	**$2,300,000**
Breakdown by Taxing Authority:			
County – General Fund	$800,000	$705,000	$530,000
School Board	$1,010,000	$885,000	$675,000
County – Health	$15,000	$10,000	$10,000
City – General Fund	$995,000	$870,000	$665,000
Other – Downtown Development	$160,000	$145,000	$110,000
Other[24]	$460,000	$405,000	$310,000
Total Annual Tax Revenue	**$3,440,000**	**$3,020,000**	**$2,300,000**

[18] HR&A conducted an independent analysis of projected property tax revenue also using an income capitalization methodology and generated comparable projected property tax revenue.
[19] For the Due Diligence Analysis, Gotham uses income approach to valuation until stabilization, after which a cost approach is used. Due to the established preference of the Pinellas County Property Appraiser for an income approach, this analysis assumes taxes consistent with income approach for duration of 30-year period for the Due Diligence Analysis.
[20] Rounded to the nearest $5,000.
[21] Revenue directed to the CRA through 2035 includes revenues for the City General Fund, County General Fund, and County Health Department.
[22] City tax revenue after the CRA's expiration in 2035 includes City General Fund revenue.
[23] County tax revenue after the CRA's expiration in 2035 includes County General Fund and County Health Department revenue.
[24] Other includes revenues directed to the Pinellas County Planning Council, Emergency Medical Services, Southwest Florida Water Management District, Juvenile Welfare Board, and the Suncoast Transit Authority.

Local Utility Taxes and Franchise Fees: Assuming an average monthly electric bill of $250 and an average monthly water bill of $100, HR&A estimated electric tax (10%), water tax (10%), and electric franchise fees (6%) generated by onsite residential units that would accrue to the City. For the 400-unit in the Revised Proposal, this amounts to $240,000 in annual utility taxes and fees.

Table 9: Annual Utility Taxes and Franchise Fees Accruing to the City (2022 $)

	Original Proposal	Due Diligence Analysis	Revised Proposal
Annual Electric Tax Revenue	$180,000	$157,500	$120,000
Annual Water Tax Revenue	$72,000	$63,000	$48,000
Annual Electric Franchise Revenue	$108,000	$94,500	$72,000
Total Annual Utility Taxes and Fees	**$360,000**	**$315,000**	**$240,000**

Economic Impact Comparison

High-level economic impact projections for the construction and ongoing operations of the Clearwater Bluffs' mixed-use multifamily development were developed for each program provided: the Original Proposal submission from July 2022, the Due Diligence Analysis from January 2023, and the Revised Proposal from April 2023 (focusing on the version with the reduced purchase price). HR&A utilized the IMpact analysis for PLANning (IMPLAN)[25] input-output model for Pinellas County to develop estimated results from each proposal. This analysis does not examine economic impacts from the proposed redevelopment of the old Harborview site.

HR&A's analysis estimates the following economic impact of the Revised Proposal:

- During the construction period, the Revised Proposal will provide about **$198M in one-time economic activity, with an estimated 2,395** full time equivalent (FTE)[26] jobs **supported during the construction period.**
- Permanently, the Revised Proposal will provide about **$6.8M of economic activity annually, with 57 permanent FTE jobs** supported.

The Revised Proposal shows a clear reduction in one-time jobs and economic impact compared to prior proposals, as shown in the tables below. This mostly stems from the reduction in construction costs, though the smaller unit count also has some effect. While the total labor income has decreased, the average income per worker remains constant across the proposals.

---

[25] IMPLAN (IMpact Analysis for PLANning) is a widely recognized modeling tool developed at the University of Minnesota with the U.S. Forest Service's Land Management Planning Unit. It generates estimates of economic output as well as secondary and induced employment and output based on a series of inputs. IMPLAN traces the pattern of commodity purchases and sales between industries that are associated with each dollar's worth of a product or service sold to a customer, analyzing interactions among 546 industrial sectors for each region, individual counties or groups of counties, and each state in the nation. IMPLAN is used for the preparation of economic impact analyses by many public and private entities throughout the United States.
The economic impact analysis estimates economic output, job creation, and wages/income paid to employees at the following levels:

- Direct impacts: resulting from project construction and operations spending;
- Multiplier impacts:
  - Indirect impacts: resulting from industry-to-industry transactions from project construction and operations;
  - Induced impacts: resulting from employee spending in the economy, including employees of directly and indirectly affected businesses.

[26] Full-time equivalent employment is the number of full-time equivalent jobs, defined as total hours worked divided by average annual hours worked in full-time jobs.

Table 10: One-Time Jobs Supported in Pinellas County (FTE)

Category	**Original Proposal** (June 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Direct Impact	2,745	2,690	1,710
Multiplier Impact	1,100	1,080	685
Total	**3,845**	**3,770**	**2,395**

Source: IMPLAN, HR&A Analysis

Table 111: One-Time Economic Impact in Pinellas County (NPV) [27]

Category	**Original Proposal** (June 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Direct Impact	$318,000,000	$312,000,000	$198,000,000
Multiplier Impact	$200,000,000	$196,000,000	$124,000,000
Total	**$518,000,000**	**$508,000,000**	**$322,000,000**

Source: IMPLAN, HR&A Analysis

The Revised Proposal shows a similar number of FTE jobs supported by ongoing operations as resulting from the Due Diligence Analysis. Overall economic impact is relatively close between the two proposals, as is the total direct income. The relative small change despite the reduction in residential program is due to a larger retail program that creates 5 additional jobs from the Due Diligence Proposal. The modest differences in average income per worker are explained by the lower wages from retail jobs compared to residential-driven jobs. The Due Diligence Analysis provides the highest average income because it has the least retail square footage and thus the least retail jobs. In general, the proposals offer relatively close estimates for permanent, ongoing impact.

Table 12: FTE Jobs Permanently Supported in Pinellas County

Input	**Original Proposal** (June 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Direct Jobs	88	56	57
Multiplier Jobs	42	30	28
Total	**130**	**86**	**85**

Source: IMPLAN, HR&A Analysis

Table 13: Permanent Economic Impact in Pinellas County (Stabilized Year) [28]

Input	**Original Proposal** (June 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Direct Impact	$10,400,000	$7,600,000	$6,800,000
Multiplier Impact	$8,200,000	$5,800,000	$5,300,000
Total	**$18,600,000**	**$13,400,000**	**$12,100,000**

Source: IMPLAN, HR&A Analysis

[27] NPV stands for net present value. This table shows how much spending could occur in terms of today's dollars.
[28] Stabilized year refers to the year the property meets certain occupancy rates, usually at least 80%.

Summary of Evaluation

Gotham's financial model inputs and assumptions are generally aligned with market trends, industry standards, and prior transactions we have analyzed. Based on this review, HR&A identified a financial gap of approximately $76.5 to $80.0 million under the Revised Proposal, given the variability identified in potential cap rate assumptions, in comparison with the approximate $80 million financial gap that Gotham identified.

Table 14 on the following page presents a summary of the collective impacts of purchase price, subsidy requests, and fiscal revenue streams on the City's balance sheet under the various iterations of Gotham's proposals. HR&A estimates that the net financial impact to the City of the Original Proposal was north of $39.5 million, when accounting for the purchase price, the various subsidies and public support, and the revenue from property, local sales taxes and utility taxes over a 30-year period. This amount diminishes to between $13.7 and $18.1 million in the Revised Proposal assuming the payment of the purchase money mortgage, largely because of the reduced Purchase Price, the additional public subsidy request of $4 million, and the reduction in tax revenue from a smaller development program. Without the payment of the purchase money mortgage, it diminishes further to $7.3 million for both alternatives of the Revised Proposal. While the Revised Proposal still results in positive fiscal impact to the City over the long term, this is reduced by more than half from the Original Proposal, and much of the City revenue is backloaded, while subsidies are disbursed upfront.

Table 14: Financial Offer Comparison (In Present Value Terms in Year 2023)

	Original Proposal (June 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)	**Revised Proposal** (April 2023 Model – Original Purchase Price)
Purchase Price PV[29]	**$14,515,977**	**$14,515,977**	**$6,364,880**	**$10,801,250**
Subsidy (10-Year PV)[30]				
Parking *(Disbursed 2025)*	($15,557,408)	($14,129,787)	($15,557,408)	($15,557,408)
Permit and Impact Fees *(Disbursed 2024)*	($1,071,525)	($1,057,438)	($669,877)	($669,877)
Additional City Subsidy *(Disbursed 2024)*	$0	$0	($3,770,384)	($3,770,384)
Total City Subsidy	($16,628,933)	($15,187,225)	($19,997,668)	($19,997,668)
Fiscal Impact to City (30-Year PV)				
CRA Revenue (through 2035)	$11,514,881	$10,983,575	$7,148,634	$7,148,634
City Revenue (after 2035)	$16,450,914	$15,150,757	$11,208,309	$11,208,309
Utility Taxes & Franchise Fees	$10,485,437	$9,174,757	$6,990,291	$6,990,291
Estimated Sales Tax Reimbursement[31]	$3,129,789	$2,123,649	$1,986,068	$1,986,068
Total City and CRA Revenue	**$41,581,020**	**$37,432,739**	**$27,333,302**	**$27,333,302**
Net Financial Impact to the City				
Impact without Purchase Money Mortgage Payment (30-Year NPV)	**$24,952,087**	**$22,245,513**	**$7,335,633**	**$7,335,633**
Impact with Purchase Money Mortgage Payment (30-Year NPV)	**$39,468,064**	**$36,761,490**	**$13,700,514**	**$18,136,883**

Based on this analysis, HR&A presents a series of recommendations following a risk assessment in the next section.

[29] Assuming a 3% discount rate and 3% inflation.
[30] In reviewing areas of potential subsidy, the City's $1 million contribution to the pedestrian bridge was considered. As the project represents both a developer contribution and City capital contribution towards an offsite public improvement, HR&A has elected to exclude the City's cost as public subsidy, as it is not a direct contribution to the private development project.
[31] The City receives a reimbursement of State and County sales taxes. Working with the City of Clearwater, HR&A identified an assumption of a reasonable level of reimbursement, which is equivalent to 50% of the County's annual sales tax revenue.

Risk Assessment and Recommendations

In response to the revised proposal from Gotham, the City has various alternatives. On one hand, the City could accept the proposal as is in the interest of project expediency and focus on introducing guardrails into a revised Development Agreement to minimize risks to the City moving forward. On the other hand, the City could present a counterproposal to Gotham that revises certain material terms of the Revised Proposal (e.g., number of units, purchase price, or amount of public subsidy), including seeking alternate arrangements to the Purchase Money Mortgage. If the City and Gotham failed to reach agreement under any of those two avenues, the City and Gotham could terminate their Development Agreement and the City could seek to re-procure the redevelopment opportunity.

Summary of Alternatives

This section provides a summary of the risks of each alternative and provides recommendations on a possible way forward.

Table 15: Summary of Alternatives

Considerations	Accept	Counterproposal	Re-Procure
Description			
	City accepts revised proposal from Gotham and moves to producing an addendum to the Development Agreement that focuses on minimizing risks moving forward.	City prepares a series of requests to Gotham to negotiate alterations to the proposal and works to execute an addendum to the Development Agreement.	Should the City ultimately fail to reach agreement with Gotham on any of the other two alternatives, the City engages second place respondent Elevate Clearwater and/or opens new procurement process to find a new developer.
Considerations			
Timeline	Accepting the revised proposal from Gotham and working on an addendum to the Development Agreement accordingly should present the fastest timeline.	The renegotiation of a proposal and production of an addendum to the Development Agreement could take between two to three months, depending on the substance of the counterproposal from the City.	Engaging Elevate Clearwater and/or reopening a procurement process could add another 6 to 18 months to the process before a new Development Agreement is fully negotiated and executed and a Due Diligence period is concluded.
Financial	The net financial impact to the City of this proposal is $13.7-$18.1 million, per analysis presented in prior sections. The main issue with this option is that the City would be disbursing close to $22 million upfront in the form of parking, and gap subsidy, and only accruing financial benefits over time, with a payment for the site that could not occur until 5 to 10 years from the moment	Through the negotiation of certain elements of the revised proposal from Gotham, the City could aim to increase the present value of the purchase price and/or reduce the subsidy request, resulting in a net financial benefit to the City greater than the current $13.7-$18.1 million. This could be achieved by renegotiating the timing of the purchase price payments from Gotham, which	The financial impact on the City under this scenario is unknown. While the presence of the new Coachman Park and its early success improves the marketability of these sites, the financial challenges facing the project are real and unlikely to be solved by another development partner, as they are not unique circumstances to Gotham or their concept but rather broader real estate

Considerations	Accept	Counterproposal	Re-Procure
	of transaction. As identified by City staff, the structure of the purchase money mortgage may carry meaningful risk of nonpayment. The lack of commitment to a minimum hold period also increases repayment risk, so it is important that the City formalizes Gotham's commitment to absorbing construction cost risks into any revised version of the development agreement.	could include a payment installment strategy. HR&A's analysis suggests that receiving payment sooner could reduce overall risk to the City, though comes at a cost to Gotham.	market conditions. The City could wait and reprocure in the coming months or years, but there is no clarity as to whether or when construction costs and interest rates will fall relative to rents. In fact, the robust regional pipeline for residential development in the region, with 18,500 units under construction in Tampa and 2,500 units in St. Pete, and large-scale projects in planning such as the Historic Gas Plant District in St Pete and Water Street Phase 2 and GasWorx in Tampa, suggest significant housing supply coming online, keeping up with population growth.
Economic Development	The revised proposal will result in $12.1 million in total permanent impact, creating 85 permanent full-time-equivalent jobs across the region. The construction period will create 2,395 jobs during that time, with a total one-time impact of more than $322 million.	The City could explore with Gotham the possibility of increasing the number of residential units from 400 closer to 500 in the Development Agreement, which would result in a greater one-time and ongoing economic impact than the one of the revised proposal, but it is unlikely to exceed that of the original proposal. This would suggest a taller building, and also may drive other cost implications that impact financial performance, such as a longer absorption period (see note at right on the size of the project relative to comparables in the market) and carry additional project viability risks.	The degree of economic activity of a new proposal from another developer is unknown. It is possible that the residential program in a revised proposal would not exceed the one derived from the 400 units Gotham proposes, given high marks in the region, like the Heron in Tampa are already 419 units, and exceeding that market presents uncertainties with absorption.
Political and Reputational	The current proposal is a departure from the number of units in the Referendum and the Development Agreement, which may have implications for public perception of the project and the City.	The renegotiation of Gotham's proposal could show the City is being thorough in the evaluation of project risks and feasibility and possibly mitigate any negative public perceptions of the outcomes versus stated goals under the referendum.	Delays in the project pre-development stages could present a political risk to Council and City staff. Inversely, they could also be seen as the City fulfilling its fiduciary duty if renegotiation is not successful. There is risk to the future attraction of developers to the Clearwater market if the

<table>
<tr><th>Considerations</th><th>Accept</th><th>Counterproposal</th><th>Re-Procure</th></tr>
<tr><td></td><td></td><td></td><td>market perceives this outcome negatively, having completed two rounds of solicitation. Downtown Clearwater is already seen by the market as a challenging place to develop.</td></tr>
<tr><td colspan="4">Summary of Main Risks</td></tr>
<tr><td></td><td>The City would be disbursing close to $22 million upfront in the form of parking, bridge, and gap subsidy, and only accruing financial benefits over time, with a payment for the site that could not occur until 10+ years from the moment of transaction with risk to the City for nonpayment.
Construction costs could be higher than what Gotham is assuming, further challenging project feasibility and this risk should be fully transferred to Gotham.
The public opinion on the deviation from the referendum unit count and Development Agreement could have political and/or reputational implications for the City and the project.
In the renegotiation of the proposal, the City should establish guardrails and conditions that protect it from any future revisions from Gotham to returns, programs, and assumptions.</td><td>A renegotiation with Gotham could be unsuccessful and the City could find itself having to decide between the other two alternatives in a few months.
In the renegotiation of the proposal, the City should establish guardrails and conditions that protect it from any future revisions from Gotham to returns, programs, and assumptions.</td><td>Given the current development climate, there is a great degree of uncertainty about what the outcome of a re-procurement would be both in terms of financial compensation to the City as well as the development program. The City would embark into a 6- to 18-month process without a strong hypothesis on the outcome.
Future attraction of developers to the Clearwater market could be challenging if the market perceives this outcome negatively, having completed two rounds of solicitation.</td></tr>
</table>

Summary of Risks and Recommendations

Given the evaluation and analysis presented by HR&A above, our recommendation to the City would be to prepare and negotiate a counterproposal with Gotham, focused on a limited set of terms. Building on a long-term coordinated plan to spur activity in Clearwater's downtown, the redevelopment of the old City Hall site represents an important part of that effort, and therefore warrants further efforts by the City to explore if satisfactory terms can be reached with Gotham. The process to arrive at an addendum to the Development Agreement could take between two to three months. At the end of that process, the City could still decide to re-procure the site if the terms of the revised Agreement were not acceptable. The negotiation with Gotham should be centered around minimizing three main areas of risk for the City:

1. <u>Financial Gap and Timing of Payment:</u> Both approaches proposed by Gotham involve a purchase money mortgage, which defers payment to the City to 5 and 10 years, respectively. Under these two approaches, the City would be upfronting all subsidies, including subsidies for the cost of parking, reimbursement of permit and impact fees, and an additional $4 million to fill the financial gap. The City would only receive payment from Gotham up to until 10 years later.

   In addition, the purchase money mortgage concept introduces the risk of non-payment if the developer were to default over the 10-year period and/or if there were more senior lenders before the City that Gotham needed to make whole, and was concluded as unacceptable by City staff for that reason. While it is perhaps viable to manage risk around Gotham's sale of the property to an unknown third party, by requiring full payment at project sale or refinancing, such stipulations does not control for situations whereby Gotham finds itself under financial hardship and/or defaults on the payment.

   Risks associated with the financial gap and timing of payment can be mitigated by a variety of options, including:

   a. The City could consider **reducing the purchase price** if justified based on the appraisal of the City Hall site for a 400-unit single tower project, given the prior appraisal's assumption of condo use at a larger scale of development.
   b. The City could investigate **varying program mixes**, including the addition of condos and further reductions in density, to help close the feasibility gap. Further reductions in density may require soliciting new approvals from the public due to the acceptance of the originally proposed project by voters in November 2022. While reducing the financial gap, further reductions in density would also reduce fiscal returns.
   c. The City and Gotham could explore an **alternative form of conveyance** to alleviate some of Gotham's pressure to disburse for the purchase of the site upfront in full at the moment of close, while ensuring the City captures the upside that may result from public investment in Downtown and a changing market in the mid- and long-term. The City should explore internally and with Gotham the possibility of entering into a purchase and development agreement with phased payments over the short- and mid-term, participation and claw back clauses. While we understand a long-term ground lease would require a new referendum, the purchase and development agreement could be designed in a way that replicates synthetically the risk profile and cash flows of a ground lease. This could also help address the lack of a commitment to a minimum hold period.

   HR&A and the City team also engaged Gotham on potential additional options, which were deemed not satisfactory or of limited benefit. These included reducing the amount of residential parking and/or moving some of the parking spaces offsite or above ground, as well as shared and dedicated parking arrangements with Gotham on the adjacent pipeline 550-space public garage at the site formerly owned by Peace Memorial Church.

2. Re-negotiation risk: To avoid the risk of project delay through subsequent rounds of negotiations, the City and Gotham should see the agreement reached as part of the negotiation of the Revised Proposal from Gotham as the final terms of the transaction. With the due diligence period completed, the amended Development Agreement should clearly establish that Gotham will be responsible and absorb any real estate market, financial, and construction risks moving forward. Any unfavorable deviations in those areas should not form the basis for a request for additional public subsidy, a reduction or meaningful alteration of the program in the Revised Proposal, or a concept with quality standards and/or designs that deviate from those discussed and agreed with the City. As of communications during a meeting on Tuesday, August 29 and a subsequent email communication dated Friday, September 22, Gotham has agreed that once the due diligence period is over, they will not come back to the City for further negotiations.

   As part of this, it is particularly important to offer the City protection in case construction costs were to depart from the current estimate presented by Gotham, given the differences of opinion on costing between Dharam and Coastal. The City should find ways to reflect in the revised Development Agreement that none of the construction cost risk can be transferred to the City, via claims for unforeseen market conditions and escalation, unforeseen ground conditions, or similar findings. As of communications on August 29, 2023, Gotham has agreed to assume all construction cost risk, and closing requirements will include provision of a Guaranteed Maximum Price (GMP) contract from their construction firm, among other items.

   The City should also seek to establish in the addenda to the Development Agreement that the current proposal from DeNunzio for the Harborview site is also a best-and-final offer and that the developer should absorb any real estate market, financial, and construction risks on that site moving forward.

3. Project completion risk: The City should seek to establish firm construction commencement and completion deadlines in the amended Development Agreement, particularly in the event that Gotham does not pay the City for the purchase of the site upfront, to minimize the risk of Gotham "sitting" on a vacant site waiting for the market to turn, a situation where the City would have little to no recourse under current terms. Gotham has provided closing conditions it would agree to, including a completion guarantee that they will need to provide to their construction lender, and have agreed to have a reputable GMP and be fully entitled and permitted for development.

Appendices

A. Information Reviewed and Received

HR&A received materials from Gotham related to the original proposal and 525-unit program (called "Original Program Materials," as well as materials for the 400-unit program (called "Revised Program Materials"). Materials received are shown below for each program.

Table 16: Original Program Materials

Material	Author	Type of Material	Date Submitted
Due Diligence Analysis City Hall Site 1.3.2023	Gotham	Financial Model	1.3.23
Civil Due Diligence Estimates	Stantec	Civil	12.9.22
Geotechnical Engineering Report	Universal Engineering Sciences, Inc.	Geotechnical	1.6.23
ROM Estimates	Coastal	Hard Costs	7.15.22
Probable Project Costs	Stantec	Hard Costs	7.5.22
Due Diligence Project Costs	Coastal	Hard Costs	12.22.22
Proposal Response for Preconstruction Services	Moss	Hard Costs	12.22.22
Insurance Budget	Custom House	Insurance	12.12.22
525-unit Highrise Stabilized Model	Greystar	Operating Expenses	NA
Clearwater Market Analysis	Gensler	Residential Market Study	5.12.22
The Bluffs Complete Proposal	Gotham	RFP Submission	6.9.22
Old City Hall Site Survey	City	Title and Survey	11.7.22
City Hall site title	Chicago Title Insurance Company	Title and Survey	NA
Development Agreement	Pinellas County	Development Agreement	7.28.22

Table 17: Revised Program Materials

Material	Author	Type of Material	Date Submitted
City Hall Site 4.17.23 Reduced Purchase Price	Gotham	Financial Model	4.17.23
City Hall Site 4.17.23 Original Purchase Price	Gotham	Financial Model	4.17.23
Updated Architectural Plan	Behar Peteranecz	Geotechnical	3.30.23
Residential Tower ROM	Coastal	Hard Costs	3.13.22
Singel Tower Order of Magnitude Estimate Summary	Moss	Hard Costs	3.3.23
400 unit Highrise Stabilized Model	Greystar	Insurance	NA
Clearwater Presentation 4.17.23	Gotham	Presentation to the City	4.17.23
Clearwater Market Analysis Update	Gensler	Residential Market Study	12.20.22

B. Economic Impact Sources/Methodology

HR&A utilized the Impact analysis for PLANning (IMPLAN) input-output model for Pinellas County, created by MIG, Inc. (formerly Minnesota IMPLAN Group, Inc.), to analyze the project's economic impacts from both construction and annual ongoing operations at full development buildout. For each dollar of spending in the economy, IMPLAN traces the pattern of commodity purchases and sales between 546 industries within the specified geography. The IMPLAN model is used to conduct economic impact analyses by leading public and private sector organizations across the United States.

The economic impact analysis estimates economic output, job creation, and wages/income paid to employees at the following levels:

- Direct impacts: resulting from project construction and operations spending;
- Multiplier impacts:
  - Indirect impacts: resulting from industry-to-industry transactions from project construction and operations;
  - Induced impacts: resulting from employee spending in the economy, including employees of directly and indirectly affected businesses.

HR&A conducted an economic impact analysis measuring the above impacts of future development at the Bluffs for each proposal. HR&A also examined the fiscal impact of the development. IMPLAN inputs used are below.

Table 18: IMPLAN Inputs for Annual Recurring Economic Impacts from Operations

Category	Code	IMPLAN Description
Residential	61	Maintenance and repair construction of residential structures
Retail	412	Retail-- Miscellaneous store retailers
Restaurant	509	Full-service restaurants

Table 19: IMPLAN Inputs for One-Time Economic Impacts from Construction

Category	Code	IMPLAN Description
Construction	58	Construction of new multifamily residential structures

One-Time Impacts from Construction

HR&A developed a series of assumptions to model the one-time economic impacts of construction of each of the three proposals. The program mix for each proposal and their proposed construction costs are presented below.

Table 20: Program Mix and Construction Costs

Input	**Original Proposal** (June 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Residential Units	600	525	400
Retail SF	25,000	14,000	15,900
Parking Spaces	600	548	440
Construction Cost (excl. land cost)	$318,044,952	$311,590,899	$197,774,515

Source: Gotham

Based on the information above, and using a set of IMPLAN inputs, HR&A estimated direct and multiplier impacts on employment, economic spending, and personal income attributable to construction of the project. These impacts will only be felt during the construction period and will accrue across Pinellas County, given the mobility of workers from their homes to their employment locations. Some of this activity will directly benefit Clearwater residents.

Table 21: One-Time Labor Income in Pinellas County[32]

Category	Original Proposal (June 2022)	Due Diligence Analysis (Jan 2023 Model)	Revised Proposal (April 2023 Model – Reduced Purchase Price)
Annual Direct Impact	$163,000,000	$159,000,000	$101,000,000
Average Direct Income/Worker	$59,000	$59,000	$59,000
Annual Multiplier Impact	$62,000,000	$61,000,000	$39,000,000
Average Multiplier Income/Worker	$57,000	$57,000	$57,000
Total	**$225,000,000**	**$220,000,000**	**$140,000,000**

Source: IMPLAN, HR&A Analysis

Permanent Annual Impacts from Operations

HR&A used the proposed vertical development program mix and estimates of employee density specific to use (see below) to support estimates of retail and residential employment and impact.

Table 22: Impact Assumptions

	Assumptions
Residential	25 units per residential worker
Retail	$679 retail spending per square foot

Source: HR&A Analysis

Deriving IMPLAN inputs from the information above, HR&A estimated direct and multiplier impacts (indirect and induced impacts) across Pinellas County based on the proposals for the City Hall Site. HR&A looked at impacts on employment, economic spending, and personal income attributable to the ongoing operations of the project.

Table 23: Summary of Labor Income from Operations in Pinellas County (Stabilized Year)

Category	Original Proposal (June 2022)	Due Diligence Analysis (Jan 2023 Model)	Revised Proposal (April 2023 Model – Reduced Purchase Price)
Direct Income	$3,500,000	$2,400,000	$2,300,000
Direct Income/Worker	$40,000	$43,000	$41,000
Multiplier Income	$2,500,000	$1,800,000	$1,600,000
Multiplier Income/Worker	$59,000	$59,000	$58,000
Total	**$6,000,000**	**$4,200,000**	**$3,900,000**

Source: IMPLAN, HR&A Analysis

[32] Labor income includes all forms of employment income, including employee compensation (wages, salaries, and benefits) and proprietor income.

C. Fiscal Impact Sources/Methodology

In addition to direct spending at retail onsite, HR&A estimated retail spending offsite by residents of the project at nearby retail establishments in Downtown Clearwater, including Cleveland Street retail. Based on household spending patterns for households located within a 3-mile radius of the site, HR&A estimated that the average household would spend approximately $25,000 annually on retail goods, and that 78% of that spending would take place locally.[33] In turn, this would generate $400-$600,000 in sales tax revenue.

Table 24: Sales Tax Revenue from Indirect Offsite Spending (Stabilized Year)

	Original Proposal (June 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Offsite Retail Spending	*$7,830,000*	*$6,650,000*	*$4,950,000*
State Sales Tax (6%)	$470,000	$400,000	$300,000
Local Sales Tax (1%)	$160,000	$130,000	$100,000
Total	**$630,000**	**$530,000**	**$400,000**

Property Tax: Property tax revenue generated by new development is estimated based on an income capitalization methodology. This methodology closely aligns with Gotham's methodology as well as the approach favored by the Pinellas County Appraiser's Office. This methodology generates $5,750 in property taxes per unit in 2022 dollars, which translates into $6,675 per unit in 2029, the first full year of operations after stabilization.

Table 25: Annual Property Tax Revenue (2022 $)[34]

	Original Proposal (June 2022)	**Due Diligence Analysis**[35] (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Residential Units	600	525	400
Total Mill Rate	20.3621	20.3621	20.3621
Total Property Tax per Unit	$5,750	$5,750	$5,750
Annual Property Tax Breakdown by Authority			
County – General Fund	$800,000	$705,000	$530,000
School Board	$1,010,000	$885,000	$675,000
County – Health	$15,000	$10,000	$10,000
City – General Fund	$995,000	$870,000	$665,000
Other – Downtown Development	$160,000	$145,000	$110,000
Other[36]	$460,000	$405,000	$310,000
Total Annual Property Tax Revenue	**$3,440,000**	**$3,020,000**	**$2,300,000**

[33] ESRI Retail Marketplace Profile and Household Budget Expenditures, 2023.
[34] Rounded to the nearest $5,000.
[35] For the Due Diligence Analysis, Gotham uses income approach to valuation until stabilization, after which a cost approach is used. Due to the established preference of the Pinellas County Property Appraiser for an income approach, this analysis assumes taxes consistent with income approach for duration of 30-year period for the Due Diligence Analysis.
[36] Other includes revenues directed to the Pinellas County Planning Council, Emergency Medical Services, Southwest Florida Water Management District, Juvenile Welfare Board, and the Suncoast Transit Authority.

Annual Property Tax Breakdown by Entity			
Annual CRA Revenue (through 2035)[37]	$1,815,000	$1,585,000	$1,210,000
Annual City Tax Revenue (after 2035)[38]	$995,000	$870,000	$665,000
Annual County Tax Revenue (after 2035)[39]	$815,000	$715,000	$545,000
Annual School Board Revenue	$1,010,000	$885,000	$675,000
Annual Other Tax Revenue	$620,000	$550,000	$415,000
Total Annual Property Tax Revenue	**$3,450,000**	**$3,020,000**	**$2,300,000**

HR&A conducted an independent analysis of project property tax impacts, based on an income methodology. HR&A used the same assumptions for this analysis with the exception of two: 1) cap rate, for which HR&A used a 5.00% assumption, rather than Gotham's 5.25%, based on the supposition that cap rates could decrease in the Clearwater market over the next several years, before the property is sold, and 2) operating expenses, for which a $7,000 per unit expense assumption. Based on this analysis, HR&A's estimated property tax impacts were $7,257 per unit, slightly higher than Gotham's.[40]

Local Utility Taxes and Franchise Fees: To calculate water tax, electric tax, and electric franchise fee revenue, HR&A used monthly utility bill assumptions sourced from the City, including $250 for electricity and $100 for water.

Table 26: Annual Utility Fee and Tax Revenue

	Original Proposal	Due Diligence Analysis	Revised Proposal
Residential Units	600	525	400
Estimated Annual Fee per Unit[41]			
Electric Tax (10%)	$300		
Water Tax (10%)	$120		
Electric Franchise Fee (6%)	$180		
Total Utility Fee and Tax Revenue	$360,000	$315,000	$240,000

[37] Revenue directed to the CRA through 2035 includes revenues for the City General Fund, County General Fund, and County Health Department.
[38] City tax revenue after the CRA's expiration in 2035 includes City General Fund revenue.
[39] County tax revenue after the CRA's expiration in 2035 includes County General Fund and County Health Department revenue.
[40] HR&A's analysis of Gotham's model for the January 2023 Due Diligence Analysis identifies that the model mistakenly shows a cost approach used after year 2028 to estimate property taxes, instead of the income approach used in years 2022 through 2027.
[41] City of Clearwater.

D. Comparison of Inputs and Assumptions Across Proposals

Table 27: Comparison of Program and Timing Across Proposals

Program Assumption	**Original Proposal** (July 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Residential (SF)	540,000	650,470	466,784
Retail/Commercial (SF)	25,000	14,000	15,900
Parking (SF)	210,000	231,930	135,630
Total SF	**775,000**	**1,080,097**	**689,424**
Residential Units	600	525	400
Parking Spaces	600 spaces	548 spaces	440 spaces
Parking Ratio	1.0	1.0	1.1
Stories	25 stories on a shared podium deck	26 stories	28 stories
Construction Period	30 months	36 months	27 months
Hold Period (Post-Stabilization)	0 months	0 months	80 months
Total Project Duration	6.1 years	6.0 years	11.8 years

Table 28: Comparison of Financial Uses Across Proposals

	Original Proposal (July 2022)	**Development Agreement** (August 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Uses				
Acquisition Costs	$15,400,000	-	$15,400,000	$7,600,000
Hard Costs	$284,680,200	-	$277,782,500	$175,040,000
Soft Costs	$39,947,962	-	$32,680,509	$22,528,229
Financing Costs	$5,451,264	-	$2,964,111	$2,192,260
Interest Reserve	$11,529,911	-	$11,035,558	$5,508,116
Operating Deficit	$1,426,126	-	$727,890	$206,687
Total Uses	**$350,426,126**	**-**	**$340,590,568**	**$213,074,892**

Table 29: Comparison of Financial Sources Across Proposals

	Original Proposal (June 2022)	**Development Agreement** (August 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Sources				
Debt	$227,776,982	-	$204,354,341	$117,191,190
City Funds – Parking + Other	-	$17M (minus $30,000/space if less than 600 spaces are delivered	$15,440,000	$21,000,000 (including the additional $4M ask)
City Funds – Bridge	-	Up to $2M	$1,000,000	$1,000,000
City Funds – Permit + Impact Fees	-	CRA covers all fees	$1,121,836	$952,311
Purchase Money Mortgage	-	-	-	$7,600,000
Equity	$122,649,144	-	$118,674,391	$65,331,390
Total Sources	**$350,426,126**	**-**	**$340,590,568**	**$213,074,892**

Project Financing: Key differences in Gotham's financial assumptions among the three proposals include increased cap rates and interest rates, decreased selling costs, and a lower LTC ratio. The Revised Proposal includes an assumed refinancing in Year 6.

Table 30: Proposal Comparison–- Financing Assumptions

	Original Proposal (June 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Disposition			
Exit Cap Rate Retail + Parking	*Not provided*	5.00%	5.25%
Exit Cap Rate Residential	*Not provided*	5.00%	5.25%
Selling Costs	*Not provided*	2.00%	1.50%
Financing			
Construction Financing LTC	65%	60%	55%
Construction Financing Interest	5.00%	6.50%	6.50%
Permanent Financing Interest	*Not provided*	5.00%	5.00%
Refinance Year	NA	NA	Year 6 (Upon stabilization)

Operations, Hold Period, and Exit Strategy: Gotham is assuming a shorter construction period and a faster lease-up in its Revised Proposal, followed by a refinancing after stabilization, after which it will hold the property for 6.5 years. Gotham is required, per the Development Agreement, to not dispose of the property until the City Hall or Harborview project is substantially complete. Gotham underwrote a hold period of at least 10 years, and they confirmed that they intend to adhere to this hold to maximize the 10-year benefit of the project's location in an Opportunity Zone. Gotham plans to use Greystar or an equivalent reputable property manager to manage the property while they remain as property owner and asset manager.

Table 31: Proposal Comparison–- Timeline

Timing	**Original Proposal** (June 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Reduced PP)
Pre-Closing Period	24 months	24 months	20 months
Pre-Construction Period	0 months	0 months	0 months
Construction Duration	30 months	36 months	27 months
Time Until Stabilization	20 months	20 months	13 months
Months from Lease-Up to Refi	0 months	3 months	3 months
Hold Period (Post-Stabilization)	0 months	0 months	80 months
Total Project Duration	6.1 years	7.0 years	11.8 years

Residential Uses: In addition to reducing the overall number of residential units down to 400, the Revised Proposal does not include any affordable units. The Original Proposal and the Development Agreement mention the potential allocation of 10% of apartments as workforce housing for residents earning up to 120% of area median income (AMI), to be provided at the discretion of the Developer. Affordable units are not included in the Original Proposal, the January 2023 Due Diligence Analysis, or in the April 2023 Revised Proposal. Without designated workforce units, units are unaffordable for those making 120% of the Pinellas County AMI of $89,400, requiring 36% of annual income for rent. HR&A understands that the City is not pursuing the inclusion of affordable units at this time. Gotham has confirmed that they do not have interest in using the Live Local Program and per HR&A's independent analysis, it appears that there would be no financial benefit to pursuing the program given the rents and real estate taxes Gotham is projecting in market-rate units.

Parking Uses: Gotham's approach to parking shifted from the Due Diligence Analysis, in which they proposed 548 spaces in a parking garage with three underground levels, to the Revised Proposal, in which they provide 440 spaces in a garage with one underground level and one ground-floor podium level. Underground parking is important for this site due to the desire to keep viewsheds and provide connectivity from Osceola Street to the park. The Development Agreement allocated a total of $22 million in parking subsidy (or $30,000 per space), with $17 million for the City Hall site, roughly $15 million of which was used in the Due Diligence Analysis. The Revised Proposal requests the same level of subsidy for parking but with a decrease in the number of parking spaces provided, increasing the requested subsidy per parking space.

Public Realm: The Original Proposal articulated an approach to the project's urban design and public realm plan, including plans for a transition to Coachman Park and to the street. There are two key public offsite improvements related to the City Hall Site:

a. South Bluff Walk to integrate the City Hall site with Coachman Park (1.54 Acres)
b. Pedestrian bridge spanning Cleveland Street and connecting the North and South Bluff Walks (16 ft wide, 550 ft long)

In the Original Proposal, Stantec estimated the cost of improvements to the public open space within the City Hall Site at $3.4 million, including $400,000 for site preparation and $3 million for on-grade site improvements, including site furnishings, retaining/seating walls, pedestrian lighting, landscaping, hardscaping, art, and signage. The Revised Proposal does not include an updated estimate of public realm improvement costs.

The Revised Proposal maintains the $1 million subsidy request to fund the construction of a pedestrian bridge connecting the City Hall and Harborview sites. However, the cost of pedestrian bridge construction is not broken out in the construction cost estimates provided.

Residential Operating Assumptions: Between the Due Diligence Analysis and the Revised Proposal**,** the residential vacancy factor increased by 50 basis points to 6%, which was consistent with the vacancy assumption in the Original Proposal from July 2022. Residential rent per month per SF of $3.61 remained largely unchanged from the Due Diligence Analysis to the Revised Proposal, but it is still below the $3.75 assumption in the Original Proposal. HR&A investigated the assumed decrease in residential rents by looking at rents per square foot for comparable properties in Clearwater, Tampa, and St. Petersburg using CoStar. It is expected that this project will represent a more premium product than currently exists in Clearwater, where there are few recent high-end multifamily rental properties and, therefore no appropriate local comparable projects. The two existing comparable properties, the Apex and the Nolen, have a weighted average rent per square foot of $2.17.

Table 32: Clearwater Comparable Multifamily Properties

Building Name	Address	City	Units	Stories	Year Built	Effective Rent PSF	Vacancy
1100 Apex	1100 Cleveland St	Clearwater	134	15	2019	$2.15	4%
The Nolen	949 Cleveland St	Clearwater	240	4	2017	$2.19	13%
Weighted Average						*$2.17*	

Tampa and St. Petersburg have a greater number of comparable multifamily rental properties. Premium product in Tampa has a weighted average rent per SF of $4.30, while St. Petersburg has rents of $3.50 per SF.

Table 33: Tampa Comparable Multifamily Properties

Building Name	Address	City	Units	Stories	Year Built	Effective Rent PSF	Vacancy
The Mav Channelside	601 N 1^{2t}h St	Tampa	324	19	2022	$3.44	50%
Heron	815 Water St	Tampa	419	26	2021	$4.70	20%
Cora	1011 E. Cumberland Ave	Tampa	388	23	2021	$4.03	15%
Asher	1050 Water St	Tampa	393	22	2022	$4.30	7%
Weighted Average						*$4.30*	

Table 34: St. Petersburg Comparable Multifamily Properties

Building Name	Address	City	Units	Stories	Year Built	Effective Rent PSF	Vacancy
Ascent St. Petersburg	225 ^{1s}t Ave N	St. Petersburg	357	36	2023	$3.76	59%
EVO	334 ^{2n}d Ave S	St. Petersburg	220	24	2023	$3.58	59%
Camden Central	855 Central Ave	St. Petersburg	368	15	2019	$3.48	3%
Waterview Echelon City Center	100 Main St N	St. Petersburg	226	15	2021	$2.81	8%
Weighted Average						*$3.50*	

Table 35: Proposal Comparison–- Return Metrics

	Original Proposal (June 2022)	**Due Diligence Analysis** (Jan 2023 Model)	**Revised Proposal** (April 2023 Model – Original Purchase Price)	**Revised Proposal** (April 2023 Model – Reduced Purchase Price)
Target Return (YTC)	5.50%	6.00%	6.00%	6.00%
Modeled Returns				
IRR	17.00%	- 6.00%	14.20%	14.30%
YTC	5.53%	4.52%	5.97%	5.87%

E. Research notes on precedent for public subsidy

Public-private partnerships incentivizing the development of desired land uses and public infrastructure are common practices nationwide to promote economic development and attainable housing.

In Florida, public-private partnerships and public subsidies are used to accomplish a variety of economic development goals, including the development of desired infrastructure, affordable units, and parking spaces. In Tampa in 2017, a $21.5M tax-exempt bond was issued to the Tampa Heights Community Development District.[42] This bond was intended to pay for infrastructure in the new 43-acre waterfront mixed-use community being built around the historic Armature Works building. This includes the construction of new roads, sidewalks, the Tampa Riverwalk, parking garages, and other infrastructure. The bond funds are backed by tax increment financing through the City of Tampa.

Public-private transactions in St. Petersburg have been focused on increasing the number of public parking spaces while also encouraging the construction of Class A office space or workforce housing. In the last few years, the City of St. Petersburg has agreed to pay for public parking spaces in 2 mixed-use projects that also align with a citywide goal to increase high-quality office square footage. In the first, a hotel-office project at 450 1st Avenue North, the City of St. Petersburg will pay up to $28.7K/parking space for a minimum of 240 public parking spaces that the City will lease long-term. The City of St Petersburg will also pay up to $20K/parking space for a minimum of 400 public parking spaces in a project with Edge Central Development Partners. That project includes at least 100K square feet of Class A office space and at least 30 workforce housing units. The City has agreed to provide a purchase money mortgage for the portion of the property with the workforce housing so that a promissory note for $2M can be secured.

Gotham has, in the past, relied on public support in projects in the New York Metro area. One example Gotham provided is a $150M+ project in the village of Mount Kisco, Westchester County, NY. The project includes approximately 25,000 sf of retail, 750 structured parking spaces, and 220 housing units, 7% of which are set aside for households at 90% AMI of the Westchester County median income. To achieve this level of below-market homes offered, in addition to the significant number of parking spaces desired, in 2020, the Westchester County Industrial Development Agency approved financial incentives of about $40M, including a payment in lieu of taxes (PILOT), sales tax exemption on building materials, and a mortgage recording tax exemption. This project is still currently under discussion, as a proposal in 2021 was initially rejected by the Mount Kisco Village Board due to concerns over density and parking.[43]

[42] "The Heights Receives $21.5 million in funding," Armature Works (2017). "Tampa Heights project gets $231.5 million in funding," Tampa Bay Times (2017).
[43] "Mount Kisco Says No to Reworked Kirby Commons Development Plan," The Examiner News (August 2021).

Given the relatively untested nature of mixed-use and multifamily development in Downtown Clearwater, it is not unreasonable to expect the City to provide some type of support to the Bluff Sites.

F. Research notes on the current development climate in the region

The Bluffs is not the only project in the region experiencing delays due to unfavorable changes to market conditions and hard cost inflation. The second phase of the Camden Pier District apartments in St. Petersburg has recently been indefinitely put on hold.[44] The original aim was for Camden to build a 95-unit, 18-story multifamily development next to its adjacent development, the 357-unit Camden Pier District Apartments. The existing apartments currently have a 97% occupancy rate, with average rental rates of $3,465. Despite these positive numbers, the hard costs for the 95-unit building are currently too high for Camden to commit to a timeline.

A Dunedin mixed-use project is also currently on hold due to increased costs.[45] This project was set to offer 90 residential units, restaurant/retail spaces, and a 79-room hotel. However, increasing construction and borrowing costs have made the project unfeasible. According to a July 2023 article, the developer received new April 2023 bids from two national multifamily construction firms that were very similar to each other but more than double the budget. The local developer is now working with the City of Dunedin to provide an updated proposal.

[44] Brezina, Veronica, "Inflation puts 18-story tower project on hold," St. Petersburg Catalyst (August 2023).
[45] Willimas, Breanne, "Dunedin mixed-use development 'unviable' as costs rise", Tampa Bay Business Journal (July 2023).

General and Limiting Conditions

Any person who relies on or otherwise uses this Study is required to have first read, understood, and accepted the following disclosures, limitations, and disclaimers and will, by reason of such reliance or other use, be deemed to have read, understood, and accepted the same.

1. HR&A Advisors, Inc. (HR&A) has been engaged and compensated by the City of Clearwater to prepare this Study. In preparing this Study, HR&A has used its independent professional judgment and skills in good faith, subject to the limitations, disclosures, and disclaimers herein.

2. This Study is based on estimates, assumptions, and other information developed by HR&A, Gotham/DNG, and other third-party consultants. Every reasonable effort has been made to ensure that the data contained in this Study are accurate as of the date of this Study; however, factors exist that are outside the control of HR&A and that may affect the estimates and/or projections noted herein. HR&A neither guarantees any results nor takes responsibility for their actual achievement or continuing applicability, as actual outcomes will depend on future events and circumstances beyond HR&A's control.

3. HR&A reviewed the information and projections provided by third parties using its independent professional judgment and skills in good faith but assumes no liability resulting from errors, omissions, or any other inaccuracies with respect to the information provided by such third parties referenced in this Study.

4. HR&A also relied on data provided by or purchased from sources, including the Minnesota IMPLAN Group and Retail MAXIM, in order to generate estimates of employment and economic output. HR&A assumes no liability resulting from errors, omissions, or any other inaccuracies with respect to the information provided by these parties.

5. In addition to relying on data, information, projections, and forecasts of others as referred to above, HR&A has included in this Study estimates and assumptions that HR&A believes are appropriate, but HR&A makes no representation that there will be no variances between actual outcomes and such estimates and assumptions.

6. No opinion is intended to be expressed, and no responsibility is assumed for any matters that are legal in nature or require legal expertise or specialized knowledge beyond that of a real estate consultant.

7. This Study may be relied on and otherwise used only by persons who receive this Study from HR&A or with HR&A's prior written consent and only for the purpose stated in writing in conjunction with such receipt or consent. No reliance on or other use of this Study by any person or for any purpose other than as stated in the previous sentence is permitted. HR&A disclaims all responsibility in the case of any reliance on or other use of this Study in conflict with the above portions of this paragraph.

8. If the Study is referred to or included in any offering material or prospectus, the Study shall be deemed to have been included for informational purposes only, and its use shall be subject to these General and Limiting Conditions. HR&A, its directors, officers, and employees have no liability to recipients of any such offering material or prospectus.

This Study is qualified in its entirety and should be considered in light of these General and Limiting Conditions. By use of this Study, each party that uses this Study agrees to be bound by all of the General and Limiting Conditions stated herein.