

---

---

## MEMORANDUM

---

---

**TO:** DANIEL ROSEMOND  
HALLANDALE BEACH CRA

**FROM:** J. KEVIN LAWLER  
N-K VENTURES LC

**SUBJECT:** REVIEW/EVALUATION OF UNSOLICITED PROPOSAL – FOODGLES  
AT DIXIE-FOSTER

**DATE:** APRIL 28, 2016

---

The following is a review and an evaluation of an unsolicited proposal<sup>1</sup> from Foodgles Supermarkets LLC (“Foodgles”) for the development and operation of a commercial project involving an innovative, members only Big Box Supermarket and commercial office space, together with a structured parking garage (‘the project’) on land owned by the CRA – the Dixie-Foster property. The proposal materials submitted by Foodgles contain conflicting information on the size and scope of the proposed project. For the purpose of this review and evaluation, the most recently dated materials from Foodgles have been used where there is conflicting information.

### **The Development Program and Team**

Foodgles’ proposes to develop and operate a commercial complex consisting of:

<b><u>Program Element</u></b>	<b><u>Size (Square Feet)</u></b>
2- Story Big Box Supermarket	120,000 SF
6- Story Office Space	30,000 SF
6- Story Structured Parking Garage	400 spaces, 120,000 SF or 300 SF per stall.

Each of the proposed program components poses specific challenges:

- **Big Box Supermarket.** This is an innovative concept. It is also an unproven concept. There are no existing ‘Foodgles’ from which to benchmark potential market acceptance or sales performance. A ‘big box’ grocery concept appears to be going against an overall trend to smaller, design specific urban grocery stores. With the exception of Wal-Mart closing all of the Express stores (smaller towns rather than urban neighborhood locations), there is a decided trend to smaller store formats in urban areas. As a point of reference, the proposed Foodgles big box format is twice the size of the largest Publix’s store format.

---

<sup>1</sup> Slide deck presentation of March 28,2016; Letter Proposal of April 19,2016; undated MLM Concept outline; and an undated cost estimate from Hanscomb Means.

**MEMORANDUM: UNSOLICITED PROPOSAL FOODGLES**

DATE: APRIL 28, 2016

PAGE 2

- Office space. The Foodgles concept program does not presently address the prospective tenancy of the 30,000 sf of commercial office space. Foodgles' proposes to operate a number of allied business and financial services; how much office space these will require is not indicated. The Dixie-Foster area is not presently an established urban office market location. As the CRA is well aware, pre-leasing efforts for the adjacent, proposed HBC medical office building have been soft. Lastly, a 6-story configuration on a 5,000 sf footprint is a highly inefficient configuration and could potentially limit tenancy.
- Structured Parking Garage. At a proposed 300 sf per space, this is an exceptionally tight parking configuration. The typical size of an at grade retail serving parking space is in the range of 500-600 sf (stall, dividers and lanes) and a typical size of a parking space in a stand alone parking garage is in the range of 350-450 sf (stalls and lanes). The proposed garage at 400 spaces yields a parking ratio of 2.67 spaces per 1,000 sf of commercial space, about norm for a high-density urban area, but sub par for a lower density area such as Dixie-Foster. Lastly, the site footprint of approximately 20,000 sf (141 lf by 140 lf) is extremely tight to design proper ramp headways and sufficient ingress/egress for stacking during peak patronage hours. The proposed parking program is compliant with the recently adopted LDR's for the Central RAC District.

From the conceptual design of the project alone, it is apparent that Foodgles is a start-up operation. The current conceptual design of the project suggests insufficient detail to the daily requirements for servicing the grocery store and related food service operations, negligible consideration of convenient customer access and a questionable understanding of commercial office space floor plates.

The proposed design would also require waivers to the recently adopted LDRs for the Central RAC. As indicated in Foodgles' March 28, 2016 slide deck presentation, these waivers would include: Reduced setbacks, traffic/servicing requirements for truck deliveries and an increase in permissible height.

Foodgles senior management team has experience with 'start-ups' in the financial service industry and e-commerce space. From the resumes provided, none of the Foodgles' senior management team have experience in real estate development or the start-up and opening of a 'bricks and mortar' retail operation. Foodgles' has assembled a well-qualified team for planning, design and construction. These are supporting roles in the development process. Based on the information submitted to date, the leadership role of 'developer' would be the current Foodgle's senior management team.

**CRA Investment/Returns**

Foodgles has requested the CRA provide a package of incentives that includes the contribution of land, a direct grant and a favorable tranche of construction financing. In total, requested CRA funding amounts to \$20.1 million.

**MEMORANDUM: UNSOLICITED PROPOSAL FOODGLES**

DATE: APRIL 28, 2016

PAGE 3

Shown following is the amount and timing of the funding package requested of the CRA:

	<b>CRA Funding</b>	<b>Foodgles Funding</b>	<b>Total</b>
<b>Phase 1</b>	\$6,204,090	\$1,334,911	\$7,539,001
<b>Phase 1</b>	\$15,000,000	\$(3,862,120)	\$11,137,880
<b>Phase 3</b>	\$-	\$12,393,605	\$12,393,605
<b>Phase 4</b>	\$-	<u>\$4,131,202</u>	<u>\$4,131,202</u>
<b>Total</b>	<b>\$21,204,090</b>	<b>\$13,997,598</b>	<b>\$35,201,688</b>

Development costs estimates submitted by Foodgles reflect a level of precision uncharacteristic for a conceptual design. Accordingly, for the purpose of this evaluation, these cost estimates are treated as 'order of magnitude', rather than the 'sharpened pencil' precision suggested by Foodgles' estimates. Further, Foodgles' estimated development budget is understated, as it does not include: Impact fees, permit fees, interim financing costs and capitalized start-up/lease-up costs.

Of the total estimated \$35.2 million cost of the project, Foodgles' is requesting the CRA provide \$21.2 million or 60 percent. Thus, at the proposed level of CRA funding, there is no CRA investment leverage, since the proposed amount of CRA funding would exceed the level of private investment by 51 percent.

The proposed composition of CRA funding is as follows:

	<b>Amount</b>	<b>Percent</b>
<b>Land</b>	\$3,704,090 <sup>2</sup>	17.5%
<b>Construction Grant</b>	\$2,500,000	11.8%
<b>Construction Loan</b>	<u>\$15,000,000</u>	<u>70.7%</u>
<b>Total</b>	\$21,204,090	100.0%

Foodgles proposes CRA funding to be 'front loaded' to the first 2 phases of the 4 phase funding sequence. As proposed, the CRA would be essentially funding conventional equity and working capital tranches for the project. Further, as proposed the \$15.0 million construction loan would provide Foodgles with significant working/operating capital during the 2<sup>nd</sup> phase of the funding schedule.

In addition to direct CRA funding, Foodgles is requesting the City/CRA waive impact and permit fees. Apparently Foodgles did not perform any investigation to determine this request is inconsistent with prevailing City and County public policy.

---

<sup>2</sup> Proposal and site design did not include 2 parcels purchased by the CRA on Foster Road between NW1<sup>st</sup> and NW 2<sup>nd</sup> Avenues.

**MEMORANDUM: UNSOLICITED PROPOSAL FOODGLES**

DATE: APRIL 28, 2016

PAGE 4

**Financial Capability/Project Performance**

Foodgles did not submit a current Financial Statements nor a project level pro forma (cash flow and investment returns projection) nor a projection of ‘tax increment’ revenue that could accrue to the CRA.

Absent entity Financial Statements, it is not possible to evaluate Foodgles’ financial capacity to fund pre-development costs or secure project level financing, prior to project income stabilization. Likewise, without entity Financial Statements, it is not possible to gauge the necessity for the CRA to provide \$15.0 million of construction financing on highly favorable terms or the outright grant of \$2.5 million for construction.

Although Foodgles has not provided the CRA with a cash flow investment projection to ascertain the economic viability of the project as a whole as well the investment justification for the proposed CRA funding contributions, it is possible to derive the overall value envelop of the proposed project from the stabilized estimate of \$531 of sales per square foot.<sup>3</sup>

<u>Component</u>	<u>Area SF</u>	<u>nnn rent/sf equivalent</u>	<u>Estimated NOI</u>
Grocery	120,000	\$22.00	\$2,640,000
Office Space	30,000	\$18.00	<u>\$540,000</u>
Total NOI			\$3,180,000
Cap Value - 6%			\$53,000,000
Total Cost			<u>\$34,122,598</u>
<b>Net Potential Value</b>			<b>\$18,877,402</b>

From the derivation shown above, the Foodgles project could achieve a stabilized valuation of \$53.0 million. Less project development costs estimated by Foodgles (albeit potentially understated), the project could realize a value increment of nearly \$18.9 million. At this level of potential value realization, there is not a project level financial justification for supporting the magnitude of CRA investment requested by Foodgles.

Tax increment revenue is traditionally the basic metric for a CRA to measure the potential financial benefits from a new private development project. Foodgles does not apparently appreciate that CRAs revenues are derived from increased real estate taxes as Foodgles specifically requested the City consider ‘tax abatement’ for the proposed project<sup>4</sup> and did not prepare an estimate of estimate tax increment revenue. If the Foodgles project is generally developed as proposed and achieves the sales performance projected by management, then the annual real estate tax increment could be significant – on the order of \$350,000 to \$400,000 annually. Given the limited, remaining duration of the HBCRA and

---

<sup>3</sup> Reference slide 52 of 55 in Foodgles’ slide deck presentation of March 28, 2016.

<sup>4</sup> Reference slide 54 of 55 in Foodgles’ slide deck presentation of March 28, 2016.

the potential timing of delivery of the Foodgles project, it likely that this increment could be realized for 2-3 years.

### **Conclusions and Recommendations**

1. The proposed Foodgles project is innovative and equally ambitious. As a start-up, the first of its kind concept in a contemporary, members only super grocery store, the Foodgles program presents a high-risk proposition for the investment of CRA funds.
2. The Foodgles overall concept design is not well evolved for the Dixie-Foster site. There are programmatic flashes of substance, but these do not translate into a mature concept project design. The structure parking deck is potentially highly problematic and site servicing for operations appears challenged.
3. Foodgles' investment request to the CRA is an unsubstantiated overreach; it reflects a callow financial sophistication and potentially a under capitalized company, using public funding to leverage the start-up of its first store. Of particular concern is the proposed 'front loading' of CRA funding were as, after contributing land, HBCRA has customarily provide 'gap back loaded' funding.
4. As presently proposed, the Foodgles concept for the Dixie-Foster property and proposed terms for CRA funding do not achieve a minimum threshold of potential public cost benefit. If there is an ongoing interest in pursuing discussions with Foodgles' senior management, then the following would be appropriate to address the issues and concerns identified:
  - a. Request and review underwriting and due diligence materials from Foodgles:
    - An independent market study supporting the basis for projected sales volume, reflecting the strength and location of existing and proposed chain supermarkets in the relevant trade area.
    - Current Financial Statements and an indication of available working capital (cash, line of credit, other external funding, etc.) to fund pre-development and start-up costs.
  - b. Restructure and resize the potential CRA investment along more conventional terms for urban grocery store deals to include:
    - The contribution of the CRA owned land
    - A direct contribution to the write down of the cost of the structured parking garage and sky-bridge.