

STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida International University
2018 Hotel & Conference Center (P3)

**Proposal & Project
Description:**

On October 2, 2018, Florida International University (“FIU” or “University”) resubmitted a request for approval of a proposed public-private partnership (P3) to design, build, finance, own and operate a full-service hotel, conference center, along with associated parking, as well as construct an adjacent alumni center, (together, the “Project”), on the Modesto A. Maidique campus (“MMC”). The original proposal submitted to the Board of Governors in August 2017 was postponed pending conclusion of ongoing negotiations.

The proposed Project is a 7-story, 150-room hotel of approximately 154,000 gross square-foot, located on FIU’s main campus, MMC. The Project will be designed to host small conferences and will include associated infrastructure and amenities, such as a restaurant, rooftop lounge, ballroom and meeting rooms, fitness center, outdoor swimming pool, and 300 parking spaces.

The hotel and conference center will be privately-financed, designed, constructed and owned by Concord Benchmark, LLC (“Concord” or “Owner”), and will be operated by the Benchmark Management Company, LLC (the “Operator” or “BMC”). FIU will enter into an operating agreement and a 40-year ground sublease with the Owner to construct and operate the Project. The sublease contains two optional 5-year renewal periods, exercisable by FIU. Additionally, the sublease will require the Owner to enter into a development agreement for the alumni center, adjacent to the hotel.

The Alumni Center, which will not be financed under this Project. It will be a separate 2-story building of approximately 14,000 square feet, designed to include an atrium, heritage library, emeritus lounge, alumni association offices and career services conference/training rooms, and will be owned and operated by the FIU Foundation. A separate ground sublease will be entered into between FIU and the FIU Foundation for the alumni center.

The Concord will retain ownership of the hotel and conference center throughout the term of the ground sublease; 40 years or as

optionally extended, after which ownership of the facilities will revert to FIU.

In July 2016, the FIU Foundation Board of Directors approved funding of the alumni center. In June 2017, the FIU Board of Trustees approved the Project. Consent will need to be given by the Internal Improvement Trust Fund (“IITF”) Board of Trustees for the sublease of the land.

- Project Site Location:** The Project will be located on the north part of the MMC, on a proposed 5.21-acre site along the 8th Street boundary. The hotel, conference center and parking will comprised 4.62 acres of the total parcel. The Project is included in the master plan of the University, as amended June 1, 2017 to accommodate the Project.
- Projected Start and Completion Date:** It is anticipated that construction will commence in December 2019, with completion in December 2021 and grand opening the following month, January 2022.
- Project Cost:** The total cost of the hotel and conference center is anticipated to be \$59.4M, including hard costs of \$47M and soft costs (planning, equipment, financing, etc.) of \$12.4 million.
- The total cost for the alumni center is anticipated to be \$6.8M, including hard costs of \$5.3M and soft costs of \$1.3M.
- Combined, the Project’s total cost is \$66.2M, of which Concord will receive a developer fee of 3.5% (of total costs) or approximately \$2.3 million. Concord will be responsible for any developmental delays or cost overruns, with the exception of changes requested by FIU. (See attached *Estimated Sources and Uses of Funds*.)
- Financing Structure:** The Project will be privately financed by the Owner. Based on the submitted pro-forma, the Owner intends to finance the Project using a structure of 40% equity provided by Owner and 60% debt. The 60% debt portion will be in the form of a construction loan from a private lender, which would be refinanced into permanent debt 12-24 months after completion depending on stabilization. The permanent debt will be financed over thirty years, in compliance with the P3 Guidelines, and the Owner assumes a cost of debt of 4%.
- The alumni center will be constructed by Concord at a cost not to exceed \$6.8 million. However, it will not be part of the hotel-

conference center financing and will not have any associated debt. The FIU Foundation will make a \$5.5 million direct cash investment (subject to minimum required rate of return on capital of 4.5%), and the remaining \$1.3 million from donations received by the Foundation in support of the FIU Alumni Association.

No liens will be placed on state lands (the subject parcel) as a result of this proposed P3 transaction. Likewise, there are no financial guarantees, room guarantees, operating deficit funding requirements or similar monetary obligations on the part of FIU or its Direct Support Organization in relation to the construction, operations, maintenance or debt of the hotel, conference center and associated parking facilities.

Quantitative Demand for Project:

FIU commissioned three (3) studies to determine the demand for the Project; two by PKF Consulting (PKF) in 2013 and 2015, and one by Jones Lang Lasalle (JLL) in 2016, but none of the studies showed particularly strong demand for the Project.

The initial study conducted by PKF in December 2013, indicated insufficient demand to support development of a large-scale hotel and conference center at MMC, based on the following:

1. University conference centers do not produce significant or consistent levels of conferencing demand.
2. FIU had no conference planning division.
3. National competition for conferencing is very strong.
4. FIU's distance from beach areas or tourist attractions.
5. Lack of current development in Sweetwater, just north of MMC, where the market was deemed more attractive for hotel development due to close proximity to amenities.
6. FIU enrollment showed a majority local population with little demand for lodging.
7. The MMC area had an abundance of hotel types in the vicinity. For comparative purposes, the PKF study identified 17 hotels within 7.5 miles of the proposed site, ranging in age from 5 to 30 years old, upper-midscale to luxury resort, and limited-service to full-service, and noted that 5 more were under construction or in planning during the time of the study in 2013.

The study found that 74% of FIU's needs for conference space were already being met on-campus. The study also found that a smaller

scale hotel with 95 beds, a restaurant and bar could operate successfully in the future.

In June 2015, PKF updated its study and found a slight increase in demand when it focused on demand created by the MMC specifically. PKF surveyed FIU departments to determine demand for lodging and meeting space needs. From this survey PKF found FIU-generated lodging demand of 23,300 rooms per year (versus its estimate of 14,100 rooms per year in the 2013 study). With this updated room demand estimate which equated to a 67% occupancy rate for a 95 room hotel, PKF still points to a gap of 8,000 to 10,400 rooms per year which would need to be filled by external sources to operate at a successful level. The survey showed 59% of responders indicating they would “*definitely use*” the proposed facility if it met their requirements and another 24% indicated their use as “*highly likely*”.

In October 2015, at the request of FIU, JLL also conducted a market demand study. As stated in the report, “*JLL believes the proposed 150 room key count is appropriate.*”, adding that a smaller hotel (under 125 rooms) would eliminate benefits received from economies of scale, while a larger hotel (200+ rooms) would require the operator to rely more heavily on group-oriented demand. JLL based their findings on current market demand and the trend in the area for increasing lodging demands. Based on 2015 data, JLL’s study projected that, by 2020, the hotel would stabilize at 73% occupancy, adding that if FIU leadership implemented incentive policies to drive demand, the hotel could achieve 75% occupancy, but only 48% if it relied solely on the FIU demand. Importantly, in contradiction to the PKF findings regarding hotels in proximity to the subject (see #7 above), the JLL study stated “*there are almost no hotels in the vicinity of the subject.*” adding “*most lodging facilities have been developed around existing room demand generators. These clusters of hotels form submarkets, including: Doral/Dolphin Mall, Airport and Coral Gables/Coconut Grove*”, indicating that MCC is a “demand generator” with its own submarket. To that extent, JLL’s study indicated only one or two hotels in the FIU submarket, based on 2015 data.

FIU believes local hotel occupancies are trending well above the PKF findings, and it further elaborates on the demand studies in the attached *Questions and Answers* dated August 31, 2017. FIU also believes the Owner will address any concerns by increasing FIU demand, as well as marketing to non-FIU business demands. In addition, the Owner intends to build 300 revenue-generating surface

parking spaces, rather than the more expensive 150 space structured garage.

P3 Justification:

FIU has chosen to utilize a public-private partnership (“P3”) to finance the Project. The primary benefit of a P3 is the transfer of demand/operational/financial risk to the Owner. In addition, FIU will not be required to manage or maintain the Project, which is outside of its area of expertise.

FIU points to impediments if they were to pursue the Project without a partner, and would not pursue the hotel and conference center without an outside partner. The partner chosen for hotel operation, BMC, has global experience in management and marketing of independent resorts, hotels, and conference centers. Furthermore, a non-P3 approach would require the University to 1) raise funds through debt issuance, 2) construct and run a hotel and conference center without requisite expertise and 3) bear all risk stemming from market/economic downturns.

Ultimately, the P3 structure provides the University with low risk exposure while still supporting its mission and goals.

Security/Lien Structure:

The Owner will have a leasehold interest in the Project, which may provide security for a mortgage. Should the Owner default on any debt associated with the Project, the lender could assume control of the Project, subject to the terms and conditions of the ground sublease. The land will not be subordinate to any debt.

Debt service payments are the responsibility of and will be made by the Owner, and projected to be paid from net revenues (of the hotel and conference center facility) after payment of operating expenses and other expenses, including base rent payments and profit sharing to FIU. Owner’s return on equity (15.0%) is paid last from available net excess cash flow. Non-payment of the base rent and any required profit sharing are considered a default under the lease agreement.

Taxable Debt:

A portion of the Project will be privately financed by the Owner with taxable debt. No tax-exempt debt will be utilized.

University Support of Project:

The debt utilized (by the Owner) to finance the Project will not be a legal obligation of FIU or a Direct Support Organization. FIU has not pledged its credit towards the Project and is not legally obligated to pay debt service or maintain the Project.

It is anticipated that the Owner may be permitted to connect to chilled water, potable water, and sanitary sewer utilities, if deemed feasible, and may purchase said services from FIU, reimbursed at FIU's cost.

Ten (10) of the Project's 300 parking spaces will be reserved for the alumni center. FIU will be responsible for the upkeep for those 10 spaces.

The University will not be responsible for maintenance of the facilities. According to the University, adequate reserves for maintenance, renewal, and replacement will be established based upon industry standards. Project projections include an annual reserve starting at 2% of gross revenue escalating to 4% by year four of hotel operations.

As a compliment to FIU's hospitality-related curriculum, the Owner intends to provide opportunities for paid student internships, accommodate graduate student and faculty applicable research activities, job opportunities for graduates, and coordinate with the University regarding opportunities to expand curricula. Owner will negotiate preferential conference center rates on a case-by-case basis, with the intent to give benefit to FIU whenever possible and feasible.

The average room rates are projected to start at \$152.76/night and projected to increase to \$232.56/night by stabilization (year 8); however, FIU has no role in the rate-setting process. If FIU is paying for a guest's hotel room, it intends to give the proposed hotel the opportunity to price match against competing hotels; although there is no obligation (on FIU), financial or otherwise, to use the hotel.

FIU's police department will be responsible for all law enforcement activity on the Project.

Return on Investment:

Under a 40-year ground sublease, which may be extended by FIU, FIU will receive an annual payment for rent starting at \$210,000, which will increase by 5% every 5 years. The default terms are still being finalized, however, the failure to pay rent will be a default which, if left uncured, will incur penalties.

In addition to the ground rent (see attached chart), the University is entitled to a share of the Profits depending on the level of success of the Project, as illustrated below:

<u>Cash on cash return</u>	<u>% profit return to FIU</u>
Below 10%	0%
10.0 – 12.5%	6.0%
12.5 – 15.0%	8.0%
>15%	10.0%

As with the rent, failure to pay profit sharing due the University will also result in a default under the agreement.

Over the first 10 years following Project opening (Jan. 2022), Concord’s pro forma operating projections indicate FIU could receive approximately \$5.2M in revenues; \$2.1M in annual ground lease payments and \$4M in profit participation (see *Revenues to FIU* and *Pro Forma Projections*, attached). FIU intends to use the funds support scholarships and other endeavors, including strategic hiring of new faculty members and recruitment of quality students outside of the South Florida area. According to the University, the goal is to remain flexible to react to current conditions, but it intends for all proceeds used to support its academic and research mission, and for the University President and Leadership to direct the funds to their best use on an annual basis during the budget process.

Of the 5.21-acre subject parcel, 4.62 is allocated for the hotel, conference center and parking. FIU conducted a review of the subject land, comparable sales and other sources, and believes the rent payments will be more than fair market value.

At the end of the 40-year sublease, unless renewed, the Project will revert to FIU. FIU justifies the two five-year renewal terms (exercisable at FIU’s option) by the increased profit sharing to the University once outstanding debt is satisfied and by the industry norm of 50 to 99 years for hotel ground leases.

According to the University, the parties will negotiate a termination right within the lease agreement, exercisable at the option of FIU at least 10 years after the Project has opened, and will require FIU to compensate the investors and lenders, the value and compensation of which will be determined based on appraisal by a mutually agreed upon 3rd-party appraiser.

Analysis and Recommendation:

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by Florida International

University with respect to the request for Board of Governors approval for Project. The lease term with renewals would create up to a 50-year lease term, but because the renewals are at FIU's option rather than the Owner's, the 40-year limit in the P3 Guidelines is effectively met.

If, in the future, the University intends to exercise any optional termination/purchase option for the facilities, the proposed transaction should be brought back before the Board of Governors for review and approval.

The Project is not an educational facility, and the typical user of the facility will not be students; however, it supports the mission of the University by providing student internship, work study, and post-graduate job opportunities to its students as well as curricular and research opportunities for faculty. Additionally, the Project serves an identified University need and purpose by providing lodging and conference facilities for campus visits by students and their families, research programs, conferences and symposia, professional development conferences, career fairs, and special events. The University is committed to using the funds strictly for academic enhancements which is part of the core mission. The 2013/2015 market studies provided did not indicate a strong demand for the Project; however, there was robust vendor interest in the Project, as well as several hotel projects underway in the study area. Insufficient demand could result in the Owner's inability to operate and maintain the Project. Any failure would be handled by the default provisions of the Owner's loan, and there are provisions in the lease which provide protections for FIU.

The proposed financing complies with the Florida Statutes governing the issuance of university debt and complies with the Board of Governors' Debt Management Guidelines. Accordingly, Board staff recommend approval of the University financing proposal and associated Project.