Robyn Tice

From: Colleen Castille
Sent: Friday, September 27, 2013 4:14 PM
To: City Council
Cc: Ashton Hayward; Lila Cox
Subject: FW: CBRE Marketing Positioning Study for the Port, Airport and CMP
Attachments: City of Pensacola Study FINAL.pdf

Dear Council members,

As you peruse the agenda items for the October 10th meeting, you will note that the listing agreements with CBRichardEllis for the Airport, Seaport and the vacant parcels at the CMPA are ready for your review and approval. I have included a little light reading to provide you more information. In addition, Lee Ann Corse and Mike McShea will be in Pensacola Wednesday and Thursday of next week. They will be available to talk to you and will work with Dr. Cox to set up appointments with you.

Warmest Regards,

Colleen M. Castille
City Administrator
City of Pensacola, Florida
850-435-1623

PENSACOLA
DIAL 311 FOR CITY SERVICES
For Non Emergency Requests Dial 311 or Visit Pensacola311.com

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From: Clark Merritt
Sent: Friday, September 27, 2013 3:51 PM
To: Colleen Castille
Subject: CBRE Marketing Positioning Study for the Port, Airport and CMP

Colleen

Attached is the CBRE report discussing the market and marketing potential for the three locations.

Please let me know if you have any questions.

Clark

M. Clark Merritt
Economic Opportunity and Sustainability

PENSACOLA

City of Pensacola

CBRE presents

Real Property Market Analysis & Recommendations for:

COMMUNITY MARITIME PARK, PENSACOLA DEEPWATER PORT & PENSACOLA INTERNATIONAL AIRPORT

Prepared for the City of Pensacola

The City of PENSACOLA

August 6, 2013

CBRE

PREPARED FOR:

The City of PENSACOLA

CBRE

CONTENTS

APPENDICES *PLEASE SEE ENCLOSED CD FOR APPENDICES*

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Project Background

INTRODUCTION

CBRE is pleased to present to the City of Pensacola its real property market analysis and recommendations for the Community Maritime Park, Deepwater Port and the Pensacola International Airport. The City's stated goals are economic development, a vital and vibrant downtown and world class deep water port and airport. To that end, CBRE was tasked to give its perspective on development potential and marketing strategies for surplus land and buildings adjacent to or surrounding the three properties given current market conditions. Considering the complexities and special features of each property, they can be found **under separate tabs** in the enclosed report and back up documentation for each in the Appendices CD.

Before providing our observations, conclusions and recommendations for each of the three properties we provide herein an overview of the Pensacola real estate market that will give context to the rest of the report.

Downtown Revitalization

Downtown Pensacola has undertaken a multi-faceted, multi-year revitalization since 2004 that has significantly improved the economic health of the City and surrounding environs. Recent activity includes:

- Constructing hundreds of new residential units
- Changing one-way streets back to two-way traffic
- Managing public parking in a comprehensive manner to ensure short-term parking for retail customers and clients, while moving long-term parkers to predictable and desirable off-street facilities
- Developing and implementing of a multi-year Downtown Retail Strategy
- Creating a new redevelopment plan to provide more predictability
- Building of Community Maritime Park and attracting a Double AA baseball team
- Adding more street trees and plantings
- Calming vehicular traffic
- Encouraging and facilitating special events in Downtown
- Focusing on attracting more tourists
- Expanding and renovating the Saenger Theatre.

Military Presence

The economic recovery in Pensacola is at risk of losing momentum in the second and third quarters of this year due to federal sequestration. While Florida is largely insulated from the effects of sequestration, the heavy military presence in the Panhandle renders Pensacola vulnerable, especially if consumers and businesses become overly cautious. The Navy estimates 2,600 civilian workers at local bases will be furloughed for 22 days between April and September, totaling $16.4 million in lost wages. This is only a tiny fraction of total metro area income, but it does not include any potential impact of canceled procurements and other work orders, which could affect an additional 2,000 workers currently under contract. Similar cuts in

Project Background

neighboring Crestview and Panama City will also affect consumer spending and business sentiment in Pensacola.

Military downsizing had been a trend for the area throughout the 1990's and 2000's. Recent events in the economy and base consolidations and relocations have caused a net outmigration in population in the area over the past ten years. Our understanding, based on interviews with local business owners and property managers, is that the area has been negatively impacted by the downturn in the economy as well as recent base relocations and consolidations. As a result, the area has experienced negative growth.

Private Services

Professional and business services employment has recouped most of the losses due to the recession and continued gains are expected. While sequestration is casting a shadow, the U.S. private economy is expected to make up for the fiscal drag, calling for faster decisions regarding business expansion plans and formation.

Pensacola International Airport reported heavy traffic in late 2012 and early 2013. Renovation work in downtown Pensacola has picked up and several new attractions have opened in the main entertainment districts. Gulf Power, the area's power company, is actively buying up 4,000 acres of land in the north end of Escambia County for a new power plant that will likely replace the existing coal burning Christie Plant found along the Escambia River in northern Pensacola. According to local officials, Gulf Power has already purchased 3,000 acres and has the remaining 1,000 acres under contract or identified for the new plant. It is not yet known if the new plant will be a natural gas or nuclear plant but they expect to finalize their plans by 2014. Replacing the coal plant with a cleaner energy plant will aid in cleaning up Escambia Bay and will help the area's air quality.

Tourism

The metro area's staple consumer services industries will drive the recovery. Business confidence in the hospitality industry is strong as revival of discretionary spending is bringing tourists to Pensacola in large numbers. Pensacola Beach traffic toll payments rose for the second straight year, setting a visitor-count record. Bed tax collections and hotel occupancy rates are surging statewide, laying the groundwork for further hiring in the coming months. Margins are improving strongly as daily room rates continue to make their way back to pre-recession levels, which will logically encourage new development.

Diversification

Prospects for diversifying the industrial base are also brightening. Local development agencies are reporting greater success in attracting firms. Majestic Candies is building a $6 million factory that will be the company's main production facility in the South. Majestic's expansion could increase its workforce in Pensacola by more than 100. State funding is also making it easier to start much-needed infrastructure projects. The Port of Pensacola has received a $3.6 million grant from a state fund appropriated for improvements at key Florida ports.

Project Background

Prospects

The metro area has a substantial number of call center operations, and the industry is likely to grow in the coming years as wages increase overseas and locations proximate to North American clients become a priority. Efforts to create a technology campus in downtown Pensacola have not been successful so far. This could change rapidly with an aggressive marketing campaign as the area benefits from a skilled labor market, generally low cost structure and attractive quality of life.

The continued expansion of the Navy Federal Credit Union is encouraging. A $200 million facility is planned and construction is set to begin late this year. Approximately 1,500 permanent jobs are expected to be added upon completion.

Top Employers in Pensacola		
Rank	Company	# of Employees
1	Naval Air Station Pensacola	20,887
2	Sacred Heart Health System	5,000
3	Baptist Health Care	3,163
4	Naval Air Station Whiting Field	2,950
5	Lakeview Center	2,000
6	Gulf Power Company	1,400
7	Solutia Inc.	1,400
8	West Florida Hospital	1,300
9	University of West Florida	1,231
10	Navy Federal Credit Union	1,200
11	Pensacola Christian College	1,000
12	West Corporation	800
13	Pensacola Junior College	709
14	Cox Communications Gulf Coast	645
15	Medical Center Clinic	627
16	Santa Rosa Medical Center	530
17	ECUA	518
18	International Paper	500
19	Wayne Dalton Corporation	500
20	Pensacola News Journal	450

Project Background

Conclusion

Pensacola will continue to recover in the coming months despite the impact of sequestration. Job growth will top the U.S. average and maintain pace with strong statewide performance

Summary of Findings

MARITIME PARK

Preliminary Findings

Hotel

- Sufficient Demand: 225 Rooms, 11,000 SF conference
- Construction Costs (pilings) an issue
- Hilton or Starwood brands —Embassy Suites or Westin 200,000 SF

Office

- Market reports say absorption 31,000 SF in 2nd quarter
- Studer & Beck Properties leases 58,000 and 18,000—excellent momentum at good rates

Waterfront Restaurant Pad

- Will support all park uses
- Attractive rates likely
- Traffic generator for entire park

Marina

- Full Service Marina better strategy than limited servicetype
- 60 floating concrete wet slips adjacent to hotel/conference center

Residential

- For rent housing not supported
- Condo market could be successful if developed in conjunction with retail, restaurants and entertainment

Retail

- Retail follows rooftops
- Likely last product type to be developed
- Restaurant pad site—very attractive for themed restaurant

Conclusions

Challenges

- Fill site (unstable soils) increases construction costs
- For-rent housing market not yet recovered cannot be supported at this time
- Retail will follow rooftops (bay side is a natural barrier) limiting retail market area
- Parking needs to be addressed downstream

Opportunities

- Fantastic property
- Great Start (Stadium, Studer & Beck Properties)
- Can/should be transformational for City
- Needs much broader marketing
- Phased development necessary
- Hotel can/will be a catalyst

DEEPWATER PORT

Advantages

- Opportunity to attract industry with specialized products to be shipped (e.g. turbines)
- Shortest distance to the first sea buoy
- Home porting (Offshore Inland)
- Proximity to areas of oil and natural gas exploration

Challenges

- Lack of containerized shipping
- Proximity to major population base
- Only Fair transportation linkages
- Limited infrastructure (shore power, pump out)
- Encumbrance of existing leases (bulk products not optimal)

Summary of Findings

PENSACOLA INTERNATIONAL AIRPORT	
Strengths	**Economic Drivers**
▪ Enterprise Zone ▪ Situated in strong labor market ▪ Well designed ▪ Good management & infrastructure already in place	▪ Sale of fuel and oil ▪ Aircraft maintenance and parts ▪ Aircraft charter ▪ Flight training ▪ Avionics shops ▪ Aircraft sales ▪ Ancillary services (e.g. engine overhauls, manufacturing, etc.) ▪ Additional land available to expand/develop

Project Approach

PROJECT APPROACH

At the beginning of any project, particularly involving the public sector, stakeholder interviews and input are critical. Various stakeholders represent different interests in City property and its potential use. Representatives of CBRE undertook a series of stakeholder interviews at the beginning of the project. Those City Leaders and stakeholders are listed below.

Stakeholder Interviews

City of Pensacola:

- Ashton Hayward, Mayor
- Bill Reynolds, City Administrator
- M. Clark Merritt, Director of Economic Development & Sustainability
- Sherry Hartford Morris, Planning Services Administrator
- Ryan Winterberg-Lipp, Community Redevelopment Agency Administrator

City Council:

- P.C. Wu, Ph.D., President
- Sherri F. Myers, Councilwoman
- Larry B. Johnson, Councilman
- Brian Spencer, Councilman
- Charles Bare, Councilman
- Jewel Cannada-Wynn, Councilwoman
- Andy Terhaar, Councilman
- Gerald Wingate, Councilman
- Megan B. Pratt, Councilwoman

Community Maritime Park Association:

- J. Collier Merrill, Merrill Land Co.
- Charles Tessier, Tessier Associates
- Ed Spears, Special Projects Coordinator

Pensacola Port Authority:

- Clyde Mathis, Port Director
- Amy Miller, Manager, Marketing, Finance & Administration

Greater Pensacola Chamber of Commerce:

- Danita Andrews, Director of Business Development
- Scott Luth, Senior Vice President of Economic Development

Project Approach

Pensacola International Airport:

- Greg Donovan, Airport Director

Real Estate Broker Community:

- Justin Beck and Stacy Taylor, Beck Property Company, LLC
- Fred Gunther, Gunther Properties, LLC
- Don Neal, Neal & Company
- John Griffing and Kimi Smith, NAI / Halford

Studer Community Development Group:

- Andrew Rothfeder, Partner
- Quint Studer, Owner

Engagement of CBRE Speciality Practices

Given the various potential uses at Community Maritime Park, the Deepwater Port and the International Airport, CBRE engaged a number of internal specialty practices to understand and develop the highest and best use and marketing strategy for each of these three properties. The internal team members were carefully selected based on their previous experience and specialty practices areas within in the company and with specific Florida based experience.

Specialty	Personnel	Title	Location
Residential	Brian Moulder	Senior Vice President	Jacksonville
Hotel	Brian Biggs	Vice President	Orlando
Office	Mike McShea	Executive Vice President	Washington DC
Marina	Jeff Carson	Vice President	Orlando
Retail	Bobby Palta	Vice President	Orlando
Industrial	David Murphy	Senior Vice President	Orlando
Asset Services	Lee Ann Korst	Director	Orlando
Public Sector	Michael McShea	Executive Vice President	Washington, DC
Architectural	Marc Fairbrother	RTKL	Washington, DC
Construction Cost Estimating	Greg Main-Baille	Director of Project Management, Florida	Boca Raton
Parking	Michael Martindill	Tim Haahs Parking	Atlanta

Project Approach

Each of the CBRE team members visited Pensacola and reviewed the current and projected demand for each of the uses they represent. Their resumes can be found in **Appendix A**. While it fell outside of the scope of this study, CBRE asked Tim Haahs Associates (a world class parking consultant) to visit the CMPA site and to provide some preliminary observations regarding parking.

COMMUNITY MARITIME PARK

COMMUNITY MARITIME PARK

OBSERVATIONS

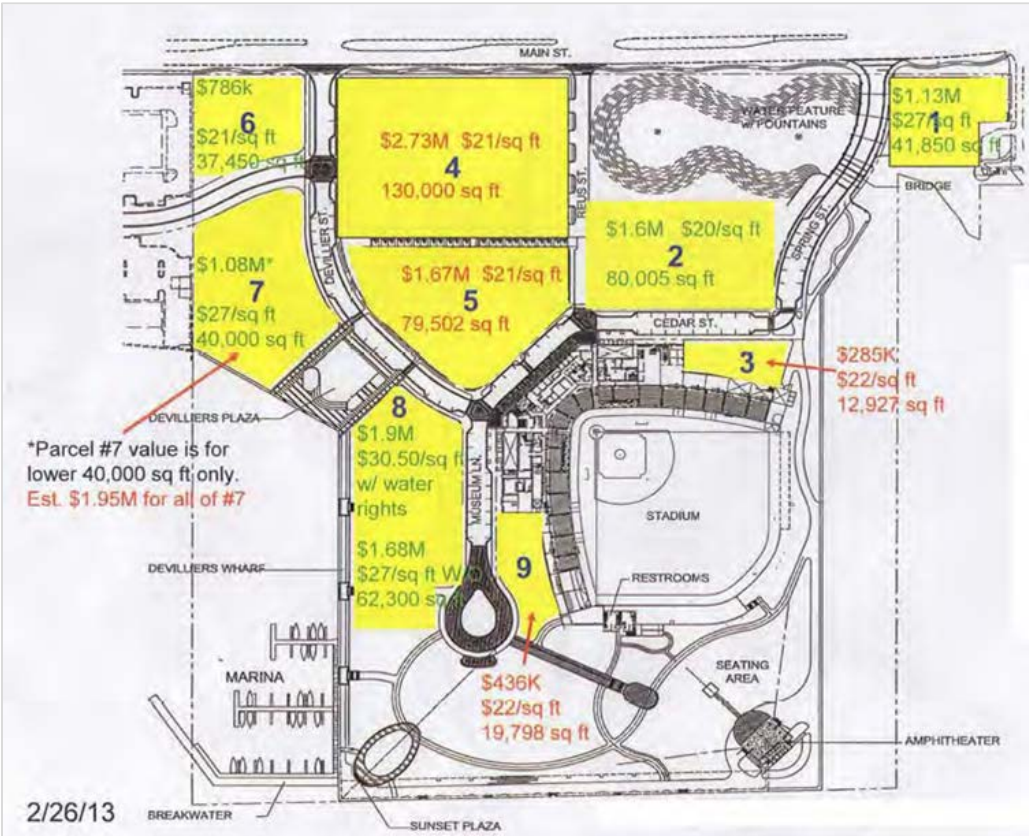
The Community Maritime Park, previously known as the Trillium property located between Main Street and Pensacola Bay, at the south end of Baylen Street was recently completed and includes numerous vacant land sites for future development. The project features an expansive public waterfront park; a community multi-use stadium facility suitable for baseball and other athletic events, festivals and other community activities. There is also a water front pavilion for music and entertaining events. The water front grassed and walkway areas on the south end of the property was designed for festivals. The other vacant land areas found on the north side of the property can be developed with commercial; office; retail; residential; restaurant and entertainment uses. It is a 27.5 acre site that includes the 3,200 multi-use stadium which opened in April 2012.

Community Maritime Park is envisioned as a mixed use environment that can supplement and be accretive to the already growing mix of uses in downtown Pensacola. Substantial activity already has been accomplished by the City with the development of the Blue Wahoos Stadium, the development of the new office building by Quint Studer, and the recently announced lease of parcel 1 for the development of an 18,000 sf mixed use building by Beck Properties. The remaining parcels to be marketed (excluding sites 1 and 2) are shown on the site plan on the following page. Our analysis focuses on potential uses for the sites given current market conditions and in some cases, reasonable estimates of what it might cost to develop and finance those facilities. In our opinion, certain parcels better lend themselves to specific development opportunities and this study reflects that judgment.

The downtown Pensacola market has undergone a fairly significant rebirth in recent years and as such we are optimistic that the Park can attract the attention of the developer community. We believe that the right development can promote a new urban live, work and play environment where both local and national retailers can thrive. Though no such project exists in Pensacola today, the Community Maritime Park location provides a unique opportunity to create such a place.

The City of PENSACOLA

COMMUNITY MARITIME PARK



CBRE recommends hiring a parking consultant, such as Tim Haahs Associates or Carl Walker, Inc., to specifically review parking demand and development implications for the Community Maritime Park. Upcoming development projects (Studer & Beck office buildings) and current use (Pensacola Blue Wahoos) already do and will continue to impact available parking. It is important to the overall development to create a long term plan to accommodate shared use parking for the mixed use community.

Hotel

After touring the property, it was determined that the most suitable parcel for a hotel development is parcel 8 containing 1.430-acres of land (62,300 SF) on the west side of Devillier Street south of Main Street in downtown Pensacola. This parcel would be ideal for hotel development due to its extensive water frontage and direct access to the proposed marina. Furthermore, Parcel 8 is separated from Parcel 7 by Devilliers Plaza, an open space with public walkways. Based on our discussion with city planners, the plaza could be subject to redevelopment if needed to allow the assemblage of Parcel 7 and 8 to accommodate a larger hotel development opportunity. However, this study has considered only Parcel 8 in our analysis. Due to Parcel 8's location, waterfront views and potential for future marina amenity, it is our

COMMUNITY MARITIME PARK

opinion that the highest and best use of the parcel is a full service hotel development that would provide significant meeting and restaurant space that takes advantage of the water front views. We have considered the supply and demand characteristics of the downtown market and the beachfront full service market as well as other full service hotels with marina amenities throughout Florida. We have provided a Smith Travel Report for those hotel groups in each of those classes within this report.

Based on our analysis of the local market and similar properties statewide, a hotel on the subject site would be a branded full service hotel with approximately 225 guest rooms along with 11,000 SF of meeting space and approximately 200,000 square feet of net building square footage built within a 5 story building. It would be branded with Hilton or Starwood family brand such as Embassy Suites or Westin.

Based on our Hotel Market Study in **Appendix B**, the following performance metrics for the future subject are concluded on the following page.

Fiscal Year Ending	7/31/ 2016	2017	2018
Avg. Available Rooms	225	225	225
Annual Room Nights	82,125	82,125	82,125
Occupancy	57%	69%	70%
Occupied Rooms	46,811	56,666	57,488
ADR	$141.70	$147.37	$151.79
RevPAR	$80.77	$101.68	$106.25
Total Rooms Revenue	**$6,633,154**	**$8,350,792**	**$8,725,972**

This report assumes that the subject will obtain and maintain a branded Full Service Hotel or similar affiliation. If the subject does not maintain a similar affiliation, it could have an impact on our concluded opinion(s).

The market study conclusions in this report assume that the subject's construction will be completed in the prescribed time period and according to the type and quality indicated. Also, it was reported to us that the subject property previously had storage tanks on the site that were said to have contaminated the land. The site includes a minimum 2 feet of “clean cap” that cannot be disturbed. The cap can be overlaid by foundations, parking lots or other impervious surfaces and an impervious surface can substitute for the cap if permanently installed during the construction of the cap.

In order to understand the feasibility of constructing a hotel on the site, we have engaged CBRE’s Project (Construction) Management team to prepare and submit a preliminary construction

COMMUNITY MARITIME PARK

budget, located in our Pensacola Value Study in **Appendix C**. The construction budget includes an allowance for substantial pilings to be installed to support the hotel structure.

The additional cost of the pilings as well as the likely need for structured parking in the future has a significant impact on the viability of the hotel. In fact, the City may have to provide substantial concessions on the price of the land and/or parking to make the hotel development feasible. That said, the economic development impact of the hotel, including real estate and food, beverage and hotel tax revenue may be worth the initial investment by the City.

It is our opinion that the cost to develop a hotel on the property with the known site conditions as described above will range in price from $30 to $38 million or $133,000 to $167,000 per key depending in large part on the quality of interior finishes and furniture fixtures and equipment.

The financial analysis located in the Pensacola Value Study shows that a development at the high end of the development cost range will not be feasible. However, hotel cost at the low end of the range is feasible if the City makes certain of the concessions described above. Understanding that the hotel development will be one of the most important drivers for the overall development, we think it is worthwhile and important to pursue branded hotel development on Parcel 8.

Demand Segmentation

In most markets lodging demand is generated from three different segments: Corporate, Group/Meeting and Leisure/Transient travelers. In some markets, a fourth classification may be present, such as airline contract or government. A breakdown of the overall market segments mix of business is illustrated in the following table:

Demand Segmentation – Competitive Market

	Competitive Set	
Segment	**Demand**	**Percent**
Commercial	87,972	18.3%
Meeting & Group	108,966	22.7%
Leisure	178,943	37.3%
Discount/Gov	104,369	21.7%
Total	**480,250**	**100.0%**

COMMUNITY MARITIME PARK

Based on our analysis, the indicated occupancy and ADR figures are achievable for a full service hotel on the subject site. The subject's occupancy, ADR, RevPAR, and corresponding rooms revenue for the first several years of our analysis are illustrated as follows:

Occupancy, ADR, & Rooms Revenue Conclusions			
Fiscal Year Ending 7/31/	**2016**	**2017**	**2018**
Avg. Available Rooms	225	225	225
Annual Room Nights	82,125	82,125	82,125
Occupancy	57%	69%	70%
Occupied Rooms	46,811	56,666	57,488
ADR	$141.70	$147.37	$151.79
RevPAR	$80.77	$101.68	$106.25
Total Rooms Revenue	**$6,633,154**	**$8,350,792**	**$8,725,972**

The subject would have approximately 225 rooms, 5 floors, 200,000 square foot of building area and at least 11,000 square foot of meeting space.

Potential Options for Full Service Hotel					
Subject Size	**Rooms**	**Floors**	**S /Floor**	**Building Net SF @ 900 SF/RM**	**Meeting SF @ 50 SF/RM**
Potential Option #1	175	4	40,000	160,000	9,000
Potential Option #2	200	4	45,000	180,000	10,000
Potential Option #3	225	5	40,000	200,000	11,000
Potential Option #4	250	5	46,000	230,000	12,000

COMMUNITY MARITIME PARK

Marina

CBRE prepared a market study for wet slips to be constructed adjacent to the Community Maritime Park. Our Marina Market Study located in **Appendix D** was conducted to consider the feasibility of a daytime only, unattended, transient wet slips on the submerged land located southwest of Lot 8. This plan would function similar to a metered daytime only parking lot for boats. We could find no evidence of this type of use in the market and this use was not found to be cost effective. Therefore, we have considered alternative wet slip uses that might be incorporated into the probable hotel, conference center resort development of Lot 8.

A "Destination Downtown" resort with hotel, restaurant, patio bar and ancillary wet slips would complement the City's goals to bring more business to the downtown Bayfront area. Our analysis focuses on the potential for a wet slip component to be added to the above referenced hotel development.

After consideration of the data contained in our comprehensive Marina Market, as well as information gathered from interviewing market participants, it is our opinion that the highest and best use of the submerged land adjacent to Lot 8 would be development of up to 60 floating concrete wet slips to be developed upon completion of or simultaneously with the proposed hotel conference center on Lot 8. It is important to note that without the resort as a generative demand source, the development of standalone wet slips would likely not be supported.

Office

Community Maritime Park is envisioned to be a vibrant and active part of downtown Pensacola. To achieve such goal, the Park must be more than just an office environment which promotes only daytime use. Its development mix must use the office to drive demand for retail and be balanced by other complimentary uses.

The Pensacola market ended the second quarter of 2013 with a vacancy rate of 6.3% and an overall downtown business district vacancy rate of 4.2% both of which are is well below the national average of nearly 12%. Positive net absorption of 31,781 SF was realized in the second quarter pointing to initial indication of market recovery

The most important recent activity as it relates to the development is approval of two land leases at Maritime Park for the development of an office building (Studer Development Group – 58,000 SF) and a mixed use building (Beck Properties - 18,000 SF). It is our opinion that these land leases were at or above market and will be the the catalyst for additional activity in the near future.

Studer Community Development Group lease:

- Ground lease: 69,137 SF of land for $101,752.38 annually
- Rent increases 7% every 5 years.
- Building approximately 57,000 – 58,000 SF

The City of PENSACOLA

COMMUNITY MARITIME PARK

Beck Property lease:

- Ground lease: 27,391 SF for $46,22 annually
- Rent increase 7% every 5 years
- Building approximately 18,000 SF

Please see the Q2 2013 Pensacola Office Report located in **Appendix E** for a full office market analysis.

Retail

The area surrounding the Maritime Park site is a mix of low and middle income single family housing with some small multifamily buildings interspersed. Just east of the site is a waterfront condominium project, providing some affluent residents in the immediate neighborhood. Density in the area is currently quite low, but if the market could support it, there are may be opportunities for multi-story residential condominium project. Research suggests that 2,000 units of multifamily housing were lost in the immediate area following Hurricane Ivan. While this presents an opportunity to rebuild and replace those units to modern standards, current market conditions render for-rent housing uneconomical.

See the following supporting research documents:

- Pensacola Demographic Report (**Appendix F**)
- Q2 2013 Pensacola Retail Report (**Appendix G**)
- Pensacola Downtown Retail Sales Comps (**Appendix H**)
- Pensacola Downtown Retail Lease Activity (**Appendix I**)
- Pensacola Retail Opportunity Gap Report (**Appendix J**)

Residential

Based on market trends and our recent experience in the Pensacola MSA, we do not believe that a for-rent multifamily project is economically viable at the subject site at this time. However, a mixed-use boutique condominium project is likely to be viewed more favorably by the investment market. We have outlined below some recent and relevant data points to substantiate our position.

COMMUNITY MARITIME PARK

Multi-family Market Fundamentals

As of March 2013, the average vacancy rate in the Pensacola MSA multifamily market was 8.1%. This rate is unfavorable compared to other Florida markets:

Pensacola: 8.1%

Tallahassee: 6.5%

Orlando: 6.4%

Jacksonville: 8.0%

Tampa: 6.9%

Average effective rents in Pensacola have decreased between March 2012 and March 2013 by 1.4% to $790 per month. This decrease is significantly unfavorable compared to other Florida markets:

Pensacola: -1.1%, $790

Tallahassee: +2.9%, $777

Orlando: +4.1%, $880

Jacksonville: +4.2%, $784

Tampa: +5.6%, $862

Investment Activity

Recently, multifamily investment activity has been concentrated in the northeastern Pensacola submarket. This area is home to the University of West Florida and West Florida Hospital; two of the city's largest employers. The last Class A multifamily trade to occur in Pensacola was Marcus Pointe Grande (248 units built in 1996), which sold in April 2011 for $65,911 per unit. Eaton Square (240 units built 1999) is closing in April 2013 for $81,000 per unit. Both Marcus Pointe Grande and Eaton Square are in the northeastern Pensacola submarket. See below for a selection of comparable Class A deals sold in other Florida markets:

Pensacola: $81,000 / unit (Eaton Square, 04/2013: 240 units built 1999)

Tallahassee: $89,876 / unit (Jackson Square, 09/2011: 242 units built 1996)

Orlando: $107,590 / unit (Estates at Maitland, 04/2013: 272 units built 1998)

Jacksonville: $110,559 / unit (Wimberly at Deerwood, 02/2013: 322 units built 2000)

Tampa: $101,923 / unit (Arbors at Branch Creek, 02/2012: 390 units built 1999)

Development Activity

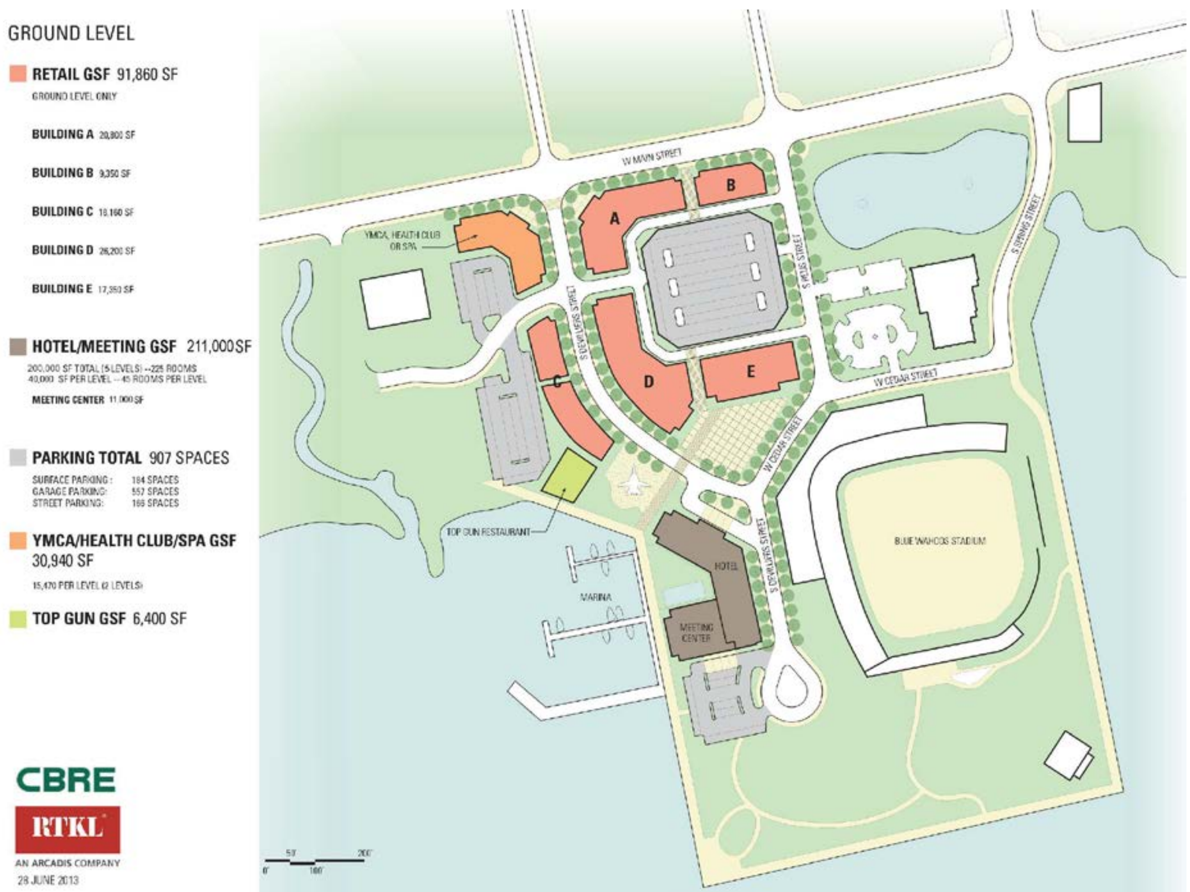
The newest multifamily asset in Pensacola is Crossings at Nine Mile, 240 units built in 2010 near the intersection of Nine Mile Road and University Parkway in the northeastern quadrant of the City.

COMMUNITY MARITIME PARK

Currently, Crossings is 96% occupied and effective rents are $1.00 per square foot ($1,049 average per unit), which are the highest rents in the city. There are currently no multifamily assets under construction or planned for development in Pensacola.

The Pensacola market is not currently attractive to multifamily developers due to the low market occupancy and decreasing effective rents as compared to other Florida markets. In addition, the most recent investment activity for Class A apartments in Pensacola represent prices significantly lower than replacement cost. Therefore, it is the opinion of CBRE that the site at Maritime Park is not currently suitable for an apartment project. However, sale prices in the neighboring condominium project (built 1984) are averaging above $400,000 and current asking prices are above $600,000 per unit. This indicates that the site may be considered much more favorably for a for-sale boutique condominium project, particularly if developed in conjunction with high-end retail, restaurants and entertainment destinations.

The image below is a conceptual drawing of the redeveloped Community Maritime Park. See **Appendix K** for additional concept representations.



COMMUNITY MARITIME PARK

CONCLUSIONS

- There is sufficient demand for a full service 200,000 SF hotel consisting of 225 rooms and 11,000 SF of conference space. Construction costs will be a concern given the required piling depth on the site. Hilton, Starwood or Embassy Suites are likely brands given they are currently underserved in the market.
- Adjacent to the hotel is a full service marina that could be supported at an estimated 60 floating concrete wetslips.
- A waterfront restaurant pad site would support all park uses.
- Office market reports show slow absorption, therefore speculative office is unlikely. However, the Studer and Beck Properties leases provide Maritime Park with excellent momentum at good rates.
- The market does not support for rent housing given current low replacement costs. The condominium market could be successfully developed in conjunction with previously described retail, restaurants and entertainment.
- Retail is likely the last product type to be developed, as retail follows rooftops. Once developed the aforementioned uses would support retail demand.

RECOMMENDATIONS

The Community Maritime Park is a unique asset with a select universe of prospective developer tenants. Marketing the property concurrently on a local, regional, national and even a global basis is key to the success of this assignment as many prospects will be likely be found outside the local MSA. CBRE has by far the world's largest platform of brokers and industry practice groups. Within thirty (30) days of being hired, the opportunity will be presented to relevant real estate professionals via a direct email and web-based marketing campaign. Below is a sampling of prospective consultants, brokers and other professionals that will receive a direct email containing a detailed marketing package.

- Industry Specific Local, Regional, National Developers and Investors
  - Hotel
  - Residential
  - Retail
  - Office
  - Marina
- CBRE's list of internal and cooperating brokers throughout the United States

DEEPWATER PORT

DEEPWATER PORT

OBSERVATIONS

With Global Trade playing such a major role within the world's economies, U.S. seaports are expanding and growing at a record pace. Seaports are only one component of the overall supply chain process which includes trucking, air, rail and in some cases barges.

The most active port gateways in terms of current or future growth in North America are Houston, Norfolk, Savannah, Charleston, New York/New Jersey, and the Canadian port of Prince Rupert and Lazro Cardenas in Mexico. The panamax ships are getting larger, the west coast Mexico ports are poised for additional growth and the U.S. east coast ports are growing with various projects increasing depths and size. The Panama Canal is nearing capacity and looking for funding for future expansion which will directly impact the growth of the U.S. ports while the Suez Canal is undergoing both widening and deepening projects which will also increase TEU's to the east coast U.S. seaports.

The Port of Pensacola has evolved into northwest Florida's leading deep-water port, with eight deep draft berths and more than 400,000 square feet of covered storage. The 50-acre facility offers a Foreign Trade Zone (FTZ #249), an Enterprise Zone (EZ #1702), and stevedoring and marine terminal services for all descriptions of bulk, break-bulk and unitized freight. Among the Port's leading commodities are bagged agricultural products, cement, paper, aggregate, power plant and power generation equipment, animal feed and animal feed components, construction supplies and materials, and frozen cargo.

Over the years, the Port remained successful through the middle of the twentieth century, when containerized shipping became more prevalent. The Port has struggled in recent years to create an identity as a viable port without a containerized shipping component. It is predominately a tenant port offering leases to private entities.

The Port struggles due to several factors, which include the following:

Lack of Containerized Shipping: Because the Port of Pensacola is not designed to handle containerized traffic, it has been eclipsed by other ports in the region that can handle container shipments. As a result, the Port is also not positioned to benefit from the aforementioned improvements to the Panama and Suez Canals. Instead, the Port has relied upon a variety of local and regional warehousing and distribution tenants focused primarily on food products and some commodity items. It also has been working as a base of operations for large ships that service the offshore energy industry.

Lack of a Major Population Base: Ports such as LA/Long Beach and NY/NJ have huge metropolitan areas which provide additional demand for products and volume over and above what is entering the United States for nationwide delivery.

Fair Transportation Linkages: Product entering the Port of Pensacola would need immediate access to major highways in addition to rail service. There are other ports that are strategically located with better highway access for regional and nationwide delivery. The port does enjoy direct CSX service without the need for a short line to anyone east of the Mississippi.

DEEPWATER PORT

Limited Infrastructure: The port lacks adequate shore power capability and sewer pump out capability. Coupled with previously identified lack of container handling equipment, the Port of Pensacola is at a significant competitive disadvantage to many of the other Florida ports.

Encumbrance of Existing Leases: Notably Cemex has a 90,000 square foot terminal that has a lease in place Until December of 2022. Commodity users such as Cemax no longer require port access to be viable, they are not an attractive tenant at a waterfront property, and their long term lease inhibits other potential development on the site.

CONCLUSIONS

We believe the best plan for the port would be to focus on the areas where Pensacola has an advantage. One of those is home porting, as evidenced by the moderate success the port has had with companies such as Offshore Inland Marine and Oilfield Services that utilize the facility as a subsea and offshore oil and gas vessel services center. The port has paved dockside areas and is well positioned in close proximity to areas of oil and natural gas exploration. We see this type of user much more sustainable than those in the cold storage food and basic commodity industries that are currently utilizing the facilities. While the Port does not appear to be in a strong position relative to some of the other 13 Florida seaports and does not appear to be generating income consistent with what one could expect from 50 acres of waterfront property, the arguments for not redeveloping the site are usually provided as follows:

#1. ***What else would we do with the site?*** Pensacola has extensive history in reviewing creating plans for potential redevelopment for its Port. It is not obvious to us that an alternative use, after the costs are vetted, can generate significant income over and above what the property is currently generating if the existing warehouse space were fully leased.

#2. ***It can attract additional industry to the Pensacola area.*** Having a Port allows the Pensacola market to attract major manufacturers that distribute finished goods via a port system. As previously referenced, it would not attract companies that ship via containers, but for large or specialized products it remains an attractive capability. An example would be exporting General Electric turbines being manufactured in the local area.

#3. ***It has the shortest distance to the first sea buoy.*** This is a selling point that Pensacola frequently touts in its marketing, and it is an advantage. However, it does not appear that this feature alone has been a compelling reason for tenants and operators to locate at the port with the possible exception of those using the facility as a home port.

Our suggestions would be to engage in a full scale marketing effort for the existing warehouse space within the Port. Simultaneously, we would request an appraisal of the property and determine the overall value of the Port property, and have a consultant compare the present value of the sale of the port property to a private investor versus the value of an ongoing income stream assuming that the Port is at stabilized occupancy over a reasonable holding period.

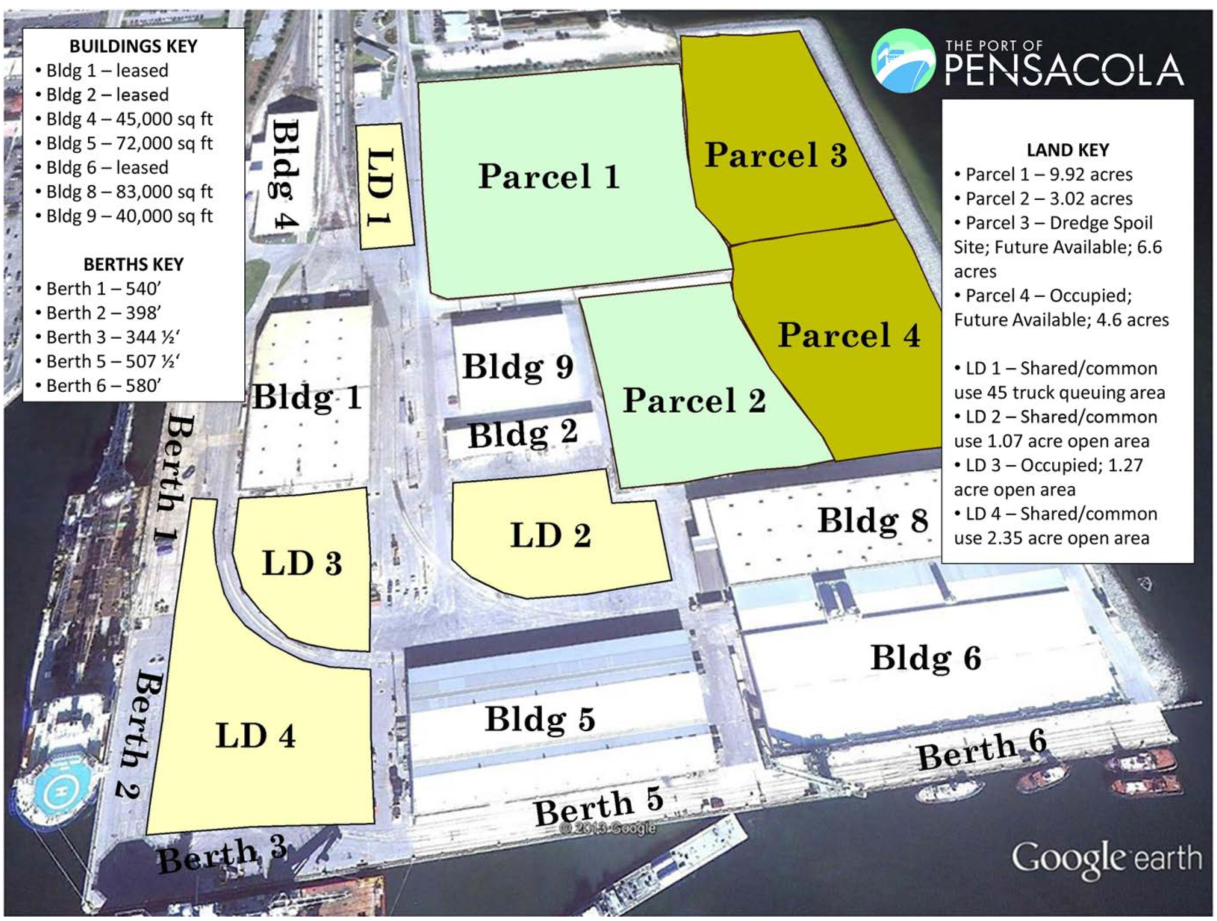
DEEPWATER PORT

RECOMMENDATIONS

Our marketing campaign would consist of the following:

- Focus on companies like Offshore Inland that utilize the facility as a "home port"
- Direct mail marketing to national users of seaports
- Web based marketing site showing the features and benefits of the Port of Pensacola
- Target market to manufacturers on a national basis that require a seaport to distribute non-containerized product.
- Aggressively market to existing tenants currently located in other Southeast seaports.

With our international platform, we can provide a much more potent marketing program that can determine what the true demand for space is at the Port of Pensacola. This will allow us to either lease the space and create a more viable source of revenue for the City, or confirm that the competitive disadvantage of the port versus competing seaports requires a more attentive view of alternative uses.



PENSACOLA INTERNATIONAL AIRPORT

PENSACOLA INTERNATIONAL AIRPORT

OBSERVATIONS

The Pensacola International Airport (PNS) is a public airport that began servicing civilian passengers in 1935. The airport is situated on a 1,400 acre site at an elevation of 121′. The passenger terminal consists of approximately 159,000 square feet comprised of two stories with 0 gates and 10 new loading bridges. Site improvements include a parking garage with a pedestrian skywalk consisting of 963 spaces, and surface parking with an additional 830 spaces. There is also a shuttle parking lot providing 538 parking spaces. Currently six airlines fly out of PNS (two commercial and four regional) and there are just over 70 arrivals and departures da ily.

The airport boasts runway length of 7,004 feet by 150 feet with pavement strength of 270,000 pounds. It has marketed as the largest airport between New Orleans and Tampa Bay. In 2012, over 1,500,000 passengers utilized this attractive and well run operation. We are very excited about the prospects for additional commercial and industrial development at PNS.

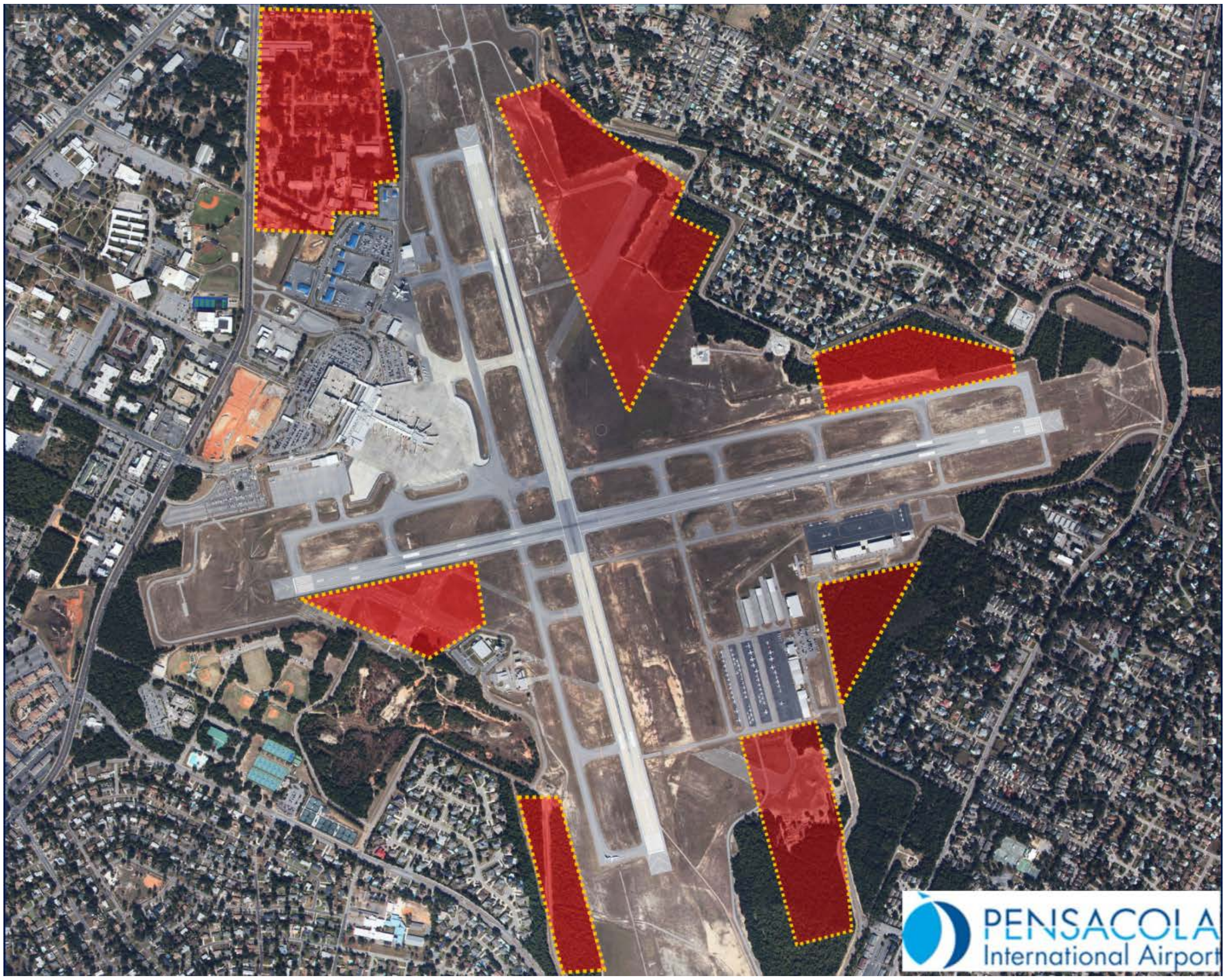
The airport benefits from being located in an Enterprise Zone, and is well located three miles from Interstate 10 and situated in "uptown Pensacola." The airport is located in a strong labor market with education and experience in the aviation field and related industries.

The economic drivers for any airport include the sale of fuel and oil, aircraft maintenance and parts, aircraft charter, flight training, avionics shops, aircraft sales, and a wide variety of ancillary services which could include engine overhauls, manufacturing, etc. The ability for a publically operated airport to be self-sufficient relies in large part to the user base, traffic to and from the airport remains a major barometer of success.

By expanding the land around the airport to make room for these economic drivers, PNS has the opportunity to capitalize on the existing demand at the facility and to leverage that into additional growth that can fuel job creation.

There is no way to provide proposed rental rates, concessions required, proposed building and site improvements, etc. until we assist in determining the highest and best use for each of the airport sites. However, having good quality land sites immediately adjacent to the airport provides an excellent opportunity to proactively target a wide variety of business owners and operators.

PENSACOLA INTERNATIONAL AIRPORT



PENSACOLA INTERNATIONAL AIRPORT

CONCLUSIONS

We are very excited about the long term prospects for PNS. The airport is enjoying strong growth, is well designed, and has adjacent land available to target both large and small users. The operation has been efficient in handling its existing user base, and its general aviation customers appear to be well served. We see the opportunity to target additional economic drivers to the airport to capitalize on PNS existing reputation as a world class airport facility.

RECOMMENDATIONS

The marketing program for the airport is simple by design; it is our execution that will provide a substantial boost to the Pensacola International Airport's market effort. Direct contact with decision makers in the industries we are targeting will ensure that PNS receive maximum exposure.

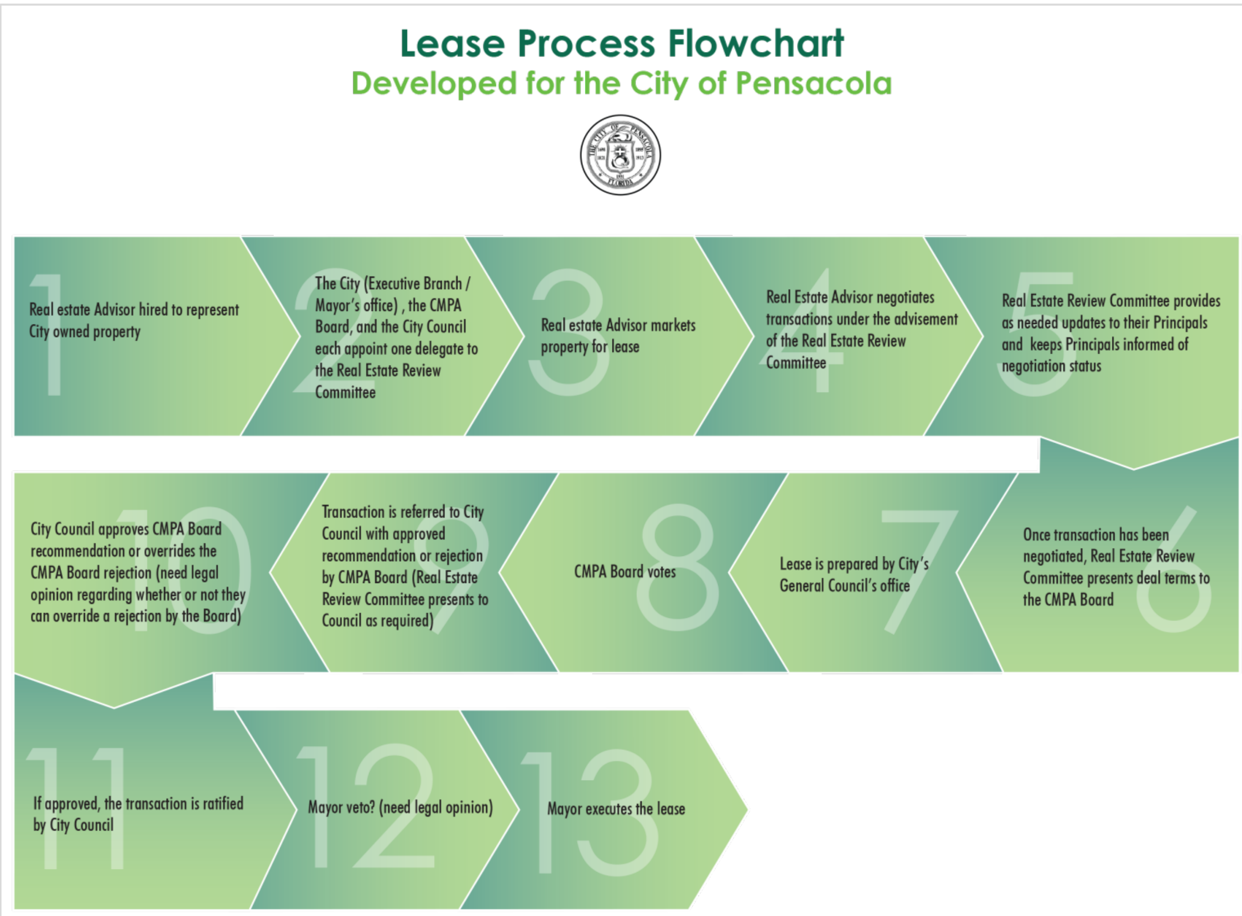
Our marketing effort both for the airport itself along with the adjacent business park would include the following:

- Meet with airport personal to develop a market strategy based upon the ideal tenant mix.
- Utilize CBRE's network and relationships with major cargo and aerospace companies to ensure PNS is on the radar of these firms.
- Direct marketing to Maintenance, Repair and Overall (MRO) firms nationally.
- Utilize our direct relationships with aircraft manufacturers and suppliers to market PNS.
- Collaborate with airport officials to enhance the existing PNS website with information on available real estate lease opportunities.
- Target tenants on a national basis who typical locate near an airport

LEASING PROCESS

LEASING PROCESS

The City of Pensacola has suffered from the lack of a clear and consistent leasing process, particularly for Community Maritime Park. After conducting stakeholder interviews and learning of the City's specific approval and Council requirements, CBRE proposes the following flowchart be utilized to expedite the leasing process. While the goal is an expedited process to ensure continued business interest, it is also inclusive of all stakeholders early in the process. It is important that all interested parties and decision makers can weigh in and provide feedback that ultimately goes to City Council for vote and approval.



MARKETING

MARKETING STRATEGY

CBRE has described specific marketing related recommendations for Maritime Park, the Deepwater Port and International Airport. The following details the broad network and reach CBRE will achieve through various marketing tools and efforts.

Advertising & Marketing

CBRE's marketing professionals produce world-class materials which will be utilized in securing a buyer or tenant(s) for the property. For example:

- Detailed property brochures — see **Appendix L** for a property brochure for Thunderboat Marina, a property similar to the Community Maritime Park, located in Fort Lauderdale.
- Dedicated website for the property
- Presentation boards for showings (floor plans, aerials equipment inventory etc.)
- Complimentary logistics and labor studies to serious prospects
- Comprehensive email campaign with ability to download site plans, aerials and documents

The properties will be listed on the industry's leading websites visited by corporate real estate professionals (for example, CBRE.com, Loopnet and CoStar). The asset will receive priority placement on these sites pursuant to an enhanced service agreement. Of course, there will be extensive signage on the property.

Strategic Leasing Plan

The CBRE team will implement a strategic approach to positioning, marketing and leasing the property. Overall, the goal is to lease the property in the shortest amount of time with quality tenants to maximize the value of the property. The marketing concepts in our program will be achieved by implementing a number of highly focused, integrated tasks such as identifying prospects, creating marketing materials, pursuing targeted tenants, updating brokers on property availabilities, conducting showings, writing proposals and negotiating leases. Below are the marketing tools that will achieve the fastest market exposure for the property.

Local/Regional Exposure

Information on the property will be provided to local brokers as well as to CBRE brokers throughout the Southeast.

Marketing Flyer

A marketing flyer will be developed, with photos, property features, demographics, site plan, traffic counts and availabilities. This flyer will be sent to a list of targeted users and the entire outside brokerage community.

Web Marketing

Our worldwide website (www.cbre.com), which averages 165,000 visitors per month, will showcase the property.

MARKETING

Broker Participation

Cooperation with brokerage firms is essential to leasing efforts. An email campaign will be initiated and sent out monthly via CampaignLogic to our extensive database of brokers, showcasing the property and also linking to a PDF of the flyer and web page on www.cbre.com. Reports can be generated on who is viewing the emails along with who is downloading the flyer.

Signage

CBRE will place a sign on the property, providing maximum exposure.

LoopNet and CoStar

LoopNet and CoStar are tools embraced by the brokerage community that inform brokers on the latest availabilities in the market. LoopNet and CoStar enable cooperating brokers to inform their clients of new opportunities and provide them with essential information.

Marketing Tools

CBRE's in-house Marketing Department, headed up by our Creative Director Elizabeth Cross, will oversee all marketing efforts for the property. This will eliminate any graphic design and production costs associated with outside firms.

We will look at the previously produced marketing materials with fresh ideas and opinions and use any of those materials where we all decide are appropriate, thus reducing any time and cost to redesign and produce marketing materials.

PREPARED FOR:

The City of PENSACOLA

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