

ABRAMSON & ASSOCIATES, Inc.

Real Estate Advisory Services

MEMORANDUM

TO: **Don Nelson, City of Coral Gables**

CC: **Cynthia Birdsill, City of Coral Gables**

FROM: **Barry Abramson** 

SUBJECT: **Proposed Amendment to Lease and Guaranty of CDD Bond Financing for Palace at Coral Gables Senior Housing Development**

DATE: **March 18, 2011**

This memorandum presents our evaluation of the proposed Second Amendment to the Lease and Development Agreement and the Garage Lease and Development Agreement and revised Guaranty for the Palace at Coral Gables, a mixed-use project including senior housing, retail, and public and private parking, to be developed by the Palace Group on City property known as Lot 9 and Garage 5.

The 2007 lease required the City to guaranty \$13 million of principal and interest payments on the CDD bond financing for the public parking component.

The Palace Group has now secured a commitment from KeyBanc Capital Markets to market the bond financing based on the City providing a full guaranty of the principal and interest debt service payments on the principal amount estimated at \$13,000,000.

It is our understanding that if the financing is not fully guaranteed, it could jeopardize the ability to market bonds for the full amount of the cost of the public parking component or significantly increase the interest rate for that financing, in either case significantly increasing financing costs and imperiling the project's feasibility.

Accordingly, the proposed amendment entails the City providing a full guaranty of the principal and interest debt service payments on the principal amount (not to exceed \$13,000,000) of the bond financing for the public parking component, with the City's guaranty subject to maximum annual and total debt service amounts.

The proposed amendment also calls for the Developer to escrow an amount that would enable the CDD to make three years of debt service payments on the bonds for a period that shall be the greater of the first six years of operation or until the project has maintained 90% occupancy for two consecutive years. The bond financing will also include a capitalized debt service reserve equal to one year's debt service.

Accordingly, the City's effective exposure, after accounting for the escrow and capitalized debt service reserve, likely would be equivalent to debt service on a principal amount more in the range of \$12 million upon project completion and would be reduced over time as the debt principal is further amortized.

Additionally, the proposed amendment calls for the Developer to pay the City a fee of \$225,000 upon closing of the CDD bond financing.

Finally, the Developer will be required to refinance the bonds without the City guaranty at such time that it can do so at a comparable cost of debt.

Should the City guaranty be called upon, the Developer would be in default of the lease for both parcels and, under the terms of the lease, the City would be able to initiate a reversion of the Developer's leasehold interest in both the private and public projects. The private development is estimated to cost in excess of \$64 million and the combined value of the private and public parking projects upon completion can be safely estimated to be in excess of their total cost of \$77+ million.

Given the far greater value of the Developer's leasehold interest than the principal amount of the CDD bond financing, it is hard to imagine a circumstance under which the Developer or its lender on the private project would allow such a default to occur or in which the City would be in an economically disadvantageous position resulting from such a default if it were to occur. Therefore, as we concluded in 2007, we consider the City guaranty, as now

proposed to be amended, to entail minimal risk to the City and such risk to be far outweighed by the considerable financial and other benefits of the project to the City (which benefits we consider to be substantially as enumerated in our memorandum dated October 2, 2007).

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