Fabrick Update
Where We’ve Been, Where We Are, and Where We’re Going... TOGETHER

Neil Schiller, Esq.
June 18, 2020
Today’s Agenda

Goal: To achieve **mutual** agreement and understanding related to moving this project forward

1. Where We’ve Been:
   - RFP details
   - January 2019: Atla West 1.0
     - Development program
     - Renderings & Site Plan

2. Where We Are:
   - February 2020: Fabrick 2.0
     - Development program
     - Site plan & renderings

3. Where We Are Going:
   - Current market conditions
     - Commercial Office
     - Retail/Food & Beverage
     - Does the current plan work post-COVID-19?

4. Adjustments and revisions?
   - Board consensus
   - Design and Architecture
     - Likes and dislikes
     - Consensus
RFP History

• August 21, 2018: RFP Issued
  • Sought:
    • a general overview (including renderings)
    • conceptual site plan
    • conceptual elevations
    • basic floor plans
    • anticipated uses
  • January 29, 2019: BH3 was selected
RFP History
Key Elements Requested in the RFP

• Provision of housing, including workforce housing on-site or off-site
• Inclusion of priority uses identified in the 2012 West Atlantic Area Needs Assessment as follows:
  • Full-service grocery store (Required use)
  • Health and wellness facility (urgent care, clinic, fitness center)
  • Family/social entertainment (sports bar, jazz club/lounge, amusement venues)
  • Financial institution (bank or credit union)*
  • Pharmacy*
• Relocation plan for existing long-term businesses 700 W. Atlantic Ave. listed in the RFP
• Space for local small businesses in the new development
• Local hiring and inclusion plan

*Pharmacy & Financial Institution may be located with the Grocery Store
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This was our **CONCEPT** Plan per the requirements of the RFP
Atla West 1.0

“The Junction” aka Frog Alley
Atla West 1.0
6th & Atlantic Avenue
Atla West 1.0

Benefits

• 206 additional parking spaces
• “The Junction” or Frog Alley as a public space
• 18 workforce housing units available before construction, 12 additional after the project
• Project created the most TIFF revenue to the CRA
• Delray-centric team
• Jobs program
# Fabrick 2.0
February 2020

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Southwest Corner at 600 Block
Fabrick 2.0
Northeast Corner of the 600 Block
Fabrick 2.0
Looking East from Southeast Corner of 600 Block
Fabrick 2.0
600 Block from Atlantic Ave
Fabrick 2.0
Southeast corner of 600 Block from Atlantic Ave.
Fabrick 2.0
Southeast at the 600 Block Residential Building
Fabrick 2.0
Southeast at the 600 Block Residential Building
Fabrick 2.0
Northeast at the 600 Block Residential Building
Fabrick 2.0
Southwest Corner on the 700 Block from Atlantic Ave.
Fabrick 2.0
700 Block from Atlantic Ave.
Fabrick 2.0
East at the 700 Block Building
Fabrick 2.0
East at the 700 Block Building from SW 8th Ave.
Fabrick 2.0
Southeast at the 700 Block Building from Atlantic Ave. & SW 8th Ave.
Fabrick 2.0
East 700 Block Promenade from SW 8th Ave.
Fabrick 2.0
West at the 700 Block Building from SW 7th Ave.
Fabrick 2.0
Southeast at 700 Block Building from Promenade Interior
Fabrick 2.0
Southeast at 700 Block from Atlantic Ave. & SW 8th Ave.
Fabrick 2.0
Northeast at Southwest Corner of 700 Block from 8th Ave.
Fabrick 2.0
Southeast 800 Block from Atlantic Ave. and SW 9th Ave.
Fabrick 2.0
Southwest at 800 Block from Atlantic Ave. & SW 8th Ave.
Fabrick 2.0
East at interior of 800 Block Arcade from Atlantic Ave. & SW 9th Ave.
Fabrick 2.0
Southeast at 800 Block from SW 8th Ave.
Fabrick 2.0
Northeast from Southwest Corner of 800 Block
Fabrick 2.0
West at Interior of 800 Block Promenade
Fabrick 2.0
Northwest from Southeast Corner of 800 Block
Comparing the Concept Plan and Fabrick 2.0
It's more similar than you think

Differences:

- Tower Roof Caps
- Bahamian Shutters
- Lower heights on Atlantic
- Grocer is located on Atlantic
- No windows on 2nd floor on Atlantic
Comparing the Concept Plan and Fabrick 2.0
It’s more similar than you think

Differences:

- Tower Roof Caps
- Bahamian Shutters
- Trellis feature
- Lower heights on Atlantic
- Larger arcades provide more shade
Comparing the Concept Plan and Fabrick 2.0
It’s more similar than you think

Differences:

• Trellis feature

• Low, open balconies
Comparing the Concept Plan and Fabrick 2.0
It’s more similar than you think
Where Are We Now
Fabrick 2.1
Fabrick 2.0 vs 2.1
Promenade Park

- More color added to the buildings
- Addition of awnings
- More traditional shutters added to 2nd floor
- Planter boxes added to 2nd floor
- Landscape materials and shade trees
Fabrick 2.1
700 Block from Atlantic Ave.
Fabrick 2.0 vs 2.1
700 Block from Atlantic Ave.

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Fabrick 2.1
Promenade Park
Fabrick 2.1
700 Block from Atlantic Ave.
Fabrick 2.1
700 Block from Atlantic Ave.

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- Planter boxes added to 1st and 2nd floors
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Fabrick 2.1
Southeast from Atlantic Ave. at 700 Block
Fabrick 2.1
Promenade Park
Fabrick 2.0 vs 2.1
Promenade Park

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Fabrick 2.1

- Planter boxes added to 1st and 2nd floor
- Landscape materials and mature shade trees
Fabrick 2.1
Large Arcades and Covered Walkways
FABRICK Development Process
How We Have Been Working

• Drafted concept plans per the RFP
• Approached grocery stores to gauge interest in project
• Feedback included:
  • Not having enough density or foot traffic to sustain
  • Too many grocery stores in the area
• Took grocery feedback and redesigned the program and design
• Revised new development program and design
  • Based on feedback from CRA Board and community
• Submitted revised development program and design to City for SPRAB approval
  • City issued TAC comments
  • Developer is in process of responding to comments
Where Are We Going
Fabrick 3.0
FABRICK 3.0
Where do we go from here?

• Real estate markets have changed due to the impacts of the COVID-19 pandemic:
  • **Commercial Office** - changing dynamics have the experts agreeing that there will be a new normal
  • **Retail/Food & Beverage** - demand is extremely soft as businesses continue to struggle and reopen after COVID-19
  • **Grocery Store** - regional market experienced two seismic jolts with the departures of Lucky’s Market and Earthfare pre-COVID-19
  • **Residential** - is still strong due to increased demand
Avison Young PBC Market Report Q4 2019

Is there a slowdown on the horizon?

Economic Growth Mirrors National Trend as It Decelerates Amid Global Headwinds and Significant New Development on the Horizon

Palm Beach County’s office market ended 2019 lagging slightly behind the growth set in 2018. A decelerating global economy alongside ongoing trade wars, tension in the Middle East, and uncertainty surrounding the upcoming political season have all played a role in creating weaker demand for office space. Employment growth in Palm Beach County continues on a positive trajectory, albeit at a slower pace, adding 4,200 nonfarm jobs over the trailing 12 months ending November 2019 compared to the 15,400 nonfarm jobs added over the same period in 2018. The strongest employment growth was within the construction sector, which grew by 4.1%, followed by the financial activities sector, which grew by 3%.

There has been an office development boom, particularly in Downtown West Palm Beach, after years of keeping supply in check with a subdued construction pipeline. Two major class A office towers totaling 497,000 sf are underway downtown with a third on the horizon with the approval of the Related Companies’ One Flagler Tower totaling 270,000 sf. With the growth of sublease space during 2019, there are some concerns regarding the overbuilding of class A space in the CBD, however economic fundamentals remain in check and relocations from the northeast may help mitigate some of the supply and demand imbalance. Net absorption ended the year relatively flat, but in positive territory at 186,787 sf. The largest gains in absorption were in Boca Raton, Delray and West Palm Beach. The average asking rental rate grew by 5.9% year-over-year to $35.45, marking the strongest rent growth in the tri-county area. Leading into 2020, growth is expected to remain on a similar path to 2019 and the market may see some tightening as supply remains relatively constrained for the coming year.

769,317 SF of new office developments are under construction in Palm Beach County at the end of 2019.
Commercial Office: Post COVID-19
Where do we go from here?

• CBRE Q1 Report:
  • Office vacancy rate $\uparrow$
  • Leasing activity $\downarrow$
  • Drop in leasing activity & increase in lease renewals
• Vacancy Rates:
  • Downtown: $\uparrow$ 30 bps
  • Suburban: $\uparrow$ 10 bps

[Diagram showing Q1 2020 U.S. Office Figures - Executive Summary]

- Q1 leasing activity slows, renewals rise
- Vacancy Rate 12.3%
- Gross Asking Rent $35.42 PSF
- Net Absorption 3.8 MSF
- Completions 10.3 MSF

Arrows indicate change from previous quarter.

- The COVID-19 pandemic has forced some states to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the U.S. economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage and transportation sectors.
- A drop in U.S. office leasing activity, as well as a significant increase in lease renewals, were two major signs of COVID-19’s early impact on office markets in Q1 2020.
- Office market fundamentals generally remained stable despite a 20-basis-point increase in the overall vacancy rate, which was not unexpected.
- The overall downtown vacancy rate increased by 30 basis points (bps) in Q1, while the suburban vacancy rate increased by 10 bps and remained below its trough prior to The Great Recession.
- Nine of the 10 largest markets recorded vacancy rate increases in Q1. New Jersey’s vacancy rate was unchanged.
Marcus & Millichap COVID-19 Report
How the Global Pandemic Impacts the Office Market

• Agree that office vacancies will continue to rise.
• Full economic impact not realized until next year.
• COVID-19 has decreased demand for office space due to:
  • Social distancing
  • Rotating shifts
  • Lease cancellations
  • Flexibility in determining economic impacts is key.
With work-from-home models proving to be successful, businesses are exploring ways to decrease their footprints.

- This costs as revenue has also decreased.

Office space owners are looking at ways to repurpose their existing office space to address work-from-home and vacancy rates.

- “a housing shortage exists within many of the major metros where construction is difficult. Conversions to apartments or condos could both relieve pressure on the housing market and erode the supply overhang if less office space is necessary.”
Marcus & Millichap COVID-19 Report
The “What Ifs”

**Short Downturn/Strong Recovery (Best Case):**
- “major portions of the office climate will still generate a sizable overhaul…”
- incorporate work-from-home strategies

**Short Downturn/Weak Recovery:**
- “Even if the economy rebounds quickly as stimulus is effective and a vaccine is identified early, a change in business as usual could become permanent.”
- Office market is slower to recover under this scenario because of the length of lease terms

**Extended Downturn/Strong Recovery:**
- Closest to pre-COVID-19 environment
- Dependent on vaccination

**Extended Downturn/Weak Recovery (Worst Case):**
- Office users will give up space to move into smaller footprints while work-from-home practices are encouraged
COVID-19 Impacts on Retail/Food & Beverage Businesses Adapted to COVID-19 but is there any going back?

- Forced isolation has created reliance on e-commerce which has the need for retail space.
- Businesses that were forced to change operations for COVID-19 will likely adopt many of those changes:
  - Greater focus on e-commerce
  - Restaurants shifting to “takeout,” quick serve business, and delivery demand for in-person dining and shopping
  - Businesses will be more reliant on technology to reduce human interaction and transmission of germs
    - Self checkout lines and kiosks
    - Integration of curbside pickup from national retailers to local restaurants
COVID-19 Impacts on Retail/Food & Beverage
CBRE “Consumers Cautious as Virus Spreads”

- Job losses in retail, food & beverage and transportation sectors will lead the US into a recession
- Late Q1 retail shutdowns and store closures will impact the real estate market in Q2
- Brick and mortar stores were closed and shifted business to online and curbside models
COVID-19 Impacts on Retail/Food & Beverage

Retail Sale Growth Declines Despite Record Grocery Sales

**FIGURE 3**

**TOTAL RETAIL SALES GROWTHDeclines***

- Total retail sales increased by 1.2% year-over-year in Q1, down from 3.9% in Q4—largely due to declines in gasoline and auto sales.
- Core retail sales (excluding gasoline stations and motor vehicle & parts dealers) grew by 3.0% year-over-year in Q1.

**FIGURE 4**

**RETAIL SALES BY CATEGORY**

- Grocery stores had the highest year-over-year sales growth in Q1, up by 12%. Sales growth was primarily driven by panic buying in March as a result of the COVID-19 outbreak.
- Clothing & accessory stores posted the largest year-over-year decline, as many stores were closed to limit the spread of COVID-19.

Younger consumers use of technology has forced older consumers to adapt... now they are more comfortable with online shopping and they like it.
Earth Fare to close all stores, including two in Palm Beach County
By Kristina Webb
Posted Feb 3, 2020 at 11:39 AM
In closing its roughly 50 stores, the company cited "continued challenges in the retail industry."

PALM BEACH GARDENS — Organic and natural foods grocer Earth Fare is closing all of its stores, including those in Palm Beach County.

Citing "continued challenges in the retail industry," Earth Fare in a Monday morning news release said it plans to sell its assets.

The company, based in Asheville, North Carolina, also said all store and corporate employees have been notified.

"Earth Fare has been proud to serve the natural and organic grocery market, and the decision to begin the process of closing our stores was not entered into lightly," the company said. "We'd like to thank our team members for their commitment and dedication to serving our customers, and our vendors and suppliers for their partnership."

Earth Fare has two stores in Palm Beach County. Its Palm Beach Gardens location opened in 2018 on PGA Boulevard west of Military Trail. Another location in suburban Boynton Beach on the northeast corner of Lyons Road and Boynton Beach Boulevard opened last year.

Earth Fare did not list a closing date for its stores, but an employee told The Palm Beach Post the goal is to close all stores by the end of this month.
Existing Grocery Stores in Delray Beach

• 13 national grocery stores within 5 miles of the West Atlantic Ave.
  • 21 total grocers or markets
  • 10 additional CVS and Walgreens
• Grocery chains look at the saturation levels from this standpoint (including drug and convenience stores)
  • Real estate officers are also concerned about location success (foot-traffic)
• Grocery market is contracting rapidly more so in new builds due to COVID-19
  • New build locations are receiving extra scrutiny
  • Stores are contracting rents and deals
• Grocery Store was the #1 identified need of the 2012 West Atlantic Needs Assessment
  • We are negotiating with a national grocer and have them committed to the site
COVID-19 Impacts in South Florida
Ripped from the Local Headlines

24 Hour Fitness files for bankruptcy, closes some South Florida clubs

Bacardi family, Alta Development get approval from Winn-Dixie

Construction in South Florida continues downturn amid Covid-19

Real estate giant backs out of $3.6B deal to purchase owner of two South Florida malls

Restaurant/night club building in downtown Delray Beach targeted in foreclosure
COVID-19’s Impacts on Fabrick
How Do We Move Forward?

• Significant shift to work-from-home puts office market in question
• Alterations to business operations users needs for space
  • Retail and Food & Beverage users realize they do not need as much space = \downarrow demand for retail and food and beverage
  • Online and mail order businesses are thriving
• Overall commercial leasing will continue to \downarrow until a vaccination or other medical treatment is developed
• Residential will see an \uparrow in demand with the COVID-19 economic impacts on workers, businesses and quality of life
Next Steps
CH-CH-CH-CH-CHANGES?
How the Project is Addressing COVID-19

- COVID-19 has forced developers to consider
- Need to re-evaluate the development program in light of rapidly changing markets
- **POTENTIAL** revisions:
  - Decrease retail/food & beverage
  - Increase residential
    - increase workforce housing
  - Identify additional uses:
    - medical office/urgent care clinics
    - pharmacy
    - financial institution
  - The additional parking spaces may have to be reduced

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CRA Board Feedback
Let’s Address By Issue

- Programming
  - Commerical Office
  - Retail/Food & Beverage
  - Residential
  - Open Space
  - Other

- Design
  - Architecture
  - Elements
  - Heights
  - Features
  - Other

- Moving Forward
  - Community Outreach
  - Finalize the plan based on CRA/community feedback
  - Receive final blessing from CRA
  - Resubmit to City
  - SPRAB approval
  - City Commission approval
What We’ve Been Up To...
3,000 meals donated to the community to date

Thank you to the CRA for partnering with us on the vital community project
Conclusion
Moving Forward... TOGETHER

• Delray based ownership who are invested in the community
• Owners and team are 100% committed to delivering this project
• Collaboration with the CRA Board as a whole is more valuable than individual meetings
• Achieving a consensus and agreed understanding to move the project forward
  • Development Program
  • Design and Architecture
• Will come back to CRA Board in 60 days for:
  • A realistic schedule
  • Initial design plans
Graveyard
Rising Vacancy Rates

- Both vacancy rates show increases in vacancy in:
  - Downtown and
  - Suburbs
- The more vacancy = less demand for office space
- COVID-19 rationale:
  - Less co-working
  - Greater separations and social distancing

Source: CBRE Econometric Advisors, Q1 2020.

- The overall downtown vacancy rate increased by 30 bps in Q1 2020 and was 20 bps higher than a year ago.
- The suburban vacancy rate rose by 10 bps in Q1 2020 but remained below its pre-recession low.
Nation perspective shows that demand for suburban office space is growing

- Low rise buildings with stairs
- Not reliant on elevators to reach office
- Separate offices with space for social distancing

Miami, Fort Lauderdale and West Palm Beach all had non-CBD vacancies than CBD vacancies

Even with office inventory, Fort Lauderdale’s non-CBD vacancies were very similar to West Palm Beach, which had 4X the amount of inventory
800 Block - Roof Plan
600 Block - Ground Floor (South Block)
600 Block - Mezzanine (North Block)
600 Block - Third Floor (South Block)
600 Block - Fourth Floor (North Block)
600 Block - Fourth Floor (South Block)
600 Block - Fifth Floor (North Block)
600 Block - Roof Plan (North Block)