



City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, www.miamibeachfl.gov

COMMITTEE MEMORANDUM

TO: Honorable Chair and Members of the Finance and Economic Resiliency Committee

FROM: Alina T. Hudak, City Manager

DATE: July 30, 2021

SUBJECT: **DISCUSS A NEW LEASE AGREEMENT BETWEEN THE CITY OF MIAMI BEACH (LANDLORD) AND MASSAGE OF SOUTH BEACH, INC. (TENANT) FOR APPROXIMATELY 1,803 SQUARE FEET OF GROUND FLOOR RETAIL SPACE LOCATED AT 1701 MERIDIAN AVENUE, UNIT 2 (A/K/A 777 17TH STREET), MIAMI BEACH, FLORIDA FOR A PERIOD OF FIVE (5) YEARS, WITH TWO (2) SUCCESSIVE TWO-YEAR RENEWAL TERMS.**

BACKGROUND

On September 15, 2010, the Mayor and City Commission adopted Resolution No. 2010-27488, approving a Lease Agreement between the City and Massage Partners, Inc. (Tenant) for the use of approximately 1,803 square feet of City-owned property, located at 1701 Meridian Avenue, Unit 2 (a/k/a 777 17th Street (Leased Premises)); said Lease having a term of nine (9) years and 364 days, commencing on December 2, 2010, and ending on November 30, 2020.

On November 16, 2018 the lease was assigned to Massage of South Beach, LLC, the current operator. Prior to the expiration of the Lease Agreement, Massage of South Beach, LLC submitted a letter to the City requesting to enter into a new lease agreement. Currently the Tenant and the City entered into a month to month for a period not to exceed ten months, which expires on September 30, 2021.

ANALYSIS

Massage of South Beach, LLC has proven to be a successful operator since the lease assignment in 2018. Current comparable operators in the adjacent retail spaces have experienced significant loss in revenue due to the COVID-19 pandemic. Massage of South Beach, LLC, despite any revenue loss, desires to continue operating at this location. The Tenant is ready to invest approximately \$100,000.00 by performing upgrades to the clinic to meet the new corporate franchise standards, which must be completed by August 2022. As additional consideration for the City granting this new lease, Massage of South Beach, LLC has committed to making significant additional improvements to the space, including updating the front desk area, air conditioning unit, replacing the flooring, adding fixtures and installing new outside signage. These changes will enhance the property and provide a better overall experience to

guests. The proposed base rent below was derived at upon negotiations with the tenant, taking into consideration the significant investment the tenant is committing to of over \$100,000.00 to upgrade the space and it being the first year recovering from the COVID 19 Pandemic. The tenant has not requested additional rent abatement and has continued making timely payments. If the space were to go up for lease instead, the City will lose revenue for the time the space is on the market as well as the City would have to incur brokerage fees associated with leasing the space. According to CoStar, the leading commercial real estate industry comprehensive data platform with access to all brokerage firm inventory and leasing rates, the average comparable office lease rate is approximately \$35 per square foot (PSF) to \$45 PSF within a one-mile radius of this location.

Demised Premises: Approximately 1,803 square feet of City-owned property, located at 1701 Meridian Avenue, Unit 2 (a/k/a 777 17th Street), Miami Beach, Florida

Initial Term: Five (5) Years

Renewal Options: Two (2) renewal options for two (2) years each, at the City Manager's sole discretion.

Rent: Proposed no increase on the first year due to investment (\$100,000.00) and following annual escalations increasing over time per the schedule below.

| Base Rent | | | | |
|-----------|------------|-------------|--------------|----------|
| Year | Escalation | Monthly | Annual | PSF |
| 1 | 0% | \$ 5,410.80 | \$ 64,929.60 | \$ 36.01 |
| 2 | 3% | \$ 5,573.12 | \$ 66,877.49 | \$ 37.09 |
| 3 | 3% | \$ 5,740.32 | \$ 68,883.81 | \$ 38.21 |
| 4 | 3% | \$ 5,912.53 | \$ 70,950.33 | \$ 39.35 |
| 5 | 3% | \$ 6,089.90 | \$ 73,078.84 | \$ 40.53 |
| 6 | 4% | \$ 6,333.50 | \$ 76,001.99 | \$ 42.15 |
| 7 | 4% | \$ 6,586.84 | \$ 79,042.07 | \$ 43.84 |
| 8 | 4% | \$ 6,850.31 | \$ 82,203.75 | \$ 45.59 |
| 9 | 4% | \$ 7,124.33 | \$ 85,491.90 | \$ 47.42 |

Should the Finance and Economic Resiliency Committee recommend in favor of approving a new lease for tenant based on the proposed financial terms, approval of the item would require a waiver of the formal competitive bidding requirement, by a 5/7ths vote, as permitted under Section 82-39(a) of the City Code, as being in the best interest of the City. Keeping a successful operator, instead of incurring additional costs to locate a new tenant, which may not be successful in the space, makes better business sense. The proposed rent schedule, currently at \$36.01 per square foot, will place this tenant within current market asking rents (\$35 PSF - \$45 PSF). Additionally, standard current

leases usually carry an escalation of 3% per year. Tenant's new lease escalation increases to 4% per year as of year six (6), which allows for the base rent schedule to remain above market rents.

CONCLUSION

Based upon the foregoing, the Administration is in favor of approving a new lease agreement with Massage of South Beach, LLC, in accordance with the above stipulated terms and conditions.