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## COMMITTEE MEMORANDUM

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

FROM: Alina T. Hudak, City Manager

DATE: September 24, 2021

SUBJECT: **A DISCUSSION OF A PROPOSED AMENDMENT TO THE LEASE AGREEMENT BETWEEN THE MIAMI BEACH REDEVELOPMENT AGENCY, A PUBLIC BODY CORPORATE AND POLITIC (RDA) (LANDLORD) AND MR. R SPORTS, INC. (TENANT) FOR THE USE OF A SPACE, HAVING APPROXIMATELY 2,884 SQUARE FEET AT ANCHOR SHOPS AND GARAGE, LOCATED AT 100 16<sup>th</sup> STREET, SUITES NO. 1-4, MIAMI BEACH, FLORIDA; SAID AMENDMENT REDUCING THE BASE RENT FOR THE FINAL LEASE YEAR AND FURTHER DISCUSSING THE EXECUTION OF A CONDITIONAL LEASE TERMINATION AGREEMENT.**

### **BACKGROUND**

The Miami Beach Redevelopment Agency (RDA) (Landlord) and Mr. R Sports, Inc. (Tenant) are parties to a Lease Agreement, pursuant to Resolution No. 584-2012 dated October 2, 2012, (Agreement) for approximately 2,884 square feet of retail space located on the ground floor of the Anchor Shops Garage at 200-16 Street, Units 1-4, Miami Beach, FL 33139. The agreement's initial term was for three (3) years commencing October 1, 2012 and ending September 30, 2015 with two (2) options for three (3) year and 364 days. On October 1, 2015 the first renewal option was exercised commencing on October 1, 2015 and ending on September 30, 2018. On April 30, 2018, the second renewal option was exercised commencing on October 2, 2018 and ending on October 31, 2022, the current term.

The Tenant has been in distress for over two years due to loss of brand name merchandise, increased internet sales competition and over saturation of sports stores in the immediate market area. Due to the COVID-19 Pandemic, the Tenant suffered further significant loss of revenue due to store closures to comply with City and County curfews, and mainly the loss of tourism, which is the store's main customer base. Since reopening the store in June 2020, the Tenant has not reached a sustained level in sales and is not able to meet current rent obligations. The Tenant has expressed a desire to continue operating the store until the lease expires on October 31, 2022 but has requested amending the rent obligations to a percentage of gross sales retroactive to October 2020.

## **ANALYSIS**

Since October 1, 2020 the Tenant has not been able to meet the rent obligations under the current Agreement and has only made partial payments. The Administration has reviewed the Tenant's sales and has determined the sales to rent ratio is below an average threshold to sustain the current rents. Therefore, the Administration is proposing to enter into a Conditional Termination Agreement with the Tenant. The Conditional Termination Agreement will allow for the Landlord to market the space while the Tenant continues to occupy and operate under an amended lease. Once a replacement Tenant has been vetted and secured, the Landlord would have the right to terminate the existing lease by providing the current Tenant with a 60-day termination notice. The Conditional Termination Agreement would be in the best interest of both the Tenant and Landlord, as the Tenant will continue to operate, and the Landlord will continue to generate some level of revenue and have the legal right to actively market the space to a prospective Tenant who can meet current market rent. Below is the proposed rent structure for the Conditional Termination Agreement, which illustrates the net impact from current lease obligated rents to the proposed percentage of sales rent schedule. Please note, the sales from September 2021 through January 2022 are projected sales (these will vary). In addition, Tenant will also continue to pay Common Area Maintenance (CAM) expenses in accordance with the Lease Agreement. The Tenant's current monthly base rent and CAM are \$9,162.97/month and \$1,917.86/month, respectively. Although there would be some revenues collected over this period, there will be an (\$83,817.21) negative impact to the RDA projected revenues for the 2021 fiscal year. However, if the Landlord does not provide this financial assistance, it will drive the Tenant to go dark and the negative financial impact would be almost twice the amount (\$167,634.41).

Month	Monthly Sales	Current Rent	Proposed 7% of Sales	CAM	Net Reduction
Oct-21	\$ 26,589.00	\$ 9,162.97	\$ 1,861.23	\$ 1,917.86	\$ 5,383.88
Nov-21	\$ 16,140.00	\$ 9,162.97	\$ 1,129.80	\$ 1,917.86	\$ 6,115.31
Dec-21	\$ 23,134.00	\$ 9,162.97	\$ 1,619.38	\$ 1,917.86	\$ 5,625.73
Jan-22	\$ 29,071.00	\$ 9,162.97	\$ 2,034.97	\$ 1,917.86	\$ 5,210.14
Feb-22	\$ 25,564.00	\$ 9,162.97	\$ 1,789.48	\$ 1,917.86	\$ 5,455.63
Mar-22	\$ 41,664.00	\$ 9,162.97	\$ 2,916.48	\$ 1,917.86	\$ 4,328.63
Apr-22	\$ 41,750.00	\$ 9,162.97	\$ 2,922.50	\$ 1,917.86	\$ 4,322.61
May-22	\$ 32,810.52	\$ 9,162.97	\$ 2,296.74	\$ 1,917.86	\$ 4,948.37
Jun-22	\$ 28,755.34	\$ 9,162.97	\$ 2,012.87	\$ 1,917.86	\$ 5,232.24
Jul-22	\$ 27,402.09	\$ 9,162.97	\$ 1,918.15	\$ 1,917.86	\$ 5,326.96
Aug-22	\$ 27,607.36	\$ 9,162.97	\$ 1,932.52	\$ 1,917.86	\$ 5,312.59
Sep-22	\$ 30,000.00	\$ 9,162.97	\$ 2,100.00	\$ 1,917.86	\$ 5,145.11
Oct-22	\$ 30,000.00	\$ 9,437.86	\$ 2,100.00	\$ 1,917.86	\$ 5,420.00
Nov-22	\$ 30,000.00	\$ 9,347.86	\$ 2,100.00	\$ 1,917.86	\$ 5,330.00
Dec-22	\$ 30,000.00	\$ 9,347.86	\$ 2,100.00	\$ 1,917.86	\$ 5,330.00
Jan-22	\$ 30,000.00	\$ 9,347.86	\$ 2,100.00	\$ 1,917.86	\$ 5,330.00
		\$ 147,437.08	\$ 32,934.11	\$ 30,685.76	\$ (83,817.21)
* Shaded Area = Projected Sales					

## **CONCLUSION**

The Administrations is in favor to enter into the proposed Conditional Termination Agreement, pursuant to an Amendment to the Lease Agreement which amends Tenant's rent through the end of the current term (October 31, 2022). This will allow time for the Landlord to actively market the space and secure a viable replacement Tenant who can complement the Tenant mix at the Anchor Shops Garage and be more in line with market rents.

### **Exhibits:**

- A Conditional Agreement
- B Amendment No.1 Draft