

MIAMIBEACH

City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139,
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COMMISSION MEMORANDUM

TO: Honorable Mayor Dan Gelber and Members of the City Commission

FROM: Alina T. Hudak, City Manager

DATE: September 17, 2021

SUBJECT: **A RESOLUTION OF THE MAYOR AND CITY COMMISSION OF THE CITY OF MIAMI BEACH, FLORIDA, FOLLOWING A DULY ADVERTISED PUBLIC HEARING, ACCEPTING THE RECOMMENDATION OF THE FINANCE AND ECONOMIC RESILIENCY COMMITTEE, AND WAIVING, BY 5/7TH VOTE, THE FORMAL COMPETITIVE BIDDING REQUIREMENT IN SECTION 82-39(a) OF THE CITY CODE, FINDING THAT THE PUBLIC INTEREST WOULD BE BETTER SERVED BY WAIVING SUCH CONDITION, AND APPROVING AND AUTHORIZING THE CITY MANAGER AND CITY CLERK TO EXECUTE A LEASE AGREEMENT BETWEEN THE CITY (LANDLORD) AND MASSAGE OF SOUTH BEACH, LLC (TENANT) FOR THE USE OF APPROXIMATELY 1,803 SQUARE FEET OF GROUND FLOOR RETAIL SPACE LOCATED AT 1701 MERIDIAN AVENUE, UNIT 2 (A/K/A 777 17TH STREET) FOR AN INITIAL TERM OF FIVE (5) YEARS, WITH TWO (2) SUCCESSIVE TWO-YEAR RENEWAL TERMS AT THE CITY'S OPTION.**

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) (Premises). The Lease contained an initial term of nine (9) years and 364 days, commencing on December 2, 2010, and which ended 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, Massage of South Beach, LLC submitted a letter to the City requesting to enter into a new lease agreement. 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. , Furthermore, 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.

The City entered into negotiations with Tenant and agreed to the following basic terms:

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

Base Rent: \$36.01 per rentable square foot, plus applicable sales tax. 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

Following the recommendation of the Finance and Economic Resiliency Committee meeting on July 30, 2021 in favor of approving a new lease for tenant based on the proposed financial terms, I recommend that the Mayor and City Commission waive the formal competitive bidding requirement, by 5/7ths vote, as permitted under Section 82-39(a) of the City Code, as being in the best interest of the City, in that, 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.

FINANCE AND ECONOMIC RESILIENCY COMMITTEE

At the July 30, 2021 Finance and Economic Resiliency Committee (FERC) meeting, the Administration presented the terms and conditions set forth above. The FERC considered this matter and recommended in favor of approving a new Lease Agreement with Massage of South Beach, Inc., for a period of five (5) years, with (2) renewal options for two (2) additional two (2) years and three hundred and sixty four (364) days.

CONCLUSION

Based upon the foregoing, the Administration recommends that the Mayor and City Commission adopt the Resolution, accepting to waive the formal competitive bidding requirement, by a 5/7ths vote, as permitted under Section 82-39(a) of the City Code, finding such waiver to be in the best interest of the City. Said Resolution approving and authorizing the Mayor and City Clerk to execute a new lease agreement with Massage of South Beach, LLC, in accordance with the above stipulated terms and conditions.

Attachments:

- 1) Resolution