



MIAMI BEACH

OFFICE OF THE CITY MANAGER

NO. LTC # 232-2013

LETTER TO COMMISSION

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CITY CLERK'S OFFICE

TO: Mayor Matti Herrera Bower and Members of the City Commission

FROM: Jimmy L. Morales, City Manager

DATE: July 8, 2013

SUBJECT: **Miami Beach Convention Center— Revised LOI's**

The purpose of this LTC is to provide information in anticipation of the review of the City Manager's program recommendation by the Land Use and Development Committee. Last week the City asked each team to provide a revised lease proposal assuming the recommendation was adopted. The purpose was to give the Commission the fullest information possible in order to evaluate the recommendation. The responses were due Friday July 5 at 5pm. Both teams submitted by the deadline.

Upon review of the submittals, we noticed that there were divergent responses to the retail lease offers. Portman and Tishman interpreted the recommendation language differently, thereby offering divergent proposals. Portman provided a follow up letter on July 8 assuming the same structure as Tishman. It should be noted that neither team has been provided the other's response at this point in time. However, this will occur upon the release of this memo to you. It should also be noted that both teams are committed to developing the project if the Commission adopts the City Manager's recommendation.

This information will be incorporated into the City Manager's recommendation targeted to be sent July 10, in advance of the July 12 workshop.

Team responses are summarized below:

	Portman	Tishman
Hotel	<p>The greater of 4% of gross revenues or a fixed annual payment of \$2.95m, increasing 2% annually.</p> <p>Beginning in year 31 (after the City bonds are retired) and every 10 years thereafter, the fixed payment is adjusted to be 3% of gross revenues.</p>	<p>The greater of 4% of gross revenues or the following fixed payments:</p> <ul style="list-style-type: none"> • Year 1: \$1.5m • Year 2: \$3.0m • Year 3-10 \$3.5M • Year 11-20 \$4.5m, increasing 10% every 10 years

Miami Beach Convention Center – Revised LOI's

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Retail in 17th Street Garage	<p>The greater of 25% of gross revenues or a fixed annual payment of \$67.46/sf (upon opening in 2018), increasing 2% annually.</p> <p>The fixed payments equate to \$4,722,200 in the first year open.</p> <p>Proposes the same adjustment as outlined about beginning in year 31.</p>	<p>The greater of 25% of gross revenues or a fixed annual payment of \$65.00/sf (upon opening in 2018), increasing 10% every 10 years.</p> <p>The fixed payments equate to \$4,550,000 in the first year open.</p>
Retail North of 17th Street	<p>The greater of 25% of gross revenues or a fixed annual payment of \$25/sf (upon opening in 2017), increasing 2% annually.</p> <p>The fixed payments equate to \$500,000 in the first year open.</p> <p>Proposes the same adjustment as outlined about beginning in year 31.</p>	<p>The greater of 25% of gross revenues or a fixed annual payment of \$30/sf (upon opening in 2018), increasing 10% every 10 years.</p> <p>The fixed payments equate to \$600,000 in the first year open.</p>

Attachments: South Beach ACE revised proposal.
Portman CMC revised proposal.

JLM:MH

**South
Beach
ACE**

**Tishman
UIA
OMA**

July 5, 2013

Dear Mr. Morales, Mayor Bower, Commissioners, and City Staff:

On Tuesday, July 2nd, we received instructions to modify by Friday, July 5th the Letter of Intent we submitted to the City on May 3, 2013. The modification that the City has requested is in response to the City Manager's July 1st Memorandum regarding program components for the Miami Beach Convention Center Master Plan. Since May 3rd, the City staff and their consultants have been analyzing our Letter of Intent. With the limited time given to analyze the Memorandum's complex impact on the South Beach ACE master plan proposal, we answer the below questions to the best of the team's ability given the City's scheduled July 8th Special Land Use and Development Committee Meeting at which the Memorandum will be discussed. We continue to analyze the many effects of this Memorandum, and will keep the City Commission and City Staff aware of all changes that arise from the City's recent change in programming. We would also like to better understand the City's plans to finance the public components of the project as the success of the deal outlined below is dependent on the City's ability to secure the necessary funds. Please see our preliminary responses below:

1. **Q.** A statement as to your commitment to develop the project as proposed by the City Manager if the Commission approves the program outlined in the Memorandum.

A. Based upon our initial review of the City Manager's July 1st Memorandum, South Beach ACE would like to express its continued interest in the redevelopment of the Convention Center District, subject to further discussions with the Commission and upon further review of the Memorandum's impact on the many elements of this project. Given our present understanding of the project and limited review time, we are committed to developing a project as proposed by the City Manager, if the Commission approves the program outlined in the Memorandum (subject to the aforementioned continued discussion with the Commission and subject to additional analysis).

2. **Q.** Hotel – Any changes to your proposed hotel lease fixed payments or percentage rent.

A. The hotel's fixed payment remains as calculated in our LOI, while the percentage rent has been increased to 4% of Hotel Gross Revenues:

Base Rent:

Year 1 of Operations:	\$1,500,000
Year 2 of Operations:	\$3,000,000
Years 3-10 of Operations:	\$3,500,000
Years 11-20 of Operations:	\$4,500,000
Thereafter:	Increases 10% every 10 years

Percentage Rent:

Years 1 of Operations and thereafter: 4.0% of Hotel Gross Revenues

3. **Q.** 17th Street Garage Retail – A revised fixed payment and percentage rent proposal assuming the approach in the Memorandum. Please provide the fixed rent on a per square foot basis for the opening year (stating the year) and the escalation formula. Percentage rent should be based on the rent received, excluding any pass through charges.

A. Given the suggestion to demolish the existing 17th Street Garage, and to redevelop the garage as a last phase of the project, we propose to lease the retail shell space from the City for 99 years at the greater of (i) fixed rent of \$65 per FAR sf increasing 10% every 10 years or (ii) 25% of rent received (excluding any pass through charges), with lease payments beginning upon delivery of the retail shell and

full certificate(s) of occupancy to the Master Developer. The opening year is preliminarily estimated to be 2018. The aforementioned lease proposal is subject to further discussions with the City Commission and subject to further analysis of the impact the Memorandum has on the demand generated by the new limited Master Plan Program Components, the total amount of retail frontage available in the plan and the location of proposed retail.

4. **Q.** Retail North of 17th – A revised fixed payment and percentage rent proposal assuming the approach in the Memorandum. This component must be a separate lease proposal and not combined with the hotel lease. Please provide the fixed rent on a per square foot basis for the opening year (stating the year) and the escalation formula. Percentage rent should be based on the rent received, excluding any pass through charges.

A. Given the suggestion to limit retail located north of 17th Street to 20,000 square feet of food & beverage and limited retail, with no establishment occupying more than 10,000 square feet, we propose to lease the space from the City for 99 years at the greater of (i) fixed rent of \$30 per FAR sf increasing 10% every 10 years or (ii) 25% of rent received (excluding any pass through charges), with lease payments beginning upon delivery of the retail shell and full certificate(s) of occupancy to the Master Developer. The opening year is preliminarily estimated to be 2018. The aforementioned lease proposal is subject to further discussions with the City Commission and subject to further analysis of the impact this Memorandum has on the demand generated by the new limited Master Plan Program Components, the total amount of retail frontage available in the plan and the location of proposed retail.

5. **Q.** Other hotel – No need to propose anything related to this new element at this time

A. N/A.

6. **Q.** Public Amenities – An order of magnitude estimate of the revised cost of Public Amenities (ie park areas) given the reduction of program. Please provide the gross cost, do not net out the Public Amenity Contribution.

A. We do not propose to change the cost of public amenities due to the City Manager's Memorandum. The gross cost of public amenities (not netting out the Master Developer's contribution to public amenities) will remain at approximately \$71.2M.

7. **Q.** Public Amenity Contribution – A revised proposal of your contribution to the Public Amenities.

A. We do not propose to change the Master Developer's contribution to public amenities. It will remain at approximately \$10.5M.

8. **Q.** A summary of any other change to the LOI driven by the change in program.

A. The 348 parking spaces dedicated to the hotel, but located in the 1,388 shared convention center and hotel parking facility, will no longer be paid for by the City and the City will no longer keep the revenues associated with the hotel's 348 parking spaces. To reduce the overall public cost of development, Master Developer will pay for the construction of the 348 hotel parking spaces (which will continue to be located in the 1,388 shared convention center and hotel parking facility) and Master Developer will retain all revenues associated with the hotel's spaces. The cost savings to the City is estimated at approximately \$14.5M.


We welcome the opportunity to discuss in more detail with the City Commission and City Staff the impact of the Memorandum on our proposal as we continue to analyze its effects. We look forward to working through these issues with you post Master Developer selection.

Sincerely,

Tishman Hotel & Realty

UIA Management

OMA



Dan Tishman

Robert Wennett

Rem Koolhaas

PORTMAN-CMC

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July 8, 2013

Jeff Sachs
Strategic Advisory Group
3848 Saint Annes Court
Duluth, Georgia 30096
678-584-0705

RE: LOI Revisions Based on City Manager's Proposed Program Changes, July 8, 2013 Memo to Land Use & Development Committee

Dear Jeff,

In response to your request for clarification to our July 5th response regarding the retail, we read paragraph b on page 7 of the above referenced memo, "It is envisioned that the City would finance the construction of the Garage" to mean we would still be responsible to finance the retail portion of the garage. If the City is financing the garage and retail shell, then we are able to provide the revised lease payments as shown below in paragraph 3. With the improved economics of the garage retail, we can also provide the revised lease terms for the retail north of 17th as shown below in paragraph 4. All other paragraphs remain as submitted.

As requested, please see below in response to each numbered paragraph.

1. A statement as to your commitment to develop the project as proposed by the City Manager if the Commission approves the Recommendation.
 - We stand by our commitment to the process and are prepared to proceed in accordance with the program recommended by the city manager in his memo dated July 8, 2013 to the city's Land Use & Development Committee.
2. Hotel - Any changes to your proposed hotel lease fixed payments or percentage rent.
 - Per item 5 below, we've added 200 hotel rooms in lieu of the Washington Street residential
 - Lease Fixed Payment: \$3,646,473 in the first twelve (12) full months of operations (\$3,688,664 in the first full calendar year) increasing 2% for each twelve (12) month period thereafter.
 - Percentage Rent: 4% annually

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3. 17th Street Garage Retail - A revised fixed payment and percentage rent proposal assuming the approach in the Recommendation. Please provide the fixed rent on a per square foot basis for the opening year (stating the year) and the escalation formula. Percentage rent should be based on the rent received, excluding any pass through charges.

- Lease Fixed Payment: \$67.46 PSF (2018) escalating at 2%
- \$4,722,070 in the first twelve (12) full months of operations (\$4,800,509 in the first full calendar year) increasing 2% for each twelve (12) month period thereafter.
- Percentage Rent: 30% annually

4. Retail North of 17th – A revised fixed payment and percentage rent proposal assuming the approach in the Recommendation. This component must be a separate lease proposal and not combined with the hotel lease. Please provide the fixed rent on a per square foot basis for the opening year (stating the year) and the escalation formula. Percentage rent should be based on the rent received, excluding any pass through charges.

- Lease Fixed Payment: \$25.00 PSF (Year-End 2016) escalating at 2%
- \$500,000 in the first twelve (12) full months of operations (\$501,639 in the first full calendar year) increasing 2% for each twelve (12) month period thereafter.
- Percentage Rent: 25% annually

5. Other hotel – No need to propose anything related to this new element at this time.

- We have added 200 hotel rooms in lieu of Washington residential

6. Public Amenities – An order of magnitude estimate of the revised cost of Public Amenities (i.e. park areas) given the reduction of program. Please provide the gross cost, do not net out the Public Amenity Contribution.

- An increase of approximately 2 acres is anticipated, taking the total budget from \$55.0M to \$58.3M

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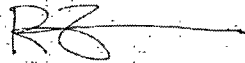
7. Public Amenity Contribution – A revised proposal of your contribution to the Public Amenities.

• Original LOI Private Contribution:	\$32.1M
Less Residential Contribution:	-\$6.7M
Less Pro Rata Retail Contribution:	-\$2.2M
<u>Add Additional Hotel Contribution:</u>	<u>+\$3.5M</u>
Proposed Private Contribution:	\$26.7M

8. A summary of any other change to the LOI driven by the change in program.

- Confirming the Arts Contribution remains the same
- Confirming the BID share of gross private revenues remains the same
- The elimination of the residential along Meridian will simplify the ballroom and central plant phasing

Best Regards,



Roger Zampell
Senior Vice President
Portman - CMC

CC: Jimmy Morales, Miami Beach City Manager
Maria Hernandez, Advisor to the City Manager