

MIAMI BEACH

COMMITTEE MEMORANDUM

TO: Finance and Economic Resiliency Committee Members

FROM: Eric Carpenter, City Manager

DATE: December 20, 2024

TITLE: DISCUSSION OF POTENTIAL LEASING INCENTIVES FOR OWNERS OF VACANT COMMERCIAL PROPERTIES – COMMERCIAL RETAIL VACANCY ANALYSIS UPDATE

RECOMMENDATION

The Administration recommends the Committee review the attached update on market data illustrating vacancy trends along key commercial Miami Beach corridors. The report analyzes current retail occupancy levels, identifies emerging tenant activity patterns, and highlights opportunities.

The Administration also recommends developing targeted strategies, including, but not limited to, leveraging existing business attraction programs, such as the Job Creation Incentive Program (JCIP), to support a vibrant and sustainable retail ecosystem.

BACKGROUND/HISTORY

During the July 24, 2024, City Commission meeting, the Mayor and City Commission referred to the Finance and Economic Resiliency Committee (FERC), via item C4 K, a discussion on exploring potential incentives to encourage property owners to lease their vacant commercial spaces. As noted in the referral memo, vacant properties negatively impact Miami Beach's commercial corridors. They are often neglected or undermaintained, detracting from the area's aesthetic appeal and vitality. Moreover, such properties can attract unwanted and unlawful activities, frequently necessitating intervention from local police, fire, and building departments, which further strains City resources.

At the September 20, 2024, FERC meeting, the Economic Development Department outlined its comprehensive strategy to tackle commercial vacancies. This strategy includes initiatives to revitalize targeted areas and stimulate investment in specific neighborhoods. The Department highlighted its portfolio of active incentive and business assistance programs designed to support existing businesses, foster new ventures, and encourage the expansion of enterprises within targeted industries that contribute to the diversification of Miami Beach's economy.

Creating tailored and impactful incentives for owners of vacant commercial properties remains a priority economic development objective for the City. The goal is to identify and adopt best practices, evaluate challenges, and gather data to develop measurable and meaningful strategies. These efforts aim to reduce the number of vacant properties across the City's commercial corridors, thereby fostering a more vibrant and attractive environment.

At the October 18, 2024, FERC meeting, the Committee revisited the issue of commercial vacancies, focusing on prominent corridors such as Lincoln Road. The Committee requested that the Administration return to a future meeting with a detailed report on vacancy rates and average rents along Lincoln Road and other key commercial areas. Additionally, the Committee sought updates on the feasibility of establishing a vacancy registration program and progress in

collaborating with Miami-Dade County's Department of Environmental Resources Management (DERM) to explore a potential grease trap abatement program, which could provide relief for small businesses.

Commercial retail is a cornerstone of Miami Beach's local economy and vital component of its cultural identity. Retail establishments provide essential goods and services to residents and visitors, create jobs, support a robust tax base, and enhance the appeal of public spaces. The energy generated by retail activity is critical to sustaining Miami Beach's status as a premier global destination.

The City actively prioritizes business attraction, retention, and assistance and among policy objectives is the establishment and support of business improvement districts (BIDs) to fortify commercial corridors and advance economic resilience.

Challenges with Retail Vacancies

Visible retail vacancies along key commercial corridors, including Lincoln Road, Washington Avenue, Collins Avenue, and 41st Street, pose a challenge. Vacant storefronts undermine economic health and degrade the pedestrian experience and the appeal of the corridor. Several factors contribute to these vacancies, including:

- **High Rental Costs:** Miami Beach retail rents have increased, with averages at \$95/sf (Q4 2024), with locations, like Lincoln Road demanding even higher rents. This appears to create barriers for local and smaller businesses.
- **Market Trends and Competition:** The rise of e-commerce and competition from emerging retail hubs, like Brickell City Centre and Wynwood, diverts potential tenants.

ANALYSIS

Market Insights and Data

The Administration monitors retail trends using data from multiple sources, including CoStar Analytics, Colliers, Cushman & Wakefield, CBRE, and Jones Lang LaSalle (JLL).

Though data can deviate depending on the different analytical criteria and processes employed, the following table consistently identifies Miami Beach as a high-rent submarket. Below is a snapshot of market data:

<i>Source</i>	<i>Market/Submarket</i>	<i>Inventory (sf)</i>	<i>Vacancy</i>	<i>Vacant Space (sf)</i>	<i>Avg. Asking Rate (\$/sf)</i>
<i>Colliers Market Report Q3 2024</i>	1. Miami Beach	7,904,651	5.60%	442,660	\$ 108.59
	2. Miami-Dade	115,627,480	2.80%	3,237,569	\$ 46.00
	3. Miami	4,028,798	13.70%	551,945	\$ 36.81
	4. Wynwood	2,911,002	6.50%	189,215	\$ 78.43
<i>Cushman Market Report Q2 2024</i>	1. Miami Beach	9,947,766	5.50%	547,127	\$ 92.12
	2. Miami-Dade	184,474,119	2.80%	5,165,275	\$ 47.88
	3. Miami	12,620,300	2.40%	302,887	\$ 34.54
	4. Wynwood	4,157,275	7.50%	311,796	\$ 70.47
<i>CoStar Market Data Dec. 2024</i>	1. Miami Beach	9,945,392	5.32%	527,106	\$ 95.18
	2. Miami-Dade	149,325,834	2.60%	3,882,472	\$ 48.92
	3. Miami	12,660,691	2.51%	317,783	\$ 34.54
	4. Wynwood-Design District	42,431,234	6.75%	2,864,108	\$ 70.32
Miami Beach Average		Vacancy	5.47%	Asking Rent	\$ 98.63

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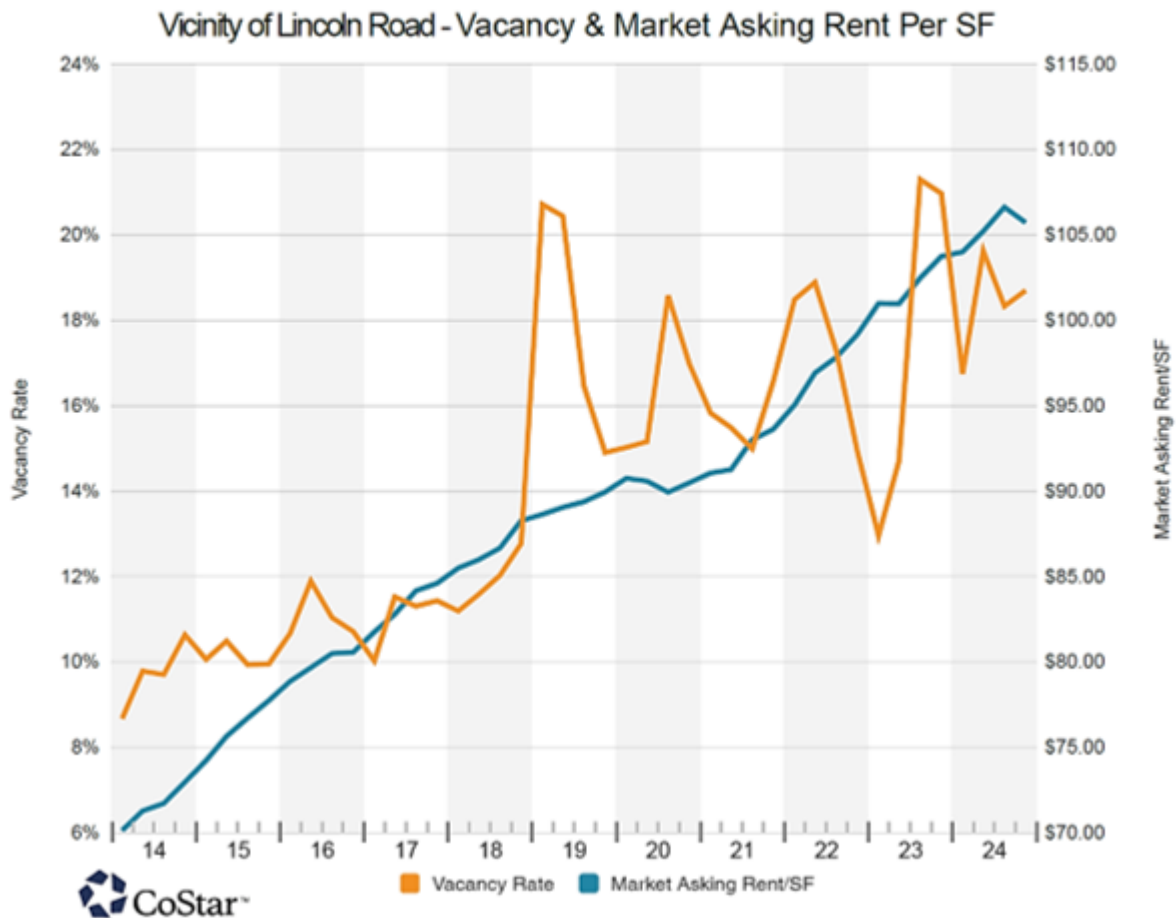
District Analysis

- **Lincoln Road**

Lincoln Road exemplifies both the challenges and opportunities in Miami Beach retail. It remains a popular destination due to its open-air walkability, proximity to the beach, and iconic Art Deco architecture. However, high vacancy rates persist. According to CoStar, the Lincoln Road district (query examined retail properties located between Alton Road, 17th Street, Washington Avenue, and Lincoln Lane South) had a vacancy rate of 18.7% in late 2024, with 289,761 sf of vacant retail space and a market asking rent of \$105.68/sf.

The City's Vacant Storefront Cover Program, which aims to enhance the aesthetic appeal of vacant spaces, included 27 Lincoln Road properties as program participants during FY 2023 and 2024. An informal November 2024 survey conducted by City staff observed 62 storefronts without active retail operations. While many of these properties may be subject to executed contracts, or active lease negotiations, high vacancy rates remain a concern.

Occupancy fluctuations can result from various factors, but it appears that property owners' rental income expectations often do not align with the ability of small business tenants to remain profitable while covering operating expenses and tenant improvements costs.



Despite these challenges, Lincoln Road continues to draw tenants and visitors. Tripadvisor recognized Lincoln Road with a 2023 Travelers' Choice Award, highlighting it as a favorite destination based on user reviews. MILA, a Michelin Guide-recognized restaurant, ranks second – just behind Joe's Stone Crab on Restaurant Business Magazine's 2024 Top 100 Independent Restaurants list, based on 2023 gross food and beverage sales.

As e-commerce contributes to declining in-store traffic, Lincoln Road has made efforts to reinvent the retail experience and remain competitive. Regular cultural activations, such as temporary fine art installations and collaborations with Miami New Drama, contribute to its appeal as a shopping destination.

- **Job Creation Incentive Program (JCIP):** EDGE LORD LLC (Lincoln Road)

The JCIP is a key element of Miami Beach's economic strategy. The program's appeal is rooted in encouraging the growth of select ventures and facilitating the continued success of established businesses in Miami Beach. The JCIP mission is to entice the establishment of high-caliber, skilled and competitively compensated positions to Miami Beach. To be eligible, businesses must demonstrate dedication to fostering employment through the initiation or transfer of a minimum of ten (10) new full-time positions. These roles should enhance the employment landscape and provide annual wages surpassing 125% of the established averages of either Miami-Dade County or the State of Florida, with the higher of the two being the benchmark.

EDGE LORD LLC, an innovative business relocating its headquarters to Lincoln Road and introducing high-wage jobs to Miami Beach is a great example of a JCIP applicant. EDGE LORD LLC d/b/a EDGLRD, a digital IP-based studio that utilizes proprietary AI-based technology to produce cutting-edge content, is poised to establish its headquarters at 230 Lincoln Road. EDGLRD's decision to bring cutting-edge innovation and significant economic activity to Miami Beach underscores the strategic importance of Lincoln Road for the company's expansion. For a

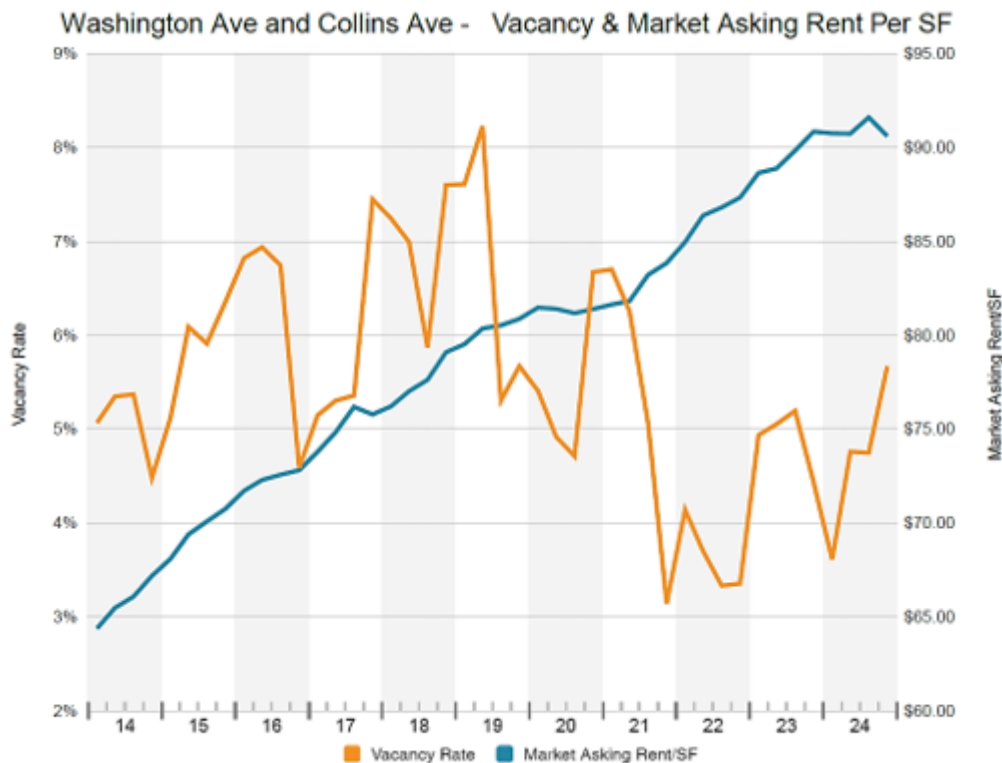
better understanding of the broad economic impact anticipated with the company's relocation, please refer to Exhibit A (JCIP Application Package: EDGELORD LLC).

- **Washington Avenue and Collins Avenue**

Along both Washington and Collins Avenues, CoStar identifies 85,562 sf, or 5.7% vacancy, of 1,510,600 sf total retail inventory, with average asking rent of \$90.58. Current vacancy rates are in line with the 10-year historical averages, rebounding from the highest rates reported in Q2 2019 (8.22%).

Located in the Miami Beach Architectural District and steeped in Art Deco and Post-War Modern/MiMo architecture, these corridors serve both tourists and locals with a mix of independent retailers, restaurants, and cultural attractions. Retail challenges have included a proliferation of business establishments, including formula chains and nuisance operators, that detract from the distinctive character of the historic district and the Miami Beach brand.

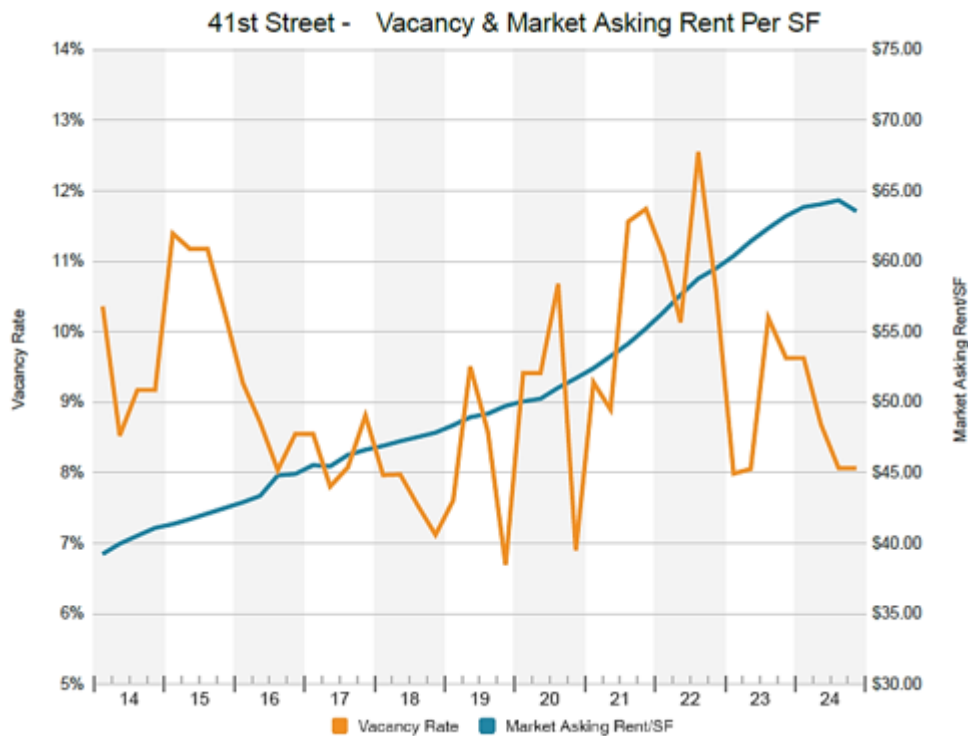
Recent initiatives, focusing on Washington Avenue, include the formation of the Washington Avenue Business Improvement District in 2018, and a zoning overlay following the Washington Avenue Vision and Master Plan (2015). Collins Avenue is set to become part of the South Beach Business Improvement District (South Beach BID), subject to an election of affected property owners (anticipated for March – April 2025). The City Commission has also enacted the Art Deco/MiMo Commercial Character and Formula Commercial Overlay District to encourage desirable commercial activity in the district and created incentive programs like the Commercial Lease Subsidy Program, to encourage family-friendly, cultural arts activity.



- **41st Street Corridor**

The 41st Street corridor serves the surrounding residential community with big-box retailers, restaurants, and neighborhood services, such as drug stores and specialty shops. Its strategic location, near high-income neighborhoods and major thoroughfares, is appealing, however, it suffers from traffic issues that hinder retail activation. With an existing total retail

inventory of 296,633 sf, approximately 23,910 sf, or 8.06%, is currently vacant, per CoStar. Market asking rent is \$63.52.



- The 41st Street Business Improvement District (41st Street BID), established in 2023, recently published an Annual Report, which noted that: “[T]hrough our engagement efforts and targeted outreach, the BID achieved a 5.4% vacancy rate, down from 8.6% in Q2 2024, representing the lowest rate since 2021. This progress is a testament to the BID’s ability to attract the right mix of tenants and address the district’s specific needs.”
- The BID’s Annual Report highlights new tenants which the BID helped attract: Bagel Boss (740 W 41st Street), Royal Veterinary Center (930 W 41st Street), Bagel Time (525 w 41st Street), and The UPS Store (529 W 41st Street). Revitalization efforts, including planned General Obligation (G.O.) Bond Program-funded streetscape improvements aim to further enhance its pedestrian-friendly appeal.

Potential Opportunities to Mitigate Retail Vacancies

- The Administration recommends the following strategies, requiring collaboration among the City, property owners, stakeholders, and BIDs:
 1. Enhanced Incentives for New Tenants:
Expand programs like the Commercial Façade Improvement Program and the Commercial Lease Subsidy Program to attract small and/or locally owned businesses. Although the City does not have the authority to waive real estate taxes, the Florida Legislature approved a reduction in state sales tax rate imposed on commercial rentals. Effective June 1, 2024, commercial rent is taxed at 2.0%, down from 4.5%.
 2. Active Tenant Recruitment:
Partner with BIDs to market Miami Beach as a prime retail destination. Showcase success stories like the numerous Michelin-rated restaurants and emphasize foot traffic data and

unique amenities.

3. Flexibility in Zoning Regulation:

Encourage creative programming, temporary uses, and shared spaces through zoning adjustments.

4. Promote Streamlined Permitting and Support:

Promote the City's Business Concierge Program to simplify the permitting process for prospective tenants.

5. Retail Experience Enhancements:

Build on initiatives such as the Commercial Lease Subsidy Program and Art Deco Painting Incentive Program to incorporate art installations, interactive displays, or façade enhancements that draw foot traffic to the historic district.

6. Property Owner Collaboration:

Explore property owner engagement to achieve shared solutions, such as temporary rent reductions for desirable tenants or joint marketing initiatives.

7. Community Programming:

Consumer preferences in Miami-Dade are increasingly defined not only by location but also by ease of access and travel times. Activate neighborhood corridors with community events, seasonal markets, and BID-sponsored activities.

Next Steps

- **Data Collection and Preparation:** The Administration will continue gathering and analyzing data on market trends. A comprehensive quarterly report on the City's economic development activities is anticipated for presentation at an upcoming committee meeting.
- **Stakeholder Engagement:** The Administration regularly attends BID and association meetings, which are an opportunity to learn about shared challenges, discuss concerns, and explore solutions with property owners and BID representatives.
- **Intergovernmental Collaboration:** Per the Committee's request, efforts are being made to work with Miami-Dade County Environmental Resources Management (DERM) to raise awareness of permitting concerns and explore solutions for expediting the length of time to receive grease trap permits.
- **Pilot Programs:** The Administration is currently implementing targeted incentive and activation programs, whose impacts are shared with the Committee. Based on this input from the Administration, the Committee can measure their impact for potential recommendation of citywide expansion

FISCAL IMPACT STATEMENT

JCIP participants are capped at a maximum possible award of \$60,000 annually, or \$240,000 over the four-year program term, if they maximize all available incentives.

JCIP applicant, EDGELORD LLC, anticipates bringing 10 relocated or new employees to Miami Beach in the first 12 months, and at least 50 employees over four years (2024-2028) The average salary for these jobs is approximately \$97,500. EDGELORD LLC is expecting to generate \$4.47

million of income for Miami Beach employees over the four-year program term.

Does this Ordinance require a Business Impact Estimate?
(FOR ORDINANCES ONLY)

The Business Impact Estimate (BIE) was published on .

See BIE at: <https://www.miamibeachfl.gov/city-hall/city-clerk/meeting-notice/>

FINANCIAL INFORMATION

N/A

CONCLUSION

While challenges persist, Miami Beach retains its global appeal as a retail destination. By implementing innovative and collaborative strategies, the City can address vacancies, foster vibrant commercial corridors, and strengthen its economic vitality for the long term.

Accordingly, the Administration recommends the Committee review the attached update on market data illustrating vacancy trends along key commercial corridors in Miami Beach. This information analyzes current retail occupancy levels, identifies emerging patterns in tenant activity, and highlights opportunities.

The EDGE LORD LLC JCIP participation is a valuable opportunity to attract an innovative company, create high-wage jobs, and diversify Lincoln Road with a dynamic office presence.

The Administration recommends developing strategies, including, but not limited to, Job Creation Incentive Program (JCIP) applicants aimed at supporting a vibrant and sustainable retail ecosystem that aligns with the City's economic development goals.

Applicable Area

Citywide

Is this a "Residents Right to Know" item, pursuant to City Code Section 2-17?

No

Is this item related to a G.O. Bond Project?

No

Was this Agenda Item initially requested by a lobbyist which, as defined in Code Sec. 2-481, includes a principal engaged in lobbying? No

If so, specify the name of lobbyist(s) and principal(s):

Department

Economic Development

Sponsor(s)

Mayor Steven Meiner
Commissioner Tanya K. Bhatt
Commissioner Alex Fernandez
Commissioner Kristen Rosen Gonzalez

Co-sponsor(s)

Condensed Title

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