

MIAMI BEACH

COMMITTEE MEMORANDUM

TO: Public Safety and Neighborhood Quality of Life Committee Members

FROM: Rickelle Williams, Interim City Manager

DATE: July 10, 2024

TITLE: **A DISCUSSION REGARDING PROGRAMMING THE COLLINS PARK ARTIST WORKFORCE HOUSING PROJECT FIRST FLOOR SUBLEASE**

RECOMMENDATION

The Administration recommends the Public Safety and Neighborhood Quality of Life Committee discuss the item and provide a recommendation.

BACKGROUND/HISTORY

On June 26, 2024, at the request of the Administration, the Mayor and City Commission referred this discussion item (C4 AG) to the Public Safety and Neighborhood Quality of Life Committee (the "Committee").

Currently under construction, the Collins Park Artist Workforce Housing Project ("Project"), located at 224 23rd Street, is a mixed-use residential workforce housing development that will prioritize income-eligible artists, educators, and other members of the Miami Beach workforce.

Pursuant to a Ground Lease and Development Agreement, dated June 1, 2023, the Project consists of the construction, development, and operation of an approximately 74,000 square foot, 7-story mixed-use housing facility on City-owned land, formerly operated as a municipal surface parking lot. The Project will consist of:

1. Ground floor: 2,248 sf, or approximately one-third of ground floor space, currently master-leased back to the City, to be used for a public or not-for-profit purpose, and the remaining space is to serve various building uses and functions including a 962 sf lobby space for the residential housing units;
2. Second floor: dormitory housing with approximately 32 beds intended to be occupied by the Miami City Ballet, Inc.; and
3. Floors 3-7: eighty (80) residential workforce housing units for Miami Beach workers (approximately 37 studios, 23 one-bedroom, and 20 two-bedroom units).

In addition to City support, in the form of a \$5.85 million City Capital Contribution and \$4 million G.O. Bond for Arts and Culture grant, the 501(c)(3) not-for-profit Ground Lessee is to finance the design and construction of the Project through tax-exempt bond financing, with principal and interest payable solely from Project revenues. Once the Project is constructed, the Ground Lessee is responsible for the operation and maintenance of the Project, with the intent that the Project is entirely self-supported by the rental revenues the Project will generate. Throughout the 90-year lease term, the Ground Lessee shall pay rent to the City equal to all surplus funds available, after payment of debt service and operational expenses.

On February 23, 2022, the City Commission approved the First Floor Sublease between the Ground Lessee as Sublessor and the City as Sublessee/Tenant, for the first-floor retail space within the Project ("First Floor Sublease"). As recommended by the Finance and Economic Resiliency Committee, and provided in the Ground Lease, programming the first-floor space

provides a public and/or placemaking opportunity for the City to curate an appropriate street-level activation compatible with the Collins Park Cultural District. As provided in the Ground Lease, the City will exercise its right of first option to the First Floor Sublease, subject to City payment of first floor rent, with any surplus Project revenues generated by the residential housing component serving to defray the cost of rent.

The First Floor Sublease, dated June 1, 2023, contains the following key terms. See [Exhibit A](#) (First Floor Sublease).

Key Terms – First Floor Sublease	
Landlord	<ul style="list-style-type: none"> CFC-MB I, LLC, the Ground Lessee in the Collins Park Development and Ground Lease, a wholly owned affiliate of Community Finance Corporation, a 501 (c)(3) not-for-profit charitable corporation organized and operated exclusively for the purpose of lessening the burdens of government and to erect, finance, or maintain public buildings.
Tenant	<ul style="list-style-type: none"> City of Miami Beach
Eligible Subtenants	<ul style="list-style-type: none"> Uses specific to City business; or “Eligible Subtenants”: uses subleased to or managed by not-for-profit, tax-exempt entities existing and operating under 501(c)(3) of the Internal Revenue Code, <i>preferably with a cultural or performing arts purpose.</i>
Premises	<ul style="list-style-type: none"> A portion of Project ground floor retail space fronting on 23rd Street, to be delivered by Landlord as a baseline shell, with minimal building systems.
Size	<ul style="list-style-type: none"> 2,248 square feet
Term	<ul style="list-style-type: none"> Potentially forty (40) years: <ul style="list-style-type: none"> Initial Term: 5 years; and Seven (7) Renewal Periods: 5 years each, exercised at the City’s option.
Rent	<ul style="list-style-type: none"> \$62,634 in Lease Year 1, with 2% annual escalations thereafter. City’s rent obligation commences three (3) months after the Premises are delivered to the City for occupancy.
City Termination	<ul style="list-style-type: none"> In the event the City Commission does not appropriate sufficient funding for the rental payments, City may terminate on 90 days’ notice.
Utilities	<ul style="list-style-type: none"> City responsibility: electricity, telephone, cable, and internet, Landlord responsibility: all other utilities, e.g., water and sewer service and garbage collection
Property Management	<ul style="list-style-type: none"> The Landlord also provides other Services including trash removal, landscaping, pest control, and building security. Pursuant to an asset management agreement with the Ground Lessee, Servitas Management Group LLC will provide facility maintenance, custodial, and asset management services for the facility (with management of the residential workforce housing component subcontracted to a qualified subcontractor).

Repair, Maintenance, and Janitorial	<ul style="list-style-type: none">• Landlord responsible for all repair, maintenance, and replacement of all HVAC, plumbing, electrical, glass, security, and structural components and systems and all appliances, fixtures, and other
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	<p>appurtenances contained in or serving the Premises, except in the case of Tenant/Eligible Subtenant gross negligence or willful misconduct.</p> <ul style="list-style-type: none"> • Landlord provides and bears costs for maintenance and janitorial service for common areas, and janitorial service to the Premises consistent with the same level of janitorial services provided for commercial office space. • The Landlord provides other services including trash removal, landscaping, pest control, and building security.
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ANALYSIS

The First Floor Sublease presents an opportunity to enhance Miami Beach's cultural landscape, support local arts, and foster greater civic engagement. By utilizing this space effectively, the City will maintain the Collins Park neighborhood's reputation as a vibrant hub for artistic expression and community activities, attract visitors and enrich the lives of residents.

Potential issues for consideration and discussion:

1. **Occupancy Date:** The developer has shared, as of May 31, 2024, construction of the Project is 53% complete. Barring unforeseen circumstances, the Premises is currently anticipated to be delivered to the City, in the form of a baseline shell, on March 1, 2025.
2. **Annual Rent:** Notwithstanding intended use of the space, the City is responsible for annual rent of the Premises, in the amount of \$26 per square foot in the first year. This rate equates to \$5,219 monthly, or \$62,634 in Year 1, with 2% escalations annually. Over the course of the first ten (10) years, annual rent equals \$685,821. Once the Premises is delivered to the City (Initial Commencement Date), rent is abated for three (3) months before commencement of the City's rent obligation, notwithstanding the period required to buildout the Premises from a baseline shell to accommodate its intended use.
3. **Programming/Activation of the Premises:** The Premises can only be used by the City for uses specific to City business, or it may be subleased to and/or managed by, without Landlord's approval but with prior written notice to Landlord, not-for-profit/tax exempt entities existing and operating under 26 U.S.C. 501(c)3, preferably with a cultural or performing arts purpose ("Eligible Subtenants"). To maintain tax exempt bond compliance, the First Floor Sublease prohibits "Private Uses", defined as the activities of a trade or business not related to the exempt purpose of the City, a state or local governmental unit, or a 501(c)(3) organization.
4. **Requirement for Buildout and Tenant Improvements:** Upon delivery, Landlord will provide the City with possession of the Premises as a baseline shell with minimal building systems, in accordance with specified Work Standards and Delivery Specifications as follows:

Delivery Specifications:

1. All required structural elements, including columns, girders, beams, and joists.
2. Masonry or concrete exterior walls.
3. *Floor:* Concrete slab.
4. *Egress Door:* Egress will be provided per City Code requirements.
5. *Electrical Service:* Landlord shall provide two (2) empty conduits for electrical service; Landlord to coordinate with Tenant or its subtenant(s) to confirm the size of the panel. Distribution within the Premises to be by Tenant. Electrical panel by Tenant.

6. *Telephone*: Landlord shall provide one (1) empty conduit from point of service to a location within the tenant space.
7. *Water*: Landlord will bring domestic water and sanitary sewer lines to the tenant space.
8. *Storefront*: Landlord shall provide code-compliant storefront system (including windows).
9. *Heating, Ventilation, and Air Conditioning*: Landlord will provide a supply and return line from the base building system stubbed into the tenant space and valved off. Tenant will be required to provide its own A/C system.
10. *Sprinkler System*: Landlord to provide code-compliant sprinkler system for original baseline shell design. Tenant will provide code-compliant sprinkler system for finished space.

Work Standards:

- The entire Premises including Common Areas will be cleaned to professional standards.
- All Utilities and Tenant Utilities will be fully functioning.
- Walls and flooring will be in new condition.
- All Amenities, as contained in Exhibit B of the First Floor Sublease, will be clean and functional and otherwise in the condition required by the First Floor Sublease.

FISCAL IMPACT STATEMENT

Annual Rent will commence at \$63,634 in the first year of the Initial Term and increase by two percent (2%) each year thereafter. Over the first ten (10) years, Annual Rent should total \$685,821. Upon initial approval of the Ground Lease via Resolution No. 2021-31554, the City Commission directed that all net available cash flow, if any, shall be distributed each year as follows:

- first, reimburse the City for any outstanding Project costs;
- second, the Ballet, as a grant from the City to offset the Ballet's annual rental charges for its use of the dormitory housing; and
- third, if the Ballet's annual rental obligation has been fully reimbursed, fund any rental obligations of the City in connection with the First Floor Sublease.

In addition to an annual rental payment by the City as master sublessee, the buildout of the first floor leased Premises may entail additional costs to the City if elected to sublease the space to a cultural arts tenant. The Development Agreement and Ground Lease requires Servitas to deliver the Premises as a baseline shell, with specified requirements for a minimum number of base systems and finishing. The City will encounter additional costs related to the buildout, preparation, and continued operation of the Premises for its intended use (to be determined by the City Commission) and it is conceivable that the future tenant may or may not contribute significant funding to the tenant improvements or to offset rental costs.

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-notices/>

FINANCIAL INFORMATION

CONCLUSION

Public or cultural arts activation of this space aligns with the City's long-term goals of promoting inclusivity, diversity, and cultural education. Strategic planning that maximizes the potential of this space could potentially benefit a cultural arts organization, serve as a cornerstone for cultural development in the city, and have a meaningful positive impact on the Collins Park community and the City as a whole.

The Administration requests a review, discussion and recommendation regarding the potential programming and activation of the designated space for use by the City, a nonprofit cultural arts organization, or other permitted use. Should the City seek to program the space through a nonprofit cultural partner, a solicitation process may be practical. Alternatively, the Committee may recommend to the City Commission that a specified partner be engaged.

Applicable Area

South Beach

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?

Yes

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): N/A

Department

Economic Development

Sponsor(s)

Co-sponsor(s)

Condensed Title

COLLINS PARK ARTIST WORKFORCE HOUSING PROJECT FIRST FLOOR SUBLEASE