

OB 3. DISCUSS EARMARKING ALL RENT IN EXCESS OF THE MINIMUM FIXED RENT RECEIVED PURSUANT TO THE DEVELOPMENT AND GROUND LEASE AGREEMENT BETWEEN THE CITY AND MB MIXED USE INVESTMENT, LLC, FOR THE DEVELOPMENT AND OPERATION OF THE CONVENTION CENTER HEADQUARTER HOTEL FOR THE PURPOSE OF PROMOTING AND SUPPORTING WORKFORCE AND AFFORDABLE HOUSING DEVELOPMENT.

Applicable Area:

MIAMI BEACH

COMMITTEE MEMORANDUM

TO: Finance and Economic Resiliency Committee Members

FROM: Eric Carpenter, City Manager

DATE: May 7, 2025

TITLE: DISCUSS EARMARKING ALL RENT IN EXCESS OF THE MINIMUM FIXED RENT RECEIVED PURSUANT TO THE DEVELOPMENT AND GROUND LEASE AGREEMENT BETWEEN THE CITY AND MB MIXED USE INVESTMENT, LLC, FOR THE DEVELOPMENT AND OPERATION OF THE CONVENTION CENTER HEADQUARTER HOTEL FOR THE PURPOSE OF PROMOTING AND SUPPORTING WORKFORCE AND AFFORDABLE HOUSING DEVELOPMENT.

RECOMMENDATION

The Administration recommends that while the Finance and Economic Resiliency Committee (FERC) evaluates the potential use of the variable rent portion of the Convention Center Hotel lease revenues, it also carefully considers several critical factors that will significantly impact the General Fund budget, beginning in Fiscal Year (FY) 2026:

1. The City's increasing unfunded capital improvement program;
2. Long-term General Fund financial projections indicating a potential shortfall in upcoming fiscal years;
3. The passage of Amendment 5 in November 2024, which increases the homestead exemption and further constrains the growth of taxable property values.

These considerations are essential to ensure that decisions regarding the allocation of variable rent revenues align with the City's broader long-term financial stability and strategic priorities. Accordingly, the Administration recommends that the Committee consider a possible limitation such as capping the allocation for affordable and workforce housing at no more than one-third (1/3) of the annual variable rent received, up to a maximum of \$700,000 per year. This cap would be consistent with the guaranteed rent allocations across the three (3) previously approved designated categories (stormwater, traffic reduction measures, and education) in Year 5 of the lease.

BACKGROUND/HISTORY

On July 25, 2018, the Mayor and City Commission adopted Resolution No. 2018-30425, approving the Lease between the City and MB Mixed Use Investment Holdings, LLC (the "Developer"), for the construction and development of the Miami Beach Convention Center Hotel (the "Hotel Project") at the site (the "Site") defined in the Hotel Lease.

On November 6, 2018, more than sixty percent (60%) of the voters voting thereon in a City-wide referendum approved the Lease as required by Section 1.03(b)(3) of the City Code.

The voters also approved the adoption of an Ordinance dedicating the Hotel's guaranteed rent payments received by the City to enhance funding, in equal portions annually, for stormwater projects (in lieu of rate increases), traffic reduction measures, and education, with any amendment of such ordinance subject to supermajority (5/7ths) City Commission approval.

On December 11, 2024, the Mayor and City Commission approved a dual referral to the Land Use and Sustainability Committee (LUSC) and the Finance and Economic Resiliency Committee (FERC) to discuss earmarking all rent received in excess of the minimum fixed rent for the purpose of promoting and supporting workforce and affordable housing development, including but not limited to land acquisition, construction, subsidies, or other related expenses for the creation of workforce and affordable housing units in the city, as determined by the City Commission from time to time.

On April 10, 2025, the Developer reached financial close, officially taking possession of the site. The Hotel is scheduled to open in late 2027.

ANALYSIS

Annual Rent Payments to the City

Commencing on the Opening Date and continuing throughout the Term of the Lease, the City will receive annual rent in the amount of the greater of (x) Minimum Fixed Rent or (y) Percentage Rent calculated as a percentage of the Gross Operating Revenues of the Hotel and a percentage of Gross Operating Food and Beverage (F&B) Revenues of the Hotel.

Minimum Fixed Rent: Guaranteed Rent to the City

The schedule of Minimum Fixed Rent payments, representing the minimum guaranteed rent the City will receive for the first ten (10) years following the Rent Commencement Date is attached hereto as Exhibit 1. The schedule of Minimum Fixed Rent is to be re-calculated after every ten (10) years to be the greater of the Minimum Fixed Rent payable for the period immediately preceding the Minimum Fixed Rent Reset Date, or 60% of the average of the annual rent over the prior ten (10) years.

In recognition that the first four (4) years following the Hotel's opening represent a critical period for the establishment and success of a hotel operation, the City has agreed to receive, with respect to the Minimum Fixed Rent: \$400,000 in Year 1, \$800,000 in Year 2, \$1,200,000 in Year 3, \$1,600,000 in Year 4, and \$2,000,000 in Year 5. The Minimum Fixed Rent, commencing in Year 5 of the Lease, shall be fixed at \$2 million, and shall be increased annually thereafter by two percent (2%).

Percentage Rent

The Lease provides for the City to receive the rent as follows:

| | |
|---|-------|
| Gross Operating Revenues (other than F&B) | 2.5% |
| Gross Operating F&B Revenues | 1.25% |

Variable Rent

Variable Rent is the difference between Percentage Rent and the Minimum Fixed Rent.

The schedule of estimated Variable Rent and Percentage Rent payments, updated by the Developer in May 2024, is attached hereto as Exhibit 2. The summary is provided below:

| | Over 10 Years | Over 99 Years |
|------------------------|----------------------|----------------------|
| Minimum Fixed Rent | \$16.6m | \$560.2m |
| Variable Rent * | \$20.5m | \$519.7m |
| Percentage Rent | \$37.1m | \$1.1b |

* Amounts reflected assume unionized F&B operations.

Update on Bonding Capacity and Legality of the Funding Stream

As requested by FERC during the February 21, 2025 meeting, it has been determined that the future rent revenues from the Convention Center Hotel may be used to repay bonds issued for affordable housing so long as the funds are used for capital cost of construction, renovation, and/or rehabilitation of multi-family housing rental units with long term land use restriction to maintain income restrictions for tenants and rent affordability based upon income. Rent payments are considered general non-ad valorem revenues and as such can be used for any governmental purpose. A \$700,000 per year revenue stream could be used to repay an approximate \$7-10 million loan repayable over 30 years. From a credit perspective, the City would structure it as a special obligation secured by a covenant to budget and appropriate non-ad valorem revenues since the hotel rent revenues alone likely wouldn't be marketable at a cost desirable to the City. It should also be noted that the financing will necessitate a bond validation process to ensure the use of proceeds meets Florida constitutional requirements.

FISCAL IMPACT STATEMENT

N/A

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

CONCLUSION

The foregoing is presented to the members of the Finance and Economic Resiliency Committee for discussion.

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

City Manager

Sponsor(s)

Commissioner Tanya K. Bhatt

Co-sponsor(s)

Condensed Title

Earmarking rent in excess of the Minimum Fixed Rent from MBCC Hotel for Affordable Housing.

EXHIBIT 1

EXHIBIT "R" ²

SCHEDULE OF MINIMUM FIXED RENT [UPDATE BASED ON FINAL NEGOTIATED AMOUNTS]

| Year | Lease Amount |
|------|--------------|
| 1 | \$400,000 |
| 2 | \$800,000 |
| 3 | \$1,200,000 |
| 4 | \$1,600,000 |
| 5 | \$2,000,000 |
| 6 | \$2,040,000 |
| 7 | \$2,080,800 |
| 8 | \$2,122,416 |
| 9 | \$2,164,864 |
| 10 | \$2,208,162 |

*As provided in Section 4.4(a), this amount shall apply from the Rent Commencement Date to December 31 of the year in which the first anniversary of the Rent Commencement Date occurs, prorated for any partial months and partial calendar years.

EXHIBIT 2
Estimated Percentage Rent Schedule

| | Minimum Fixed | | | | Percentage | |
|--------------|----------------------|--------|----------------------|---------|------------------------|--------|
| | Rent | Growth | Variable Rent | Growth | Rent | Growth |
| 1 2027 | \$400,000 | | \$2,425,875 | | \$2,825,875 | |
| 2 2028 | 800,000 | 100.0% | 2,360,388 | (2.7%) | 3,160,388 | 11.8% |
| 3 2029 | 1,200,000 | 50.0% | 2,223,200 | (5.8%) | 3,423,200 | 8.3% |
| 4 2030 | 1,600,000 | 33.3% | 2,056,088 | (7.5%) | 3,656,088 | 6.8% |
| 5 2031 | 2,000,000 | 25.0% | 1,755,713 | (14.6%) | 3,755,713 | 2.7% |
| 6 2032 | 2,040,000 | 2.0% | 1,818,138 | 3.6% | 3,858,138 | 2.7% |
| 7 2033 | 2,080,800 | 2.0% | 1,882,613 | 3.5% | 3,963,413 | 2.7% |
| 8 2034 | 2,122,416 | 2.0% | 1,949,284 | 3.5% | 4,071,700 | 2.7% |
| 9 2035 | 2,164,864 | 2.0% | 1,988,248 | 2.0% | 4,153,113 | 2.0% |
| 10 2036 | 2,208,162 | 2.0% | 2,028,026 | 2.0% | 4,236,188 | 2.0% |
| 11 2037 | 2,252,325 | 2.0% | 2,068,586 | 2.0% | 4,320,911 | 2.0% |
| 12 2038 | 2,297,371 | 2.0% | 2,109,958 | 2.0% | 4,407,329 | 2.0% |
| 13 2039 | 2,343,319 | 2.0% | 2,152,157 | 2.0% | 4,495,476 | 2.0% |
| 14 2040 | 2,390,185 | 2.0% | 2,195,200 | 2.0% | 4,585,386 | 2.0% |
| 15 2041 | 2,437,989 | 2.0% | 2,239,104 | 2.0% | 4,677,093 | 2.0% |
| 16 2042 | 2,486,749 | 2.0% | 2,283,887 | 2.0% | 4,770,635 | 2.0% |
| 17 2043 | 2,536,484 | 2.0% | 2,329,564 | 2.0% | 4,866,048 | 2.0% |
| 18 2044 | 2,587,213 | 2.0% | 2,376,156 | 2.0% | 4,963,369 | 2.0% |
| 19 2045 | 2,638,958 | 2.0% | 2,423,679 | 2.0% | 5,062,636 | 2.0% |
| 20 2046 | 2,691,737 | 2.0% | 2,472,152 | 2.0% | 5,163,889 | 2.0% |
| 21-99 | 518,891,349 | | 476,561,629 | | 995,452,978 | |
| Total | \$560,169,920 | | \$519,699,643 | | \$1,079,869,563 | |
| NPV @ 5% | \$54,813,450 | | \$55,102,804 | | \$109,916,254 | |