

TOWN OF PALM BEACH

Information for Town Council Meeting on October 10, 2019

TO: Mayor and Town Council

FROM: Kirk Blouin, Town Manager

RE: Request to Approve a Ground Lease Agreement Between the Town of Palm Beach, Florida (Town) and CRE Fund at Okeechobee Boulevard, LLC (Tenant), Subject to Certain Guaranties by AHS Residential, LLC (Guarantor) for Property Consisting of Approximately 28.38 Acres Located Outside of the Town's Boundaries at Okeechobee Boulevard, West Palm Beach, Florida (Property)
Resolution No. 15-2019

DATE: October 4, 2019

STAFF RECOMMENDATION

Staff recommends Town Council approve the proposed Ground Lease Agreement between the Town of Palm Beach, Florida, a Political Subdivision of the State of Florida and CRE Fund at Okeechobee Boulevard, LLC, a Florida Limited Liability Company for Town of Palm Beach Property, located at 5976 Okeechobee Boulevard as negotiated by Akerman LLP on behalf of the Town of Palm Beach for a term of 50 years from the Date of Beneficial Occupancy, with one ten year renewal term, at the discretion of the Town and the Tenant.

SUMMARY EXPLANATION/BACKGROUND

History of Unsolicited Offer:

Real Estate Broker/Agent Robert Kelley contacted Purchasing in January 2018 expressing interest on behalf of CRE Fund at Okeechobee Boulevard, LLC (AHS). Mr. Kelley eventually submitted a proposal on behalf of AHS which was rejected on July 2, 2018 by the Town Manager's Office.

On October 15, 2018, AHS presented an offer, which took into account the Town's counter proposals. AHS continued to express interest in developing this property for commercial use and discussions continued with the Town.

The Town Manager hired Janis Cheezem, an attorney with Akerman LLP, in February of 2019 to lead negotiations with AHS. During the timeframe of March 2019 to September 2019, numerous discussions were held with AHS with the objective of maximizing revenue on behalf of the Town and mitigating risk for the Town property for the term of the lease.

FISCAL IMPACT/FUNDING SOURCE

This item, if approved, will produce revenue for the Town after first development and occupation occurs. The outside date for the Date of Beneficial Occupancy is 24 months following submittal of Land Use Agreement, no later than May 2022.

Guarantor Financial Statements. The Finance Director reviewed the financial statements provided by AHS Residential, LLC, the parent company of the proposed ground lessee.

Ground Lease Revenues.

The rental revenue for years 1-25 are broken down as follows:

PERIOD	ANNUAL BASE RENT	MONTHLY RENT
1-5	\$867,618.00	\$72,301.50
6-10	\$954,380.00	\$79,531.66
11-15	\$1,049,818.00	\$87,484.83
16-20	\$1,154,800.00	\$96,233.33
21-25	\$1,270,280.00	\$105,855.66

The rental revenue for years 1-25 will be \$26,484,471.

Effective of the first day of Lease Year 26, the annual Base Rent shall be adjusted to the amount equal to six percent (6%) of the Prevailing Market Value of the Property. In no event shall the annual Base Rent for Lease Year 26 be more than 122.5% (or \$1,571,971) of the annual Base Rent for Lease Year 25 or less than 97.5% (or \$1,222,644) of the annual Base Rent for Lease Year 25. The new annual Base Rent, as adjusted shall remain in effect until the last day of Lease Year 30.

Effective as of the first day of the Lease Year 31, 36, 41, and 46, the annual Base Rent shall increase to the amount which is 110% of the annual Base Rent for the immediately preceding Lease Year.

Floor

97.5% at Year 26

PERIOD	ANNUAL BASE RENT	MONTHLY RENT
26-30	\$1,362,374.78	\$113,531.23
31-35	\$1,389,622.27	\$115,801.86
36-40	\$1,528,584.50	\$127,382.04
41-45	\$1,681,442.95	\$140,120.25
46-50	\$1,849,587.25	\$154,132.27

The projected rental revenue for years 1-25 will be \$26,484,471 and years 25-50 will be \$38,693,661.46 based at the Floor Calculation, for a total fifty year revenue projection of \$65,178,132.46.

Cap

122.5% at Year 26

PERIOD	ANNUAL BASE RENT	MONTHLY RENT
26-30	\$1,571,970.90	\$130,997.57
31-35	\$1,729,167.99	\$144,097.33
36-40	\$1,902,084.86	\$158,507.07
41-45	\$2,092,293.27	\$174,357.77
46-50	\$2,301,522.60	\$191,793.55

The projected rental revenue for years 1-25 will be \$26,484,471 and years 26-50 will be \$47,620,800.36 based at the Cap Calculation, for a total fifty year projected revenue of \$74,105,271.36.

The Broker Expense has been negotiated to 4% of the first ten years of the annual base rent.

DUE DILIGENCE

Due Diligence was conducted to determine vendor responsibility, including corporate status and to identify any performance and compliance issues. The review included conducting market research and extensive outreach to secure participation in the solicitation process.

TOWN ATTORNEY REVIEW

As noted above, the negotiation for the Ground Lease was addressed by a real estate partner with experience in Ground Leasing with the firm Akerman LLP. The firm was hired February 2019 by the Town Manager's Office.

CC: Dean Mealy, Purchasing Manager