

City of Miami

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INDEPENDENT AUDITOR GENERAL



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DATE: February 24, 2017
TO: HONORABLE MAYOR AND COMMISSIONERS
FROM: THEODORE GUBA, CPA, CIA, CFE *Theodore P. Guba*
RE: REQUEST TO PERFORM AN ANALYSIS OF RENTAL CALCULATIONS SET FORTH
IN THE VIRGINIA KEY REQUEST FOR PROPOSAL (RFP NO. 16-17-011)
REPORT NO. 17-01

On February 9, 2017, a Commissioner requested that we perform an analysis of rental calculations set forth in the Virginia Key request for proposal (RFP NO. 16-17-011). The proposal is for the development and lease of prime City-owned waterfront property in Virginia Key. The goal of the RFP is to create a vibrant recreational marina and restaurant destination with an ancillary ship's store facility for City residents, guests, and visitors.

As a part of the analysis, we reviewed the rent required in the most recent draft RFP, as well as the fair market value of rent determined by two appraisals conducted by independent state-certified appraisers as of May 2015 (Waronker & Rosen, Inc., [Waronker] and Joseph J. Blake and Associates, Inc. [Blake]); as well as two fair market appraisals conducted by the same two independent appraisers as of June 2016. We also provided comments from a consultation report on the Virginia Key property dated October 20, 2016 by CBRE-Valuation & Advisory Services; and a peer review of CBRE's study conducted by Lambert Advisory dated October 18, 2016.

Analysis of Rental Calculations:

We reviewed and analyzed the 2016 Waronker and Blake proposals in light of the 2017 RFP requirements, which are as follows:

“The rent shall be inclusive of Base Rent as well as Percentage Rent.”

- The **Base Rent** should be greater than or equal to \$2,150,000, PLUS a percentage(s) of gross revenues as follows:
- The **Percentage Rent** should be equal to or greater than:
 - 6% of wet slip and dry storage operations
 - 6% of fuel sales
 - 4% of sublease income or other income

Appraisers Used Different Appraisal Approaches

Upon reviewing the 2016 Waronker and Blake proposals, we noted that their respective value opinions of market rent differed (Waronker: **\$1.9 million**; Blake: **\$3.1 million**) because they used different appraisal approaches in order to derive estimated market rent. The Waronker appraisal used the “Income Approach” in order to derive estimated market rent by first performing analyses of comparable marina sales and capitalization rates (cap rates); then, using the formula: Income = Rate x Value (a/k/a the “IRV” formula), Waronker multiplied the derived cap rate of 6% by the comparable sales value of approximately \$32 million, and derived estimated market rent of **\$1.9 million**. (See Exhibit 3, Page 7).

In contrast, the Blake appraisal did not use the “Income Approach” in order to derive estimated market rent. At the request of the City, Blake estimated market rent based on the plans of the highest ranked proposer, RCI Group (RCI). Accordingly, Blake derived a \$3.1 million estimated market rent by using market wet and dry boat slip rates, boat length averages, market upland (retail space) rental rates, market fuel sales, and projected restaurant sales per square foot (See Exhibit 4, Page 7).

Comparison of 2015 and 2016 Appraisals

We also compared and contrasted the 2016 appraisals with appraisals that were performed in 2015. We noted that the Blake 2015 appraisal estimated market rent using RFP requirements; however, as noted above, the 2016 estimate of market rent was based on RCI’s proposed plans which includes an additional 3,000 square feet (for a total of 9,000 square feet) for a second restaurant, as well as increased wet and dry slip rental incomes that were based on increases in average boat lengths and rental rates. Compared to Blake’s 2015 projection, these items increased Blake’s 2016 projection for market rent by \$988,476 as indicated in the schedule below:

2015 Blake Estimate (Est.) - Slips & Restaurants Only							
	Boat Length	Rental Rate	Yearly Slip Rent	# of Slips	Yearly Rev. (Less Loss)	% Rent Rate	Est. Rent To City
Wet Slips	45	\$27.50	\$14,850	490	\$6,912,675		
Dry Slips	30	\$17.50	\$6,300	648	\$3,878,280		
Subtotal 2015 Est. Slip Revenue (Blake)					\$10,790,955	15%	\$1,618,643
Est. Rest. Rev.	Sq. Ft	Sales/SF			Yearly Income		
	6,000	\$500			\$3,000,000	7.5%	\$225,000
Total 2015 Est. Slip and Restaurant Rev.(Blake)					\$13,790,955		\$1,843,643
2016 Blake Estimate (Est.)							
Wet Slips	53	\$37.50	\$23,850	162	\$3,747,789		
Dry Slips	35	\$32.50	\$13,650	973	\$12,883,007		
Total 2016 Est. Slip Revenue (Blake)					\$16,630,796	15%	\$2,494,619
Est. Rest. Rev.	Sq. Ft	Sales/SF			Yearly Income		
	9,000	\$500			\$4,500,000	7.5%	\$337,500
Total 2016 Est. Slip and Restaurant Rev.(Blake)					\$21,130,796		\$2,832,119

DIFFERENCE

\$988,476

We also noted that the Waronker 2015 appraisal was based on the current usage of the Virginia Key site, which includes the Rickenbacker Marina (leased and operated by Rickenbacker Marina, Inc.) and the Marine Stadium Marina which is solely operated by the City. Waronker estimated the total market rent based on current usage on Virginia Key to be \$1.2 million (See Exhibit 1, Page 5).

Conclusions and Summary:

Our analysis of the 2015 and 2016 appraisals disclosed differences in the Waronker and Blake estimates due to the use of different appraisal approaches. Also, the 2015 Waronker appraisal was based on then current usage estimates and the 2015 Blake appraisal was based on RFP requirements. However, as described above, and confirmed with City staff, significant differences in the Blake 2015 and 2016 estimates are mainly attributed to RCI’s plans to increase wet and dry slip lengths. Accordingly, the 2016 Blake appraisal reflects increased slip rental rates based on increased wet and dry slip sizes and boat lengths. Consequently, the amount charged per linear foot and resulting monthly rates, the number of slips, and the total annual slip revenue varied significantly. As shown in the table below, wet slip rent ranged from \$343,000 to more than \$1 million, and the dry slip rent ranged from \$535,000 to more than \$1.9 million for three of the appraisals due to different approaches to value, assumptions in monthly rates, and number of slips.

Finally, we were informed by City staff that once a proposal is selected by the City Commission, two additional appraisals will be performed in order to assess a market lease rate which will be the basis of lease and development agreement negotiations with the winning proposer.

		Estimated Rent To City							
		Monthly Rate		# of	# of			Total Slip	Total
		Wet	Dry	Wet Slip	Dry Slip	Wet Slip	Dry Slip	Revenue	Rent
RFP 2017									\$2.15 M
Waronker 2015	RMI	\$1,000	\$850	190	298	\$342,000	\$364,752	\$706,752	\$1.24 M
	Marine Stadium	^a \$25	\$400	22	296	\$990	\$170,496	\$171,486	
Waronker 2015 Totals				212	594	\$342,990	\$535,248	\$878,238	
Blake 2015		\$1,238	\$525	490	648	\$1,036,901	\$581,742	\$1,618,643	\$2.15 M
Waronker 2016	Note: The estimated total rent was derived by multiplying a 6% cap rate by estimated land value.								\$1.9 M
Blake 2016		\$1,988	\$1,138	162	973	\$562,168	\$1,932,451	\$2,494,619	\$3.14 M

a -Transient boaters

**COMMENTS ON RENT BY CITY CONSULTANTS, CBRE AND LAMBERT ADVISORY,
DATED OCTOBER 2016**

CBRE – “Our recommendation to the City, is to put this project back out for bid and request guaranteed annual incomes and not base rent plus percentage rents. That way, the highest guaranteed net rent bid should win the contract.”

Lambert Advisory – “In contrast to CBRE, we believe the City’s land lease be structured as base, plus percentage rent; or, structured as the greater of base rent or percentage rent. We have read far too many older long term ground leases over the past several years, both private/private leases and public/private leases where base rents with a set increase are wildly off the market 30 or 40 years after they were written. The addition of percentage rent or greater of base or percentage can help protect against this. However, if the City elects to structure the lease as base rent only, then we recommend the lease incorporate periodic rent re-openers to ensure the City is achieving maximum applicable revenue based on prevailing market conditions.”

We wish to express our appreciation for the cooperation and courtesies extended to us by the Department of Real Estate and Asset Management (DREAM) staff while conducting the review.

cc: Daniel J. Alfonso, City Manager
Victoria Mendez, City Attorney, Office of the City Attorney
Nzeribe Ihekweba, Assistant City Manager/Chief of Operations
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Audit Documentation File

Analysis conducted by: Lewis Blake, CPA, CIA, Audit Manager
Work papers reviewed by: Robyn Sachs, IT Audit Administrator, CPA, CIA, CISA, CISSP

EXHIBITS - SUMMARY OF APPRAISED RENTS FOR VIRGINIA KEY DEVELOPMENT AND LEASE

1) MAY 2015 WARONKER & ROSEN, INC., APPRAISAL

The objective of the appraisal was to estimate the land value and the market rents (\$1,242,109, as indicated in the following schedule) based on the property's current usage and number of boat slips (Rickenbacker Marina – 190 wet slips, 298 dry slips; Marine Stadium Marina – 22 wet/transient dockage, 296 dry slips)

May 2015 - Waronker & Rosen Appraisal - Based on Current Usage

Revenue Center	# of Slips	Annual Rate	Projected Annual Rev.	% Rent Rate	Projected Rent To City
<u>Rickenbacker Marina</u>					
Wet Slips	190 A	\$12,000	\$2,280,000	15%	\$342,000
Dry Slips	298 B	\$10,200	\$3,039,600	12%	\$364,752
	488	Subtotal: Rev. from Wet & Dry Slips	\$5,319,600		\$706,752
	% of Boat Storage Rev.	Boat Storage Rev.			
Fuel Sales	30%	\$5,319,600	\$1,595,880	5%	\$79,794
Other	43%		\$2,287,428	5%	\$114,371
		Subtotal: Rev. from Fuel, Other	\$3,883,308		\$194,165
	Square Footage (SF)	Sales/SF			
Restaurant	10,500	\$150	\$1,575,000	10%	\$157,500
Rickenbacker Marina Totals			\$10,777,908		\$1,058,417
<u>Marine Stadium Marina</u>					
		Monthly Rate			
Transient Dockage (Wet)	22 docks	\$25	\$6,600	15%	\$990
Dry Slips	296 boats	\$400	\$1,420,800	12%	\$170,496
		Subtotal: Rev. from Transient & Dry Slips	\$1,427,400		\$171,486
	% of Boat Storage Rev.	Boat Storage Rev.			
Fuel Sales	15%	\$1,427,400	\$214,110	5%	\$10,706
Licenses & Miscell. Inc.	Not Applicable		\$30,000	5%	\$1,500
		Subtotal: Rev. from Fuel, Other	\$244,110		\$12,206
Marine Stadium Marina Totals			\$1,671,510		\$183,692
Total Projected Revenues & Rents to City			\$12,449,418		\$1,242,109

A – Monthly rate of \$1,000/slip

B – Monthly rate of \$850/slip

2) MAY 2015 JOSEPH J. BLAKE AND ASSOCIATES, INC. APPRAISAL

The objective of the appraisal was to develop an opinion of the market rent of the property (\$2,150,903, as indicated in the following schedule) according to the requirements of the City of Miami's Virginia Key Marina RFP (490 wet slips, 648 dry slips)

May 2015 - Blake Appraisal - Based on RFP Requirements

Revenue Center	# of Slips	Annual Rate	C Projected Annual Rev.	% Rent Rate	Projected Rent To City
Wet Slips	490 A	\$14,850	\$6,912,675	15%	\$1,036,901
Dry Slips	648 B	\$6,300	\$3,878,280	15%	\$581,742
	1138	Subtotal: Rev. from Wet & Dry Slips	\$10,790,955		\$1,618,643
	Tot # of Slips	Sales/slip			
Fuel Sales (per slip)		\$1,500	\$1,707,000	5%	\$85,350
Other	1,138	\$2,300	\$2,617,400	5%	\$130,870
Sublease		\$200	\$227,600	40%	\$91,040
		Subtotal: Rev. from Fuel, Other & Subleases	\$4,552,000		\$307,260
Total Wet & Dry Slip, Fuel, Other & Sublease Rev.			\$15,342,955	Subtotal	\$1,925,903
	Square Footage (SF)	Sales/SF			
1 Restaurant	6,000	\$500	\$3,000,000	7.5%	\$225,000
Total Projected Revenue			\$18,342,955	Total Projected Rent to City	\$2,150,903

A – Average boat length 45' – average rate of \$27.50; or a monthly rate of \$1,237.50/slip
B – Average boat length 30' – average rate of \$17.50; or a monthly rate of \$525/slip
C – A 5% vacancy/collection loss is factored into the projected slip annual revenue

3) JUNE 2016 WARONKER & ROSEN, INC., APPRAISAL

The objective of the appraisal was to develop an estimate of the market rent for the property by first estimating the market value of the Virginia Key site (approximately \$32 million) by comparing sales of similar properties to the site; then, a market-driven capitalization (cap) rate (6%) was estimated by analyzing investor surveys and recent sales of net leased assets. Finally, using the 6% cap rate, the appraiser applied the cap rate to the \$32 million estimated land value (\$32 million x 6%) and derived an estimated rent of \$1.9 million as of June 6, 2016.

4) JUNE 2016 JOSEPH J. BLAKE AND ASSOCIATES, INC. APPRAISAL

The objective of the appraisal was to develop an opinion of the market rent of the property (\$3.14 million, as indicated in the following schedule) according to the submitted plans of the highest ranked proposal by the RCI Group and adjusting to exclude 151 basin wet slips, resulting in 162 wet slips and 973 dry slips.

June 2016 - Blake Appraisal - Based on RFP Requirements

Revenue Center	# of Slips	Annual Rate	C Projected Annual Rev.	% Rent Rate	Projected Rent To City
Wet Slips	162 A	\$23,850	\$3,747,789	15%	\$562,168
Dry Slips	973 B	\$13,650	\$12,883,007	15%	\$1,932,451
	1135	Subtotal: Rev. from Wet & Dry Slips	\$16,630,796		\$2,494,619
	Tot # of Slips	Sales/slip			
Fuel Sales (per slip)		\$1,500	\$1,702,500	5%	\$85,125
Other	1,135	\$2,300	\$2,610,500	5%	\$130,525
Sublease		\$200	\$227,000	40%	\$90,800
		Subtotal: Rev. from Fuel, Other & Subleases	\$4,540,000		\$306,450
Total Wet & Dry Slip, Fuel, Other & Sublease Rev.			\$21,170,796	Subtotal	\$2,801,069
	Square Footage (SF)	Sales/SF			
2 Restaurants	9,000	\$500	\$4,500,000	7.5%	\$337,500
Total Projected Revenue			\$25,670,796	Total Projected Rent to City	\$3,138,569

A – Average boat length 53'; average rate of \$37.50; or monthly rate of \$1,987.50/slip

B – Average boat length 35'; average rate of \$32.50; or monthly rate of \$1,137.50/slip

C – A 3% vacancy/collection loss is factored into the projected slip annual revenue