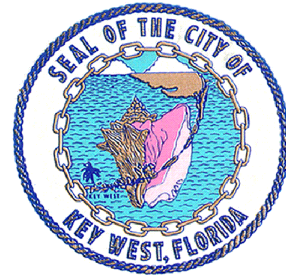


Executive Summary



TO: Key West Bight Management District Board
Caroline Street Community Redevelopment Agency

CC: Jim Scholl

FR: Marilyn Wilbarger, RPA, CCIM

DT: July 18, 2016

RE: Moro Management Inc. DBA Turtle Kraals Lease Renewal

ACTION STATEMENT:

This is a request to approve a lease renewal for Moro Management Inc. DBA Turtle Kraals located at 231 #1 Margaret Street.

BACKGROUND:

The current 20 year lease per City Resolution 97-345 expired March 31, 2016. The lease was previously assigned to Smithburg, Inc. per Resolution 03-088 and to the current tenant Moro Management per Resolution 12-344 in 2012. The city entered into lease negotiations pursuant to the public notice therefore in October, 2015, as attached. The proposed terms of the renewal before you are as follows:

Permitted Use: Operation of a restaurant containing 191 licensed seats with alcohol, a retail area for logo apparel, gifts, souvenirs, retail sales of alcohol and beer and no other purpose

Demised Premises: Whenever leases have expired the city has undertaken new surveys to ensure that the demised premises are measured in accordance with industry standards. Turtle Kraals has been re-surveyed and totals 13,450 square feet. However the Tenant has elected to return some space to the city thereby reducing the new square footage for the lease renewal to 12,387 which is comprised of:

Main Building Areas	6816
Covered Outdoor Dining	1794
Covered waiting, entries	262
Open Air Dining	1621
Storage	1894

Square Footage for Common Area

Charges: 9732 square feet which reflects a 50% reduction for outdoor space

Term: Ten years effective April 1, 2016

Rate:

The City must charge a market rent for all leases on city owned property. Any under market rent must show a public benefit and be approved by a super majority of the City Commission, which does not apply in this case.

A local appraiser provided rent comparables of current rates for large restaurants, and the current restaurant rents on City owned property have been considered in an effort to establish a market rate.

The median rent on Duval is currently \$84.02 per square foot NNN. The asking rent for the restaurant that is available at 320 Grinnell is \$51.00 per square foot NNN. The asking rent for new restaurant space on Caroline and William is \$42.00 per square foot NNN.

The 2016 rate for city owned property with an estimated 1.5% CPI increase in rents for other Historic Seaport restaurant/bar tenants are as follows:

Waterfront Brewery*	18,942	\$21.32
Conch Republic Seafood	14,919	\$40.47
Schooner Wharf	8,872	\$37.41
Half Shell	9,715	\$29.63

*does not include additional rent for improvements of \$9.00 psf

And finally Other City restaurant leases:

El Meson de Pepe	10,669	\$34.00
Southernmost Beach Café	5,000	\$40.20

As all of the leases expire we have adjusted the rates to the current market. Turtle Kraal's rent currently is \$25.50 per square foot, a below market rate, that has to be increased upon renewal. Without taking the Duval Street rents or even a fraction thereof into consideration, the average rate per square foot for city restaurant tenants is \$33.84 per square foot.

Utilizing an average rent of \$33.84 per square foot and applying a reduced rate for storage, walkways, courtyard, entry and waiting areas a blended rate of \$30.00 per square foot represents an acceptable market rate and is comprised of:

\$33.84 per square foot for the main building areas

\$26.40 per square foot for outdoor dining

\$16.20 per square foot for the storage area, entries, courtyard, walkways

Increases:

Annual CPI increases in base rent

Percentage Rent: 6% of tenant's gross sales in excess of the percentage rent base amount which is determined by dividing the annual rent by 6%.

Use of the Margaret Street Plaza:

6 times per year and if the events require a special event permit they will be limited to 5 events per year per city ordinance. The events must not close down the small parking lot in Margaret Street plaza and all events are subject to the City's approval.

Tenant Repairs:

The Tenant shall be responsible for repairing and replacing the roof throughout the term of the lease and will immediately replace the Tower Bar flat roof/floor as called for in the Structural Engineering Report attached to the lease as Exhibit "E".

The Tenant also agrees to make all non-structural repairs throughout the term of the lease including but not limited to those identified in the building inspection report which is attached to the lease as Exhibit "F".

Landlord Repairs:

The Landlord shall be responsible for the repair and replacement of the structure of the building and to make all structural repairs identified in the building inspection report and structural engineering report.

The Landlord also agrees to provide at its sole cost and expense one handicapped lift to the second floor in accordance with the requirements of the Americans with Disabilities Act.

Security:

Security for the payment of rent will be in the form of a personal guaranty from Pasquale W. Croce and an irrevocable letter of credit in the amount equal to six (6) months of rent.

Additionally, pursuant to Sec. 2-871 of the Key West Code of Ordinances the award of a lease of city-owned property with annual rentals that will exceed \$100,000.00 and all extensions or renewals thereof will require a background check of persons awarded a lease. If any such person is found by the police department to have been convicted of a felony within the past five years or found to have been convicted of a public entity crime and is then listed on the convicted vendor list, as established in F.S. § 287.133, the proposed lease or sublease, concession or franchise agreement or any extension or renewal thereof with such person shall not be executed by the city or, if it has been executed, it shall be subject to revocation and be voidable by the city commission after notice and hearing.

Also, every person applying for a lease, a lease renewal or a sublease of city-owned property or a concession or franchise agreement shall

submit to the city, together with the application, a sworn disclosure statement that contains the following financial information for the immediately prior two calendar years: a statement attesting to the applicant's net worth, assets and liabilities, annual gross income, and primary source of such income. In addition to such disclosures, any business entity shall submit a copy of its organizational documents, together with a list of all current principals.

The city shall consider financial information for each applicant as a factor in making its award determination. The respective lease, sublease, concession or franchise agreement of any person who intentionally or knowingly supplies false or misleading information or who omits material information on the disclosure form under this section shall be subject to revocation and shall be voidable by the city commission after notice and a hearing.

FINANCIAL IMPACT:

The City has worked closely with the Tenant to downsize space to lower the rent by \$31,872. That space will be utilized by the city to re-locate the maintenance shop due to the reconstruction of the 908 Caroline. The base rent proposed is \$371,619.00 in year one of the lease and will be increased annually based upon the Consumer Price index. Reimbursement of operating expenses in year one of the lease will be approximately \$4.28 per square foot based on current estimates. For comparison purposes, the current lease and proposed lease basic economic terms are detailed here, as follows:

	Current Lease	Proposed Lease
Square Feet	9,630	12,387 (re-measured and downsized from 13,450)
Rent	\$246,046	\$371,619
% Rent	5%	6%
CAM Square Feet	9630	9732
CAM Reimbursement	\$41,216.40	\$41,652.96

CONCLUSION:

This lease is one of the two remaining twenty year old leases in the Historic Seaport that will reflect a significant increase in rent to bring the rate up to market consistent with other City restaurant leases and to reflect the actual square footage occupied by the tenant pursuant to a new survey. The proposed terms of the lease renewal represent a market rate for the property and the rent will increase annually based upon the Consumers Price Index which will maintain the base rental rate as adjusted for inflation. The percentage rent will be increased from 5% to 6% which is also consistent with the other leases. The use will remain unchanged which supports the historic maritime flavor of the seaport. The Tenant has made significant improvements in the demised premises and will replace the roof at their cost in addition to other deferred maintenance as outlined in the building inspection report.

The Tenant is in agreement with the proposed lease terms and the City has received all of the information required including the background check, and organizational documents with the renewal of the Half Shell lease in April of 2015. The sworn disclosure has been updated to reflect the most current financial data. The information received meets the legal and financial requirements of the Code of Ordinances for lease renewals pursuant to Sec 2-871 and the lease is further securitized with an irrevocable letter of credit and personal guaranty. The Tenant is current with the rent and has an excellent payment history.

Turtle Kraals is certainly one of Key West's iconic restaurants and a mainstay of the Historic Seaport. The proposed lease renewal is a true landlord and tenant partnership that will ensure that the tradition continues for another decade.

ATTACHMENTS:

Lease

Exhibits A-F

Personal Guaranty

Public Notice Lease Renewal