



THE CITY OF KEY WEST

Post Office Box 1409 Key West, FL 33041-1409 (305) 809-3700

MEMORANDUM

EXECUTIVE SUMMARY

To: Community Redevelopment Agency

CC: Jim Scholl, David Fernandez

From: Marilyn Wilbarger, RPA, CCIM

Date: March 20, 2012

Reference: **Key West Bight Upland Rent Escalation Amendment**

ACTION:

Per the Bight Boards recommendation this action item is to approve amending rent escalations for the upland leases at the Key West Bight. The action taken at the March 14, 2012 Bight Board meeting, excerpted here from the minutes of the meeting, is as follows:

It was moved by Ms. Ovide and seconded by Mr. Probert to approve the rent increases to reflect a 3% increase on the base rent for the current year and moving forward to amend all leases to a minimum increase of 0% or the annual CPI.

BACKGROUND:

RENT ESCALATION

In 2006 the rental rates were adjusted to market rates for the Key West Bight leases and were based upon the comparative data available at that time. The annual percentage increases in rent had been previously established pursuant to the original financial investment pro-forma prepared by Goodkin Research that was done in conjunction with the acquisition of the property.

In multiple year leases it is not unusual for a landlord to require the tenant to pay a higher rent by adjusting the base rent on a pre-agreed method, annually. The three most common types of adjustments are:

Stepped Method: This method is used when the tenant desires to keep the rents lower at the outset and agrees to higher increase throughout the term to achieve both the Landlord and Tenant's respective goals. The loss to the landlord by using this

Key to the Caribbean – average yearly temperature 77 ° Fahrenheit.



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method is in present value however this loss is offset by higher rent values in the later years of the term.

Consumer Price Index (CPI) Method: The CPI is published monthly by the United States Department of Labor and cites the change in the cost of living which is determined by measuring the change in the cost of purchasing goods and services during the month. The CPI acts as a price indexing scale for landlords to measure the gain or loss of the dollar and therefore, by utilizing the index, to adjust rents so that the landlord can be assured that the net rent is not eroding during the term of the lease.

Fixed Percentage Increase: This method is utilized to establish fixed increases in rent that provide both pre-determined revenue to the Landlord and known or fixed expenses to the Tenant. The basis for determining the percentage increase can be specific to a particular investment or investors and much like stepped or indexed increases it is utilized to prevent the erosion of the value of the dollar.

Additional Rent

Most commercial leases are structured as Triple Net which means the tenants are required to pay their share of the maintenance, property taxes and the insurance for the property as additional rent. Due to the mixed uses at the Key West Bight an arbitrary methodology was established by the Maximus study that does not fully allocate the operating expenses further eroding the financial return. In 2011, the CRA contributed \$402,944 in property tax, repairs and maintenance that would typically be paid by the tenants.

CONCLUSION:

The Board has elected to recommend amending the leases as stated above with the following vote:

Yeas: Board Members Ashby, Ovide, Probert, Wilson and Chairman Knowles

Nays: None

Recused: Board Member McGrail

Absent: Board Member Jimmy Lane