

Notes from DCBA Building Committee Meeting 5/16/2019

DWNTWN Presentation

Sale price would be approximately \$5 million.

What would be the investment potential for the next user? Office rents for boutique buildings is between \$22-29 per square foot, with tenants paying utilities, not paying taxes or insurance. From an investor standpoint, applicable to keeping the building \$150-180 per square foot for a comprehensive renovation, including plumbing, electric, HVAC, etc. That would put the best foot forward if you wanted to lease it. In that case, rent would be higher because you would have a nice competitive building.

The other target if you were to sell the building is the “owner-user.” Compared to the other three buildings in Downtown that are true competitors, this is the most likely location for an owner-user, like law firms. Because of the location, this could be a really appealing option. They are not dependent on what they buy the building for.

If you were to choose to sell the building, we would love to represent you. Seven full time sales people. Friendly, open office. Everyone works on other opportunities. What distinguishes us is the person-to-person approach. Brokerage has become very digital, and we don't want to neglect that, we are on every major platform, but at the end of the day we call investors, buyers, and deals close because we get into a room, sit face-to-face, and iron out the details.

Have you approached neighbors about assemblage? Neighbor MOM believes the asset is going to go up and has no interest in selling. He also has family to account to. Recently rented to a restaurant bar. Likely 7-10 year deal. Conservatively 5 year deal. Kaplan is lessee and owns half of fee simple for 45 years, likely collecting cash flow for the next 45 years. Therefore, assemblage with neighbor is not likely.

Stephanie: Could we sell air rights? Like TDR's and TDD's?

Yes and would have to spend on the renovation. \$1.7 M estimated return. Typically applies to the façade. Could we add windows? Maybe. A very interesting way to potentially finance improvements. Need to be aware of the requirements. A secure choice is to add windows on the side because likely windows will not be blocked anytime soon.

Being sandwiched between two buildings is not likely development site. Therefore we would likely sell it for repositioning, and an investor would purchase the property and invest approximately \$2m and then lease it to third parties for income.

Stephen Befera: Could we retain a right to remain in the building with a new buyer? Yes, and we considered this. You could sell a portion of the building, and part of the agreement could be that you could stay. We would have to explore what kind of market appetite there would be for that choice.

Second scenario, there is a financial and emotional value to owning your own property but an office condo might accommodate that requirement. Downsize to smaller location, report gives ideas of the size and price of appropriate prices.

Leslie: If we purchased a smaller property in the same neighborhood, what would be the choices for that? We provided an example, building that was condo converted several years ago, Continental Bank is in the ground floor.

Scenario Three – Current condition, rents are probably between \$10-15 PSF. Average in today's market is \$25 psf and we represent a few very comparable buildings with leases between \$18-29 psf. I would not underwrite more aggressively. The process would be rather lengthy. It would be a year and a half or two years down the line before you could start getting occupancy. You have potential relocation costs, but in two years the leasing market might be up and the rents we hope will be \$8-10 higher than they are now, but it is in the future so not something we can promise today. We assume there would be a comprehensive renovation, as most of the infrastructure is original, so we want to modernize the entire building, which could be \$80-100 psf. The most accurate way to do this is to get an architect and a general contractor involved, and those numbers would be \$1.8m-2.1 m. There are options that Stephanie brought up, like the development rights, that could be a good way to finance the improvements, the Downtown Development Association has a grant program that will give you up to \$50k to improve the façade, and there are ways that you could take advantage of programs to offset the cost. The issue will be where will you go and who will manage the process. Benefits are that you retain ownership and location, and then you become landlords. That is good because you can keep an income stream, but it can be a challenge. Retail is also a challenge but as we have continued movement and improvement from property owners, there might be a better outcome.

We work in the same way on the leasing side as we do on the sales side. For leasing we try to cast a broad net, which involves relationships with other brokers. We are very dependent on tenant brokers, and casting a broad-based digital platform.

Stephanie: Can you sign the leases so that it funds the construction?

Short answer, probably not. It can be done, like Miami Central. A lot of that was preleased, but I cannot compare us to Miami Central. While we benefit from Miami Central, tenants usually sign leases when they can see a finished product.

Jane: If we focused on offering space for organizations offering legal support and legal services, would it be more likely to pre-lease?

It would give us a more targeted market to focus on.

Jeff Cynamon: Would it be possible to lease the 4th, 5th, and roof with the tenant being responsible for the upgrades?

It depends. Landlord is going to be responsible for upgrading the infrastructure, and typically the landlords want to manage this process because at the end of the day, the problems are the landlords'. There is usually a "free rent" period and any difference is made up by the tenant. There may be ADA considerations for the top floor because the elevator does not go up all the way. Not a lot of tenants have the interest experience and desire to do that.

Jeff: If we were to allow the tenant to do that, how much rent would we get?

Estimating 4300 SF per floor, looking at \$280,000 in gross annual income from rent. Less taxes, insurance, operating costs, good outcome but likelihood of a tenant doing that are low.

Presentation from Colliers

Came to Downtown Miami 4 years ago and fell in love with it. Miami was the Rip van Winkle of cities. Inventory has changed hands more in the last few years than it had in thirty years.

Moishe Manna will be closing at the end of June on the property behind. Property next door, Mitchell Kaplan, says he will keep it forever. I've sold 48 properties that the owners told me they would never sell. Manna owns right behind, Standard Parking owns lot behind. He is only interested in buying contiguous properties and he asked me to extend you the offer to remain in the property and that he would be open to something that would include you in the project. Estimated price would be \$5million.

Presently there are three buyers who would be very interested in buying.

Jane: What do the buyers want to do?

One buyer wants to make it into their headquarters. I presented that you would like to remain, but the only buyer who would entertain that is Moishe. He is raising equity and right now he is not ready to develop the property yet.

Stephanie: So he is not ready to go forward and now it would be more like a sale with a lease-back?

Yes, and the tenants that he has had are very happy. He has been in his planning, acquiring, and getting equity process. Things are happening and he is working on getting building permits now, for Flagler Station and the 777 building.

David: Under the scenario that we sell the building and the buyer leases it back, what would be the lease rate?

Depends on what they do to the building. If they add windows, or add floors, or turn the property in to a Class-A property, then the rent would go up. The rent would be commensurate with the property quality.

We have seen prices triple in the last few years, and you have the opportunity to sell and then buy before the market learns of the plans that Moishe has. I would encourage you, if you want to stay in downtown, to purchase before that happens. Pages 6 and 7 of this analysis go into it. The most interesting, at page 6, after ten years, if you did purchase at Centro (or another building) at the end of ten years you would be up \$1m, if you were going to lease or purchase a 15000 SF unit at \$233 per foot. Centro was completed a year and a half ago, 2 floors. Private entrance on the ground floor. Between the Olympia theater and has doors to the outside, parking across the street, (belongs to Bart Siler) and located two blocks from the metro mover. Retail is fully leased, proper live and active city.

When we talk about the future of Downtown, first we start with the zoning. The highest and best zoning is the only place where you can build 1000 units per acre, and nobody has maximized that zoning.

When Moishe came 3-5 years ago, he said he wanted to get critical mass but did not care if it was contiguous. Didn't care about staying in one place. As you know, they are changing the street pattern to straighten 1st avenue which is another benefit for your building. \$3.2 B in real estate has changed hands in the last several years. There is very little inventory left which is why we think you could get the best possible price.

Sabrina: If we went to Centro, would there be sufficient space to have seminars in house?

Yes it is amazing. Second floor to ceiling windows, lower floors available.

Would we have space to accommodate legal aid?

If they were consolidated into 6000 SF.

David: What would be the leasing rate?

You can lease or purchase. Leasing, you would pay \$30 PSF. If you purchased, you would be responsible for the build out. They have had it on the market for so long, it would be a great deal.

Sabrina: Why has it not sold?

Developers have a heard mentality, and there are homeless people, it does not look attractive.

Sabrina: What if we wanted to have a co-work space would we have space at Centro for that?

28 West Flagler has created a “We Work” for lawyers, the Brickman Group, and it has been very successful. I think that would be a great concept.

Gilbert: This location is really unique because it is central to all of the courthouse. I am curious to know your thoughts on how to lease for a couple of years if we were to hold the property. At Centro, we are not “in the mix” of things. If we collaborated in a redevelopment what would that look like? Because to be DCBA centric, the location is really important.

I’d have to think about that and get back to you. It is feasible.

It would be ten years before the building would be knocked down, if it were included in a redevelopment project.

Sabrina: Does that mean there would be no way to know what the lease would be?

We would put that in the contract an option to re-enter the building.

Transfers of Development rights – what would be the income from selling development rights?

\$800,000 approximately but then would sacrifice the ability to ever develop the building.

If Moishe bought the building he would not renovate it for a while. It would be a long term plan for him. You would be pure tenants. Out of the 53 buildings that Moishe bought, only 2 of them were listed with brokerages. I would encourage you to talk to the references. Everyone is extremely happy if you have desire to talk to the other sellers.

Natasha Lowell, First National Bank of South Miami

40 years in commercial lending. Recently financed nonprofit housing for people with autism, able to win \$19M in tax credits and create a plan with seasoned developer. First need to understand the mission, how you would like to own your investment, and what you are looking to do with and for the profits of your investment.

I’m here today to talk with you about that, to give you a sense of what we can do outright with this property, and then to continue the conversation.

Any source of financing would look to you, as the property owner and joint venture partner, and see if you have a seasoned developer to help you through the process. Any lending institution would look for someone who has been through that process. It is not as cost effective as us doing it ourselves, but an institution would want to see that the job is done with the correct expertise. Many nonprofits will get the architect, the general contractor, and so forth but they miss. Consider this before you do anything else.

Attended the Commercial Real Estate seminar, and will leave the report. What I see from the rents that the brokers have provided you, \$25-35-40 PSF, that is right in the range. Renovated with \$1.8-2M into a class B building and that is achievable. With that kind of rent for a 16000 SF building, not including the top floor, it would be in the range of \$420,000 gross. You would have to deduct expenses, and come up with net operating income of \$273,000 + or -, depending on whether there are vacancies, or if we lease the property ourselves. The lending institution would want to see an actual lease. Can definitely make up to \$2.5 million loan.

What would the interest be?

Today, if everything else was in place, it would be some number over prime. 1 over prime, which is 5.5%, which would put you at 6.5%. There are ways of mitigating that, making that better, but that has to do with deposits and relationships and those kinds of things.

Jane: If we borrowed 2.5M at 6.5% and paid interest only for a year, then what would happen?

Convert to a term loan, and we could fix the rate up front, which might be better depending on where rates are going.

Gilbert: Balloon loans are not common but what would happen if that were the case?

You would be paying interest costs, but once you convert to a term loan when you are at least 75% leased, then it would start paying principle and interest, based on a 25 year amortization. You would have a fixed rate for five years and then you balloon after ten years, but a small community bank would allow renegotiation of the loan to extend after ten years.

Not possible to pay nothing, would have to pay interest that would be priced into the loan. For instance if the loan were \$2.2 M then we would loan \$2.3 M to pay your interest costs, to accommodate the hard cost while you do not have tenants.

David: Today we heard that renovation would cost approximately \$2M and there would be costs associated with having a place to be located during the renovation. And there would be some time before the space would be renovated. If we are looking at expenses about \$3M, but no revenue to cover for 2-3 years, is that something that is workable?

We won't go into a project that will take three years to obtain the repayment. The bank's policy is maximum 18 months. I recommend bringing in a seasoned contractor and/or developer to give you real timelines to see what can they do.

Jane: We brought Jeff Williamson to speak and he is the contractor for the Orange Bowl Committee, and he said he could do "vanilla shell" just drywall and floor, and he said 12-18 months. You have worked with him before?

Natasha: Yes and I think you have to look at if there is an alternative source of income that you can leverage. You have dues and you can borrow and as long as you can make those payments it is workable. You are going to have leases in place here that are going to be able to pay that. How do you get from here to there, how long is it going to take, how do you do it most efficiently. Could you get free space to avoid extra costs? \$2.5 M interest only at 6.5% per year, would be \$65,000.

If you are really set on this spot, then this is really the best place to be. It is really appreciating, there have been very few spaces built, you are really sitting on a great piece of property.

Stephanie: What would you be looking for if you were going to consider a loan?

First thing would be a developer. I can talk to you, and we can go through all of that, but without me knowing that you have a person who is going to execute on this and be able to bring in resources to be able to do it, I don't know.

Julian: They don't just cut you a check, you have to provide the plans and show the bank that you are doing it right and then the bank distributes the funds to compensate that phase. Knowing that we have a developer who has some notoriety, that gives the bank the confidence to cut the check.

Natasha: Exactly.

Jacqui: What would you be looking for from the organization? Membership, operations etc?

Natasha: Not really anything.

Jane: Am I correctly understanding that you would be looking at the \$273,000 net revenue from the building to repay the loan and the land value to secure the loan?

Yes.

There are so many options that you have but I don't want to give you those without an expert because then we get into this kind of thing where you need. The experience would get you the best rates and the best outcomes. That is why I reference the Casa Familia project because they collaborated. I don't think you need to give up any portion, but we would require that you have a partner that is a seasoned developer. You have friends who would do this with you because they love you and believe in your mission.

Shay: what would it cost to hire someone like that?

It has a cost, but you do have friends, they have been here for many years, and they are calling us and talking about it.

Gilbert: My takeaway is you are available, underwriters need protection, we need to think creatively as we develop this opportunity.

Natasha: exactly where we are at. Your developer or partner or contractor will likely give you similar parameters. We love your mission and it is so important to serve your community the way the DCBA does, and I appreciate what you do. It serves part of the community that would not have representation without you and so please continue to do that and be here. This is the greatest spot you can be. Even if you use another lender, I am always here to be a resource.