



City Commission **agenda item**

item type Action Items Requiring Discussion	meeting date January 11, 2023
prepared by Peter Moore	approved by Michelle del Valle, Randy Knight
board approval Completed	
strategic objective Fiscal Stewardship Intelligent Growth and Development	

subject

RFP18-22 Old Library Building Proposed Lease Consideration Deal Points and Presentation.

motion / recommendation

Decline the current offer from the sole respondent and consider alternatives for next steps.

background

The city previously released RFP18-22 Lease and Reimagine City-Owned Building and Property at 460 E. New England Avenue during the summer and received one response from Harbert Realty Services. The proposal met the constraints of the RFP that called for limited food service, no residential, no parking garage, and reuse of the existing building. Harbert's proposal largely involves high-end co-workspace on the 2nd and 3rd floors and a limited cafe with wellness concepts on the first floor. The City Commission subsequently approved entering into a 90-day negotiation and due diligence period as well as hosting a community meeting. A community meeting was hosted on-site on November 17th with a total attendance of 24 persons, including 4 City Commissioners. Harbert Realty Services has spent considerable time performing their analysis of the building and property and has recently responded to staff's counteroffer regarding their deal points for entering into contractual negotiations. The revised offer is now lower than the original RFP response and staff cannot recommend approving the deal points as they currently stand and is recommending that the City Commission reconsider options for the site given the limited response to the original solicitation due to the constraints in the RFP and the apparent high cost required to bring the existing building up to a marketable standard.

Below is a list of key dates and a comparison of offers and counteroffers:

June 16: Single proposal from Harbert Realty Services received in response to RFP
 August 11: Commission approves entering into a 90-day negotiation period
 August 22: Staff sends counter proposal, beginning 90-day negotiation period
 November 17: Community meeting hosted at Old Library
 December 2: Harbert Realty Counter to Staff Proposal (attached as Library LOI Response FINAL)
 December 14: City Commission consideration of offer and presentation by Harbert Realty Services

Topic	Original RFP Response	City Counter August 22, 2022	Harbert Revised Final Offer
Lease Type	NNN	Agreed	Agreed
Rate	\$250,000 Annually	\$300,000 Annually	\$150,000 Annually
Initial Term	60 Years	20 - 40 Years	20 Years
Options to Renew	Four, 10-yr options	Agreed, if mutual at time of renewal	Five, 10-yr options at Harbert sole discretion
Rent Escalation	10% every 5 years	Adjust by CPI, with a floor of 2% annually	Flat 2% annual escalation
Rent Commencement	360 days from lease execution	At lease execution date	365 days from lease execution
Capital Investment	Est. at \$10.56 million	Agreed	Est. at \$14 million or \$425 per SF
Transfer of Rights		Requires City Approval	Agreed
Zoning		Rezoning will be Required	Agreed
Parking		Parking needs will need to be accommodated	Agreed, must be approved by developer, tenants, and Commission
Restrictions on Use		Restrictions in RFP will extend to future tenancy	Not currently addressed at time of writing this item.

Staff believes that the level of investment that Harbert anticipates investing in the building is driving down their ability to offer more considerable lease payment terms. With almost \$14 million in planned investment, it's comparable to building a brand-new building. At the Community meeting most comments were about parking concerns at the site with limited questions as to why the building was being preserved, which parties would be financially responsible for various costs, what type of tenants would be in the

building, and would the site pay property taxes once developed.

It is staff's opinion that the office use being proposed for the site is needed in Winter Park as very little office inventory has been added in the city over the last decade. Additionally, the quality of the renderings and level of investment into the site are considerable. Staff's sole objection to the offer relate to the financial considerations of the proposal terms that value the asset far below what a conventional ground lease would offer. A traditional long-term ground lease (with no restrictions) is often valued at an annual payment of 7 - 10% of appraised value with agreed to annual escalations. The value of the site varies considerably depending upon use but in conversations with the city's broker, it is expected that the site could be worth about \$10 million. This would equate to an annual payment of \$700k to \$1 million annually but would require a similarly long period of time, such as 70 years or more. Staff had been willing to accept a lower annual payment due to the use constraints placed on the RFP and if the term of the lease was much shorter, as the value of the capital investment being made in the building would still be of value to the city at lease termination. However, at 70 years and \$150k annually with only a 2% escalation, this reduces the financial benefit of the disposition of this asset.

Staff would like to thank Harbert Realty Services for truly investing considerable time and resources into their review of the building and staff's opinion is in no way a reflection on the character and quality of their work. Staff has no doubt that Harbert would be an excellent steward of this asset but that financially, the current scenario isn't advantageous to the city.

Harbert has recently provided a draft lease agreement that has been included with this item. It has not been reviewed by staff and the City Attorney at the time of writing this item but would provide a more formal template of their offer. Harbert will be attending the meeting and offering a presentation as part of this discussion.

alternatives / other considerations

The city has gone through numerous public processes regarding the site and not determined a conclusive community need for the existing building. If the proposal to renovate the existing building is turned down, the city could return to consideration of either a conventional ground lease or a sale depending upon the will of the Commission. Concerns about redevelopment could be controlled by rezoning prior to any decision to release the property or indicating what types of development would be desired that have lower parking demand (e.g., office or limited luxury condo, etc.). If any other options are considered, Harbert has expressed their interest in participating.

The existing building could be maintained as-is and unoccupied. The AC system needs to be replaced at a cost of about \$250k and any future occupancy of the building would require considerable capital investment. Original staff estimates during the Old Library Task Force put the requirement at about \$5 million. Staff would presume that's closer to

\$7 million now and it would largely be to make the space usable as it current looks and would not involve any changes to the exterior look and feel of the structure. Staff estimates that demolition of the property would cost around \$80k but has not obtained any quotes.

fiscal impact

Staff used net present value to analyze varying offers and scenarios. Attached is a breakdown of multiple iterations that include: the Original Offer, City Counteroffer, Revised Offer from the respondent, and then a conventional Ground Lease based on unrestricted use of the property. All of these used a 70-year term as that would be the term of the Revised Offer proposed by Harbert and would allow all the options to be compared to one another. Staff used a 5% discount rate and assumed that escalation would be 2% annually under the City Counter scenario (See attached Old Library Net Present Value Analysis).

ATTACHMENTS:

[Library LOI Response FINAL 12022023.pdf](#)

ATTACHMENTS:

[Old Library Net Present Value Analysis.pdf](#)

ATTACHMENTS:

[Harbert Winter Park Library Ground Lease Draft.pdf](#)