



\* 6:30 Time Certain

**City of Flagler Beach**

**AGENDA ITEM # 10**

**Item Summary and Recommendation**

**SUBJECT:** Discussion and any necessary action regarding the evaluation of the Pier Lease.

**BACKGROUND:** Commission approved hiring a consultant to evaluate the Pier Restaurant Lease and make recommendations. Consultant, Jim Densmore, will be in attendance to answer questions.

**RECOMMENDATIONS:** Provide direction to Staff

**ATTACHMENTS:** Evaluation Report

**SUBMITTED BY:** Bernie Murphy, Interim City Manager

**DATE:** 09/13/2010

# **Situational Analysis**

## **Flagler Beach Pier Restaurant**

**September 2010**



## Situational Analysis

The Flagler Beach Pier is a regional historic landmark located in Flagler Beach, Florida. Located directly Atlantic ocean-front on Flagler Beach on scenic A1A the Pier presently generates three income streams and features a restaurant, bait & tackle shop and pier entry fee.

The 3320 SF restaurant with seating for 158 is currently leased with lease expiration date of April 2012.

The bait & tackle shop is 1200 SF and is currently sub-let by the restaurant owner. This lease expires September, 2011.

The pier operation includes security, restroom maintenance and generates income via admission fee both by fisher-people and those who just wish to stroll over the Atlantic on the pier.

The City of Flagler Beach is Landlord to both the restaurant and bait & tackle shop and operates and maintains the pier access and restroom maintenance.

The City has asked for our guidance and our opinion of value as to the restaurant space, the bait & tackle shop, the maintenance of the restrooms and future operations of pier access.

# Options

## Options

### Restaurant, Bait & Tackle Shop, Pier Operations & Restroom Maintenance

- A.) Engage a professional firm to create a written RFP for the operations of restaurant, bait & tackle shop, management of pier & restroom maintenance. This firm would then be responsible for the solicitation, review of submitted RFP's and work with the city in the qualification and selection process.
- B.) City to accept an acceptable restaurant lease assignment.
- C.) City to accept lease assignment and include restaurant operator to lease/operate bait & tackle shop.
- D.) City to accept lease assignment of restaurant operator to include lease/operate bait & tackle shop, & pier operations.
- E.) City to accept lease assignment to include restaurant operator, bait & tackle shop, pier operations and maintenance of restrooms.
- F.) Lease restaurant and bait shop independently and city to continue pier and restroom maintenance
- G.) Restaurant lease to include restroom maintenance
- H.) Bait & tackle shop lease to include restroom maintenance
- I.) Reject current restaurant Tenant's assignability and continue with current operator until expiration of lease. April 2012

# **Pros & Cons**

## Pro's and Con's of current restaurant & site

### PRO's

- The City of Flagler Beach's ICON, The HEART of Flagler Beach
- Direct Ocean Front Location
- Pier's Visibility
- Site benefits from Special events and festivals
- Large open windows overlooking the ocean
- Could either be classified as a "destination or drive by" location
- Most people know there is a restaurant, bait & tackle shop as well as have fishing and strolling access on the pier
- Operating hours are breakfast, lunch & dinner
- Casual dining
- Offering legal beverages

## CON's/Opportunities

- Lack of Parking
- Lack of open air dining
- Not much road side visibility and or signage
- Current lack of restaurant marketing in magazines, periodicals, community events and not targeting either the local or tourist audience
- The operation should define the Landmark location with the local and vacation communities patronizing the business. This current operator and business does nothing to enhance the beauty of this beachside community
- Much deferred restaurant maintenance by owner
- Deferred maintenance condition results in Guests not returning due to: smell, lack of cleanliness, "tired furniture, fixtures & equipment" and all that is within guest's view including "sticky, dirty menus"



- Menu items offerings are not up to date
- Restaurant is not staffed correctly for business
- Our impression is that the current operator is doing little to increase or even satisfy the current business.
- During a few brief interviews we heard comments such as: “ This place is dirty and we are not coming back” “Wanted to dine on the ocean and not inside” “For such a prominent location it does not represent this community in a very good light” “I have lived here all my life, used to frequent often, but no more because they don’t give a damn; they won’t even seat ya when you walk in”. The above quotes a just a few of the comments we heard.

# **Recommendations**

## Recommendations For Consideration

10 year Base Lease with 2-4 five year renewal options.

Renewal options to be exercised in written form, submitted to City a minimum of 275 days prior to renewal.

Tenant financial commitment (investment) of \$450,000 - \$600,000.

Financial commitment to be in written form

Timetable of funds to be invested.

Allocation of investment funds: Example: 25% of total investment within 60 days occupancy, 25% of total investment within 120 days of occupancy, 25% of total investment within 180 days and remainder within first twelve months of occupancy.

Percentage of investment funds to be allocated to Furniture, Fixtures & Equipment and percentage of funds toward Tenant Improvements.

Base Rent: For many years the "norm" for a restaurant's "cost of occupancy" was 8-10% of total gross sales to. Today, that is NOT the norm.

Base Rent: The current Tenant is paying \$2700 per month/\$ 32,400 per year or \$9.76 per square foot with no percentage rent or sales override.

Our initial Base Rent suggestion for years 1 & 2 (Beginning on or about April 1, 2012) is: \$3,000 per mo./\$36,000 per yr or \$10.81 per SF. unless entire agreement is renegotiated.

Percentage Rent: This concept, sometimes referred to as “additional rent” is widely accepted in today’s commercial leasing arena. This allows the Tenant to operate with a lower base rent, but contributing a percentage of his sales to the landlord, usually at year’s end. This in a form creates a “partnership” with both Tenant & Landlord. The Landlord should hold the right and option to audit gross sales. It is our opinion there should be monthly reporting of Gross sales to the Landlord.

Restaurant to serve the three main day parts and offer continuous food and beverage service open to close.

Restaurant to be open seven days per week with NO downtime

Percentage of total sales (at minimum) to be allocated toward monthly “**marketing**” (local or regional) and should be reflected in the lease, Tenant’s business plan and monitored by Landlord. A norm or average is 2-5% of gross sales.

This “Icon” location today does NOT promote the city the way she deserves. This is The “Flagship”, an “Identity” of Flagler Beach. Our suggestions include: Exterior face lift in keeping with a nautical theme; Open-up either road frontage side, North or South with some (Outside dining) including umbrellas. This simple suggestion is signage that; here inside is an “active” dining facility. There should also be “Open-Air” dining on the beachside either on the pier or a beachfront deck or both should be considered.

It is understood that there is about \$35,000 code work to be done to bring location into compliance. Under “normal circumstances” this would be Landlord’s responsibility. This may be a point of negotiation.

# **Suggested City Requirements**

## Suggested City Requirements

Seasoned International, National vs. Regional Operator(s).

It is our opinion that a regional operator may have a better feel of the market for both local area residents and visitors.

This location being a City Landmark is NOT the location for a "start-up" restaurant operator

### Target Tenant

Financially Sound

8-10 years of current operating restaurant, full service experience

Experience with operating Beachside Restaurants

Have feel, understanding of the local market

Willing to lease both restaurant, bait & tackle shop and operate pier along with responsibilities for total restroom maintenance

What would this look like?

Blanket Lease:

Restaurant: Base Rent with % rent

Bait & Tackle Shop: Operator responsible for complete operation including maintenance. The income generated would be operator's incentive.

Pier Operations: Restaurant operator would operate, provide security, collect admission fees and gift 100% back to City. Operator would sublet & manage any approved \*cottage-businesses on pier gifting 50% of proceeds to city

Restroom Facilities: Operator would perform hourly/daily or "when needed" maintenance on restrooms including all supplies

\* Example of Cottage Business: Carts, display & sales racks, selling things like: art work, tee shirts, trinkets, beachside related items.

**Review Written Proposal(s)**  
**Received by 9/01/2010**

## Review of Written Proposals Received by 9/01/2010

Proposal submitted by: Mr. Raymond Barshay

### Proposed Deal Points

- Assume current lease with terms and conditions remaining in current lease.
- Enter into new lease with City of Flagler Beach
- NEW LEASE (Commencing on or about April 1, 2012)
- 10 year base lease with 3 five year renewal options
- Rate(s) Year 1 \$35,000 with annual increases based upon an agreeable rate based on the CPI (typical of standard commercial leases)

### Additional Rent:

- Years 1 & 2; based on gross sales multiplier of 1% of sales OVER (in excess) of \$1.2 million.
- Years 3 & 4 2% of gross sales in excess of \$1.2 million.
- Beginning year Five 2% of gross sales in excess of \$1.5 million.
- The additional rent of 2% gross sales in excess of \$1.5 million would remain in effect the remainder of lease.
- Tenant will invest \$400,000 to \$500,000 into purchase of Furniture, Fixtures, Equipment, plans, permits, materials, services & products to set up & renovate the business.
- Landlord to allow Tenant to remodel interior & exterior elements to develop proper look, feel & atmosphere keeping with the general character & nature of building.
- Landlord to deliver a tenable, code compliant building suitable for tenants use. In the event it is necessary for repair on code violations repairs or alterations, Landlord will effect in a timely manner & allow with mutual consent Tenant to oversee.



- Landlord and Tenant will proceed to develop expansion plans for outside seating either as attached decking to existing building and or pier or as second level, open air deck located above existing building.
- Once plan is developed Landlord will proceed to permit additions with proper authorities in a timely manner.
- Landlord upon receipt of permits will proceed to construct added space at Landlord's expense unless otherwise agreed mutually be both parties.
- Tenant may assist in permitting process & may oversee construction as mutually agreed.
- Additional rent for added space to be determining upon a reasonable rate of return on capital investment.
- Landlord to grant Tenant use and control of certain Pier common areas for the purpose of operating compatible ancillary uses to existing business. Both parties will create a list of approved uses.
- Landlord and Tenant will work to create a mutually beneficial agreement that will allow city to generate more net profit by incorporating bait & tackle and toll collection for pier.

\* We were not asked to perform due diligence as to Mr. Barshay's financial strength, history, past/current experience or restaurant operations etc.

# **Suggested Response to Mr. Barshay's Proposal**

## Suggested Response to Mr. Barshay's Proposal

- **Assume Current Lease:** The benefit of Mr. Barshay's assuming the current lease to both Tenant & City is with a fully negotiated, executed NEW lease Mr. Barshay can begin the "remodel" most immediately.

Note: The sooner a new, qualified operator takes the helm, the quicker the reputation is enhanced, earned and restored.

### New Lease

- 10 year base with 3 five year options. This should be agreeable.
- **Rental Rate:** We think it prudent to consider 1. Increasing the base rent 2. Increasing the percentage rent and 3. Decreasing the "breakpoint" (Sales volume number "in excess of")
- The new operator will have many hurdles therefore it may be best to set the Base in the range of \$3000 mo. \$36,000 yr using CPI index from this base point for annual increases.

- **Percentage Rent:** Mr. Barshay is proposing a hybrid version of percentage rent, which is quite acceptable and normal with commercial leases and restaurants in particular. The term usually used for this concept is "Break Point". Simply, a percentage is assigned to an amount over a certain Gross Sales figure. The two parts of this are: 1.) Volume of Gross Sales and 2.) The percentage paid to Landlord above this set gross volume number.

We advise the City to consider the following:

- 1. Set the base rent for years 1 & 2 (beginning on or about April 1, 2012 if Mr. Barshay assumes the current lease) at \$36,000 per year.
- 2. Decrease the breakpoint and Increase the percentage.
- Without our knowing the current gross sales it is difficult to project Mr. Barshay's first year sales volume, but if he operates the remainder of the current lease, beginning April 2012 he will have already begun building his clientele.
- With the above statement we would project his 1<sup>st</sup> year sales to be in the range of \$1.6 to \$1.8 mil.

# **Sales per Seat Concept**

## **Sales Per Seat Concept**

158 Seats

20% vacancy

126 average seats occupied at full occupancy

Projected Sales: \$1,800,000

Divided by: 126 seats

\$14,285 sales per seat per annum

360 operating days

\$40.00 per day per seat

3 turns: \$13.00 sales per seat

Check Average per Person

**\$13.00**

The blended check average of \$13.00 should be realistic.

This concept could and should be used when reviewing Tenant's business plan which will include a blended check average for all day parts of service.

- In addition to the restaurant operations Tenant could also assume the operations and responsibility for: The bait & tackle shop, the pier operations and maintenance of restrooms.
- 1.) Restaurant Operations: Refer to above
  - 2.) Bait & Tackle Shop: Included within restaurant lease. Tenant operates this shop and keeps the profits.
  - 3.) Tenant to staff, maintain pier, collect tolls and pass through 100% of funds collected to the City.
  - 4.) Tenant would be responsible for the operations, maintenance of restrooms and security of entire pier complex.
  - 5.) With City approval, if any cottage-style vendors open on or within pier complex, Tenant is to manage and share rental fees with city @ 50%.

# **Flagler Pier Work Sheet**



## Flagler Pier Worksheet

### Examples

	<u>Base Rent</u>	<u>Break Point</u>	<u>Proj. Gross Sales</u>	<u>% Rent</u>	<u>Total +</u>	<u>Total \$ to City</u>
Year 1	\$36,000	\$1.2mil	\$1.8mil	1%	\$ 6,000	\$ 42,000
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	\$36,000	<u>decrease &lt; \$1.mil</u>	\$1.8mil	1%	\$ 8,000	\$ 44,000
	*** \$36,000	<u>decrease &lt; \$1.mil</u>	\$1.8mil	<u>increase &gt; 2%</u>	\$16,000	\$ 52,000

\*\*\*We suggest the following for Years 1 & 2 beginning April 1, 2012

- Base Rent expected at \$36,000
- Decrease the proposed break point from \$1.2mil to \$1.mil
- Increase the proposed percentage from 1% to 2%

Years 3 through term of lease Base Rent: Increase 3% per annum or CPI whichever is greater

Years 3 & 4 Increase percentage rent to 2.5%

Year 5 Increase percentage rent to 3%

In progressive years gross sales will continue to increase thus increasing the percentage to city as will base rent based upon % or CPI whichever is greater

Note:

With today's volatile market the average Gross Sales Multiplier expected for restaurant rent is 5-6% of sales. This is the "Norm" with the Landlord contributing a "Significant" amount of Tenant Improvements.

If the City invests \$400,000 to \$600,000 on improvements it should then expect to be within the Gross Multiplier range (5-6%) of Gross Sales for Total rent. (Combination of base plus percentages)

The City should consider and re-evaluate the Occupancy Cost (rent) from after the initial term (10 years) and adjust total rental income through remainder of lease to equal 6% of Gross Sales.