Item No. 16a

AGENDA ITEM REQUEST FORM

Finance Department / PIO
Department Submitting Request

Tony Bryan / Steve d'Oliveira
Dept Head's Signature

REGULAR COMMISSION MTG Meeting Dates - 7:00 PM	DEADLINE TO Town Clerk	ROUNDTABLE MEETING Meeting Dates – 7:00 PM	DEADLINE TO Town Clerk
☐ April 27, 2011	April 15 (5:00 pm)	☐ April 12, 2011	April 1 (5:00 pm)
☐ May 24, 2011	May 13 (5:00 pm)	☐ May 10, 2011	April 29 (5:00 pm)
☐ June 28, 2011	June 10 (5:00 pm)	☐ June 14, 2011	June 3 (5:00 pm)
☒ July 26, 2011	July 15 (5:00 pm)	☐ July 12, 2011	July 1 (5:00 pm)

*Subject to Change

☐ Presentation ☐ Reports ☐ Consent ☐ Ordinance
☐ Resolution ☐ Quasi Judicial ☒ Old Business ☐ New Business

☐ FY2011 DESIGNATED HIGH PRIORITY ITEM

SUBJECT TITLE: Warehouse Analysis

EXPLANATION: The Town Commission asked staff to conduct an analysis regarding whether it was more beneficial to sell the Town's warehouse or proceed with our intent to lease out the portion of the building we do not use. We looked at several factors, including the assessed value of the property and the cost to the Town if we had to rent warehouse space if we were successful in selling, as well as the potential value of investing the proceeds from the sale. We concluded it would be more advantageous to keep the property. The $1.1 million offer the Town received is below the assessed value. It is currently a buyer's market, not a seller's market.

RECOMMENDATION: Keep the property and proceed with efforts to lease out the unused portion. If the Commission agrees, we will return with a Realtor contract for you to approve after review by the Town Attorney.

EXHIBITS: Memo and financial analysis sheet.

Reviewed by Town Attorney
☐ Yes ☒ No

Town Manager Initials CA

Town of Lauderdale-By-The-Sea
4501 Ocean Drive
Lauderdale-By-The-Sea, Florida 33308-3610

Memorandum

Date: **July 22, 2011**

To: **Connie Hoffmann, Town Manager**

From: PIO Steve d'Oliveira and Finance Director Tony Bryan

Subject: Warehouse Financial Analysis

Summary
Staff was directed by the Town Commission to make a recommendation on whether the Town should sell its warehouse or keep or proceed with our attempt to lease out the unused space. After examining numerous factors (annual operating expenses, taxes, insurance, maintenance and Realtor fees) -- and taking into consideration the depressed market – it is our recommendation that the Town maintain ownership of the property and attempt to lease the unused space.

Background
The Town purchased the property in August 2003 for $1.4 million. Earlier this year we received a verbal offer to buy the warehouse for $1.1 million. The offer is slightly below the current assessed value of $1,118,580 and $300,000 below the Town's purchase price.

Using information obtained via a recent market rent study, we projected the potential revenue to the Town under a few different scenarios, including keeping the property and leasing the unused space, selling the property at $1.1 million, or selling the property at 10% over the assessed value.

Conclusion
Based on our analysis, we concluded that it is advantageous to keep the property and attempt to lease any unused space at prevailing rates (i.e., $7 per square foot on a gross basis[i]) and revisit the question of selling the property at some point in the future after the market recovers.

At this $7 per square foot rate the projected rental income will exceed the projected expenditures, thereby generating a positive net cash flow to the Town

(estimated at between $60,000 and $85,000 per year). In contrast, selling the property and leasing the required warehouse space would result in a onetime cash inflow but recurring negative cash flow to the Town.

Further, even if the Town were not able to lease the unused warehouse space, the property is owned by the Town outright (therefore there are no recurring mortgage payments), the Town does not pay property taxes, and the other ongoing costs of ownership (e.g., property insurance, utilities, and upkeep) are not significant.

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[i] Per Miller Appraisal, tenants prefer to lease space on a gross basis, which requires that the tenant pay the utilities and upkeep of the building and the owner is responsible for property taxes, insurance, and maintenance of the building.

Profitability of Keeping Vs. Selling Warehouse

A *Keep Property and Lease Unused Space - Best Case Scenario*

Assumes 17,000 sq ft rented at $7.00 / sq ft	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Rental Income	119,000	119,000	119,000	119,000	119,000	119,000	119,000	119,000	119,000	119,000	
Operating Expenses: (Low Estimate)											
Real Estate Taxes on Leased Portion (est.)	(19,200)	(19,200)	(19,200)	(19,200)	(19,200)	(19,200)	(19,200)	(19,200)	(19,200)	(19,200)	
Insurance - No incremental cash outlay	-	-	-	-	-	-	-	-	-	-	
Maintenance (Low Estimate)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	
Realtor Fees @ 8.5	(10,115)	(10,115)	(10,115)	(10,115)	(10,115)	(10,115)	(10,115)	(10,115)	(10,115)	(10,115)	
	(34,315)	(34,315)	(34,315)	(34,315)	(34,315)	(34,315)	(34,315)	(34,315)	(34,315)	(34,315)	
Sub-total - Before Interest	84,685	84,685	84,685	84,685	84,685	84,685	84,685	84,685	84,685	84,685	
Interest Income @ 2%	-	1,694	3,421	5,183	6,981	8,814	10,684	12,591	14,537	16,521	
Net Cash Flow	84,685	86,379	88,106	89,868	91,666	93,499	95,369	97,276	99,222	101,206	927,277
Property Value at 10% over 2011 assed value											1,210,000
Total											2,137,277

B *Keep Property and Lease Unused Space - Worst Case Scenario*

Assumes 13,000 sq ft rented at $7.00 / sq ft	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Rental Income	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000	91,000	
Operating Expenses: (High Estimate)											
Real Estate Taxes on Leased Portion (est.)	(14,400)	(14,400)	(14,400)	(14,400)	(14,400)	(14,400)	(14,400)	(14,400)	(14,400)	(14,400)	
Insurance - No incremental cash outlay	-	-	-	-	-	-	-	-	-	-	
Maintenance (High Estimate)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	
Realtor Fees @ 8.5%	(7,735)	(7,735)	(7,735)	(7,735)	(7,735)	(7,735)	(7,735)	(7,735)	(7,735)	(7,735)	
	(32,135)	(32,135)	(32,135)	(32,135)	(32,135)	(32,135)	(32,135)	(32,135)	(32,135)	(32,135)	
Sub-total - Before Interest	58,865	58,865	58,865	58,865	58,865	58,865	58,865	58,865	58,865	58,865	
Interest Income @ 2%	-	1,177	2,378	3,603	4,852	6,127	7,427	8,752	10,105	11,484	
Net Cash Flow	58,865	60,042	61,243	62,468	63,717	64,992	66,292	67,617	68,970	70,349	644,555
Property Value at 10% over 2011 assed value											1,210,000
Total											1,854,555

Profitability of Keeping Vs. Selling Warehouse

C *Sell Property & Lease Back Needed Warehouse Space - Current Offer*

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Current Offer											
Proceeds from Sale of Building	1,100,000										
Assumes Rent of 5.00/Sq Ft for 5 years and 7.00/sq ft thereafter											
Rental Expense - (4,600 sq ft)	(23,000)	(23,000)	(23,000)	(23,000)	(23,000)	(32,200)	(32,200)	(32,200)	(32,200)	(32,200)	
Insurance	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	
Sub-total - Before Interest	1,075,600	(24,400)	(24,400)	(24,400)	(24,400)	(33,600)	(33,600)	(33,600)	(33,600)	(33,600)	
Interest Income @ 2%		21,512	21,454	21,395	21,335	21,274	21,027	20,776	20,519	20,258	
Net Cash Flow	1,075,600	(2,888)	(2,946)	(3,005)	(3,065)	(12,326)	(12,573)	(12,824)	(13,081)	(13,342)	999,551

D *Sell Property & Back Needed Warehouse Space - Open Market*

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Assumes 10% over 2011 assessed value											
Proceeds from Sale of Building	1,210,000										
Assumes Rent of $7.00/Sq Ft											
Rental Expense - (4,600 sq ft)	(32,200)	(32,200)	(32,200)	(32,200)	(32,200)	(32,200)	(32,200)	(32,200)	(32,200)	(32,200)	
Insurance	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	
Sub-total - Before Interest	1,176,400	(33,600)	(33,600)	(33,600)	(33,600)	(33,600)	(33,600)	(33,600)	(33,600)	(33,600)	
Interest Income @ 2%		23,528	23,327	23,121	22,912	22,698	22,480	22,257	22,030	21,799	
Net Cash Flow	1,176,400	(10,072)	(10,273)	(10,479)	(10,688)	(10,902)	(11,120)	(11,343)	(11,570)	(11,801)	1,078,151

Notes:

Scenarios A & B assume space is leased on a "gross rental" basis, wherein owner pays property taxes, insurance and maintenance; and tenant pays utilities.

Insurance	7,000	annually for $1.4 million of coverage	
Assessed value 2011	$ 1,118,580	*Source: Broward County Property Appraiser website*	
Assessed value 2010	$ 1,225,390	*Source: Broward County Property Appraiser website*	
Assessed value 2009	$ 1,515,660	*Source: Broward County Property Appraiser website*	
Purchased	$ 1,400,000	*On 8/26/03*	*Source: Broward County Property Appraiser website*
Total site size	49,770	sq ft	
Warehouse size	22,090	sq ft	
LBTS Warehouse lease reqmts	4,600	sq ft	
Available for rent	17,490	sq ft	*79% Of total space*