

MARINA RESTAURANT UPDATE



NOVEMBER 03, 2020



Marina Restaurant Lease Timeline

September 2018

City Council votes to pursue the Request for Proposals method to secure a new lease for the Isle of Palms Marina Restaurant

April 2019

City hires Lee & Associates to assist and advise the City through the Request for Proposal process and represent the City in lease negotiations

November 2018

City hires Hill Construction to perform assessment of the restaurant building



Marina Restaurant Lease Timeline

May 2019

Hill Construction presents building assessment report to Real Property Committee



May 2019

Hill Construction expenses estimates presented and recommendations provided on the following slide



HILL CONSTRUCTION EXPENSE ESTIMATES

A La Carte Renovation Estimate

Repair Structure & Replace Walk-in Refrigerator	\$	120,000
Private Dining converted to Bathrooms/Beer Storage moved to 1st floor. Relocate Office and Liquor Storage to Old Bathroom Location	\$	230,000
2nd Floor Restroom Renovations	\$	115,000
Install New Elevator/Shaft/Pit/ Siding	\$	350,000
Upgrade 2nd floor Kitchen (HVAC, Electrical/Flooring)	\$	90,000
1st Floor Kitchen Upgrades (HVAC/Ansul/Equipment, Finishes	\$	150,000
Install new flex dining space on 1st and 2nd floor	\$	475,000
New Permanent 2nd floor to replace temporary tent bar structure	\$	375,000
New Wrap around Porches on both floors	\$	275,000
Construct new exterior stairs and ramps/lighting	\$	135,000
Remove rear Tent/flooring and reroof	\$	65,000
Demo and Repair loading dock	\$	85,000
Demolish Mansard Roof	\$	135,000
General maintenance, Upgrades Improvements	\$	325,000
Sitework/Paving/Landscaping Repair Allowance	\$	125,000
	\$	3,050,000
	SF	8,651
	\$/SF	\$ 353
Discount if Entire Scope is Completed (Not "a la Carte")	\$	2,592,500
	\$	8,651
	\$	300

Build New Estimate (1)

Demolish Replace with new, similar 8,651 SF restaurant with 2 kitchens, 2 bars, full design, and kitchen/bar equipment. This would have approximately 300 seats and a similar two-story layout as reflected in the attached renovation plans. The require parking spaces would be an issue with this approach. This concept considers keeping Existing Pile and 1st floor framing.		
	SF	8,651
	\$/SF	\$ 498
	Budget	\$ 4,308,198

Build New Estimate (2)

Demolish and Replace with new, similar 4,500 SF restaurant with 2 kitchens, 2 bars (one large and one smaller), full design, and kitchen/bar equipment. This would have approximately 150 seats and a similar tot he first floor layout in renovation plans. The require parking spaces would need minor modifications with this approach. This concept considers keeping Existing Pile and 1st floor framing.		
	SF	4,500
	\$/SF	\$ 552
	Budget	\$ 2,484,000

Marina Restaurant Lease Timeline

June 2019

City advertises Call for Offers to seek proposals for the restaurant and designated dock space

**See next slides for site and marketing plan

September 2019

City Council holds a Special Council Meeting for public presentation of the proposals received

August 2019

Deadline to submit proposals. City receives 3 proposals



MARKETING PLAN FOR RFP

- Press releases published to media outlets locally and across SC
- Online listings posted – MLS (local) , CoStar & LoopNet (national) and local and national company websites
- Posted to professional organization sites: CTAR, CCIM, SIOR, CREW network
- Specialized email campaigns sent to restauraners nationally
- Direct targeted marketing calls to area restauraners
- Social media marketing campaigns posted (viewed nationally)
- Digital marketing tools utilized to reach national contacts with a focus on restauraners



Marina Restaurant Lease Timeline

December 2019

City enters exclusive negotiations with IOP Families Group and grants a 90-day Due Diligence period

July 2020

City engages Haynsworth Sinkler Boyd as real estate attorneys to develop lease agreement

Spring 2020

As negotiations progress, City grants IOP Families Group's request for 60-day extension to the Due Diligence period



Marina Restaurant Lease Timeline

**August - October
2020**

Ongoing legal review of
lease agreement between
both parties

Summer 2021

Restaurant opens

November 2020

Council considers vote to
ratify agreement



KEY DEAL POINTS

- Tenant accepts the property is “as-is” condition.
- Lease stipulates that the property is to be used as a sit-down family friendly full-service restaurant. A counter service type restaurant is not permitted
- Lease Commencement is immediately upon lease execution. Morgan Creek Grill’s lease was scheduled to expire last Saturday, October 31, 2020.
- Lease end date is January 31, 2045 to coincide with the expiration of the Marina Joint Ventures lease to allow future generations to re-gain control of the entire marina site.
- Rent Commencement August 1, 2021.
- Base Rent is \$100,000 per year thru 12/31/2024 and increases to \$120,000 in 2025 and increases 2% annually thereafter.



KEY DEAL POINTS CONT.

- The City shall collect “percentage rent” over a breakpoint of \$5,000,000 for years 1-12 and then the breakpoint for “percentage rent” drops to \$4,000,000 thereafter.
 - For every dollar of restaurant sales over the breakpoint the city collects an additional 7%
 - i.e., If sales are \$6,000,000 annually then the city collects an additional \$70,000 per year in years 1-12 and an additional \$140,000 in years 13 and beyond.
 - Additional rent is to be collected quarterly by the City



KEY DEAL POINTS CONT.

- This is a true “triple net lease” where Tenant pays for all expenses associated with the property. Including but not limited to structural and regular maintenance, insurance, property taxes, etc.
- The City has rights to approve the improvements
- Anticipated opening date is summer 2021.
- Personal Guarantee from the Tenant until a certificate of occupancy is delivered. Ensures that at a minimum the city will have an improved building and will be in a much better position in 12 months than the building’s current condition.



VARIOUS METHODS TO VALUE A MARKET RATE DEAL

- **(1) Appraisal:** Restaurant site was appraised 1/16/2020 by Integra Realty Resources. The “as is” and “land only” values as of January 1, 2020= \$2,270,000. Land lease is typically 50 or more years and valued annually 10% of land value = \$227,000. Discounted 50% due to shorter lease term of only 25 years = \$113,500/year in annual rent. City annual rent is \$100,000 in the initial years then jumps to \$120,000 in 2025 with increases *plus* an “Additional rent” provision.
- **(2) Rent as a percentage of Gross Sales:** Typically successful restaurants spend between 5-8% of their expenses on rent and occupancy costs. Average occupancy costs are anticipated to be 5.9% in year one and 6.5% over the life of the lease
- **(3) Price per Square Foot:** According to the Commercial MLS the average restaurant lease completed East of the Cooper was \$23.68/sf in the preceding 12 months. According to Co-Star the average restaurant lease completed East of the Cooper was \$24.00/sf over the same period. After initial period of rate at \$16.15/sf, rent in 2025 is \$19.38/sf and increases 2% annually. These rates do not factor in the structural improvements necessary to the property. Factoring the tenant’s cost of funds to repair and upgrade the building the costs per square foot will be \$47.83/sf in 2022. If sales forecasts are correct in 2029, total rent will be nearly \$40/sf NNN.



ALTERNATE METHOD TO VALUING THE PROPOSED LEASE

- Comparing proposed lease to former lease with Morgan Creek Grill:
 - Value of Proposed Lease with \$5,000,000 in sales in 2022, increasing 2% annually= \$6,263,788
 - Value of Morgan Creek Grill Lease with \$5,000,000 in sales in 2022, increasing 2% annually= \$4,976,448
 - Increased value of new lease over former lease= \$1,250,777.
- MCG's sales in the existing building in 2018 were roughly \$4,350,000. Both the City and the proposed Tenant feel that capital improvements to the site and an improved restaurant experience will enable sales to increase substantially.
- Additional rent was collected annually from MCG, creating an annual payment burden to the Tenant. Additional rent shall be collected quarterly in the proposed lease.

