

MIDTOWN REDEVELOPMENT

MEMORANDUM

Topic: Garson Studios Temporary Lease

Date: 16-August-2023

Purpose. The purpose of this Memorandum (Memo) is to analyze the actual net income generated through a temporary gross lease agreement between the City of Santa Fe (City) and Garson Studios (“Garson”). The City has been leasing to Garson through a short term lease a number of existing buildings on the Midtown Site which have been earmarked for redevelopment including Garson Studios, Alumni Hall, Driscoll, Benildus and Onate (collectively the “Studio.”) The lease between the City and Garson allows for film production uses through license agreements between Garson and production companies.

Background. The Studio buildings at Midtown, are owned by the City. The City entered a temporary gross lease agreement with Garson to generate some income from existing buildings. The City’s property management approach to specific existing buildings at Midtown has been to ensure the buildings were properly maintained so that they were available for reuse (some temporary or permanent) and redevelopment pursuant to the Midtown Redevelopment Plans. To that end, the City’s asset management approach has been to minimize, or not make, major capital replacement investments and allow deferred maintenance to the extent that the buildings were not damaged and remained safe, and secure. Some of the revenues generated from temporary leases has been used to pay for maintenance and other necessary operating expenses. The City has engaged third party vendors and its own facilities department to maintain these buildings. In addition, revenues have paid other needed capital improvement costs for roof and other structural repairs to allow for temporary uses to operate.

Exact operating expenses for the Garson Studio building are difficult to specifically identify since the approach has not been to separate management and maintenance costs by each building. Because the Garson Studios is part of the redevelopment area, and is under a temporary lease, standard net income calculations have not been used that would typically include deductions for: maintenance and repair, insurance, staff, security, property/liability insurance, professional/consulting fees, management fees, refuse removal, and a percentage of existing loan/bond interest.

Net Operating Income (NOI). Net income is the only real measure of the profitability for a property owner. NOI starts with Gross Income, and then considers all the expenses and costs that the property incurs to operate it. Capitalization of NOI is a way of establishing a property’s value. It should be noted that gross income in all years prior to 2022 was less than half of current income. For example, if the City were asset managing the Studio as though it were not in a redevelopment area, the actual income for Sep 2022 to Aug 2023 would look more like this:

It should also be noted that this NOI calculation is at 100% occupancy. Meaning, it does not include an industry standard vacancy rate provision, which might be approximately 10% for this use. The vacancy rate provision would also effectually reduce the NOI, as well.

Garson Studios Temporary Lease Operating Budget	<i>Calcs</i>	\$
Gross Operating Income (1)		\$ 1,434,168.00
Expenses		
HVAC, MEP Maintenance		\$ 150,000.00
Utilities (electric, gas water)		\$ 150,000.00
Security		\$ 50,000.00
Landscaping		\$ 20,000.00
Allocation of Management Staff (Tim, Lee, Sam, Josh)		\$ 100,000.00
Estimated Real Estate Taxes		\$ 150,000.00
Insurance		\$ 50,000.00
Total Operating Expenses		\$ 670,000.00
Net Operating Income before Reserves		\$ 764,168.00
Less Capital Reserve - typically 8-10% of Gross Income (2)	<i>8% of Gross Income</i>	\$ 114,733.44
Less Tenant Improvement Reserve (3)	<i>\$2.50 psf/yr</i>	\$ 275,000.00
Net Operating Income (NOI)		\$ 374,434.56

NOTES

(1) Gross Income from Licenses includes Garson, Alumni, Driscoll, Benildus

Gross SF of all buildings is approximately 110,000

(2) Capital Reserve standard for long-term replacements, such as HVAC, MEP systems; specific to Midtown buildings: disconnection from public utility grid, roof repairs, windows, patch/paint wear and tear, etc.

(3) Tenant Improvements Reserve standard for carpet, paint, FF&E and minor renovations for support of intended use