



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: January 15, 2008
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Meeting Date: January 29, 2008

TO: Vancouver City Council

FROM: Director of Real Estate Services in consultation with the Director of Financial Planning and Treasury and Director of Legal Services

SUBJECT: Lease of Gastown Parkade
142/160 Water Street and 151 Cordova Street

RECOMMENDATIONS

- A. THAT Council authorize the Director of Real Estate Services to enter into lease negotiations with Eco Fitness Limited Partnership as tenant, and the City as Landlord, for approximately 31,544 square feet of the Gastown Parkade commercial premises on terms and conditions acceptable to the Directors of Real Estate Services and Legal Services.
- B. THAT Council authorize the Director of Real Estate Services to lease the remainder of the Gastown Parkade commercial premises, approximately 72,456 square feet, to the market, at market lease rates, but subject to further Council Approval.
- C. THAT Council authorize the Director of Real Estate Services to issue a Request for Proposals for a consultancy contract for Architectural services, estimated at a cost of \$100,000, to assess demising options for the premises and evaluate potential Tenant Improvement Costs; source of funds to be the PEF.

All of the foregoing to be on the basis that no legal obligations shall be created hereby and none shall arise until all further relevant documents, drawn to the satisfaction of the Director of Legal Services, are executed by her on behalf of the City.

GENERAL MANAGER'S COMMENTS

The General Manager of Corporate Services RECOMMENDS approval of the foregoing recommendations.

CITY MANAGER'S COMMENTS

Real Estate Services issued a Request for Proposals (RFP) for the re-tenanting of the commercial premises at the Gastown Parkade. The RFP was issued on July 3, 2007 with Respondent submissions required by September 7, 2007.

A total of 26 RFP documents were issued to interested parties with a total of 3 Respondent submissions received by the Closing Date. A number of other tenant expressions of interest were submitted to the City after the RFP Closing Date, but Staff has not advanced such interest yet as the legal provisions of the RFP currently govern. Staff will follow-up with these potential tenants now that the RFP process has been formally concluded. Real Estate Services has reviewed each submission in detail considering "*Requirements for Proposal*", "*City's Guiding Objectives*" and "*Evaluation Criteria*", all as outlined as mandatory requirements of the RFP document.

Real Estate Services recommends entering into lease negotiations with Eco Fitness Limited Partnership, one of the RFP Respondents, for the purpose of reaching final terms of a Lease Agreement.

If City Staff are satisfied with the outcome of the lease negotiations with Eco Fitness Limited Partnership a Council Report will be brought forward seeking Council's approval to authorize Staff to finalize and execute a Lease Agreement. Should negotiations not proceed to the Director of Real Estate Services' satisfaction, the entire Gastown Parkade retail space will be offered to the market on a lease basis at market rates.

The City Manager supports the above recommendations which are consistent with the RFP process and required to bring it to a successful conclusion.

COUNCIL POLICY

On July 28, 1998, Council confirmed principles to provide general guidance to actions and planning in the Downtown Eastside, Chinatown, Gastown and Strathcona areas which included encouraging legitimate commercial activity, improving conditions at the street level, improving or replacing existing Single Room Occupancy (SRO's), reducing crime and helping community people find allies and seek a common future.

Consulting Contracts over \$30,000 are to be authorized and awarded by Council.

The Director of Real Estate Services can approve leases and lease renewals

- if the total value is less than \$250,000
- if the term is no more than ten years (including renewal options)
- Director of Finance to approve the material terms of the Commercial Lease
- Larger or longer leases require Council approval

The proposed lease exceeds the total value of \$250,000 which can be approved by the Director of Real Estate Services and is therefore submitted to Council for approval.

PURPOSE

The purpose of this Report is to seek Council's approval to enter into lease negotiations with Eco Fitness Limited Partnership as selected Respondent to the RFP call. Further, Council is being asked to approve staff's recommendation to offer the balance of the commercial premises to the market on a "For Lease" basis. Additionally, Staff is requesting Council's approval to contract an Architectural Consultant to assist in the analysis of demising options for the premises and evaluate potential Tenant Improvement Costs. These services are required to optimize the re-demising of the former Storyeum space to accommodate future tenant electrical, mechanical, plumbing, etc. requirements for space planning.

BACKGROUND

The City is the owner of the Gastown Parkade which services the Gastown heritage area and any future development on the Woodward's store site.

The prior tenant, "HXP Inc." and its parent company, Historical Xperiences Inc., doing business as "Storyeum", filed for bankruptcy protection on August 18th, 2006. Unfortunately HXP Inc. was unable to restructure in any meaningful way and consequently had no choice but to declare themselves' insolvent.

As a result of their inability to restructure, the City had no reasonable alternative other than to terminate their lease at the Gastown Parkade. Further to Council's direction, the lease was terminated effective November 12th, 2006. On November 15th, 2006, at the City's request, the Court appointed Price Waterhouse Cooper, (PWC), as Receiver.

The Receiver filed their second and final report in April 2007. Shortly thereafter, the premises were returned to the City's care and conduct.

On March 1, 2007 Council approved Administrative Report RTS No. 6533, which recommended that the Director of Real Estate Services proceed with the re-tenanting of the former Storyeum premises, approximately 104,000 square feet, by way of a commercial Request for Proposals (RFP) call.

Accordingly, Real Estate Services, in consultation with the Law Department, prepared and issued the RFP on July 3, 2007. Respondents were requested to submit their proposals by September 7, 2007.

During the RFP period, Able Auctions was contracted to hold an on-site auction of the chattels and trade fixtures the City received as part of the insolvency proceedings. The auction was held in August 2007 with the majority of the goods being sold. Removal of the sold items and clean-up of the premises is ongoing. Net proceeds of sale totalled \$85,000 in addition to the City taking title to over \$4,000,000 of fixed improvements.

In the interest of covering the City's holding costs during the RFP period portions of the premises have been used by a variety of short-term users requiring space. The film industry has taken advantage of the location, the Danish Consulate rented the Water Street frontage for an exhibit, and many others are in discussion with the City, including Olympic Operations and the ERT for police training purposes.

RFP RESPONDENTS SUBMISSION SUMMARY

Qualifying submissions were received from the following:

1. Downtown Eastside Residents Association
2. Eco Fitness Limited Partnership
3. Xcalibur Bowling & Entertainment Ltd.

Each RFP Respondent was requested to address the *"Requirements for Proposal"* and additionally document how they would meet the *"City's Guiding Objectives"*, which are;

"The objective of the City is to select a use, or uses, that will contribute to the continued revitalization of the Gastown area and provide a market financial return to the City, as well as support local businesses and residents".

Each Proposal was evaluated using the established *"Evaluation Criteria"* set out in the RFP:

- a) Overall Vision and Use: principal use of the Property, and additional activities, programs and services that benefit the community and enhance the Property;
- b) Financial Return: lease rate and overall financial return to the City;
- c) Financial Covenant: the ability to meet all Lease Agreement financial obligations, including rent, operating expenses, payments in lieu of property taxes, and maintenance costs, and the financial capacity to fund specific Tenant improvement works;
- d) Project Timing: the earliest date for the commencement of business operations of the Respondent;
- e) Community Support: the level of support for key Gastown area stakeholders, and strategies to help realize employment, training and business spin-off opportunities for local residents;
- f) Hours of Operation: the extent to which the hours of operation under the proposed tenancy reduce the occurrence of property crime and increase the general level of neighbourhood security in the Gastown area; and
- g) Business History, Reputation and Leasing Experience: the extent to which the Respondent's business history, reputation and leasing experience will be an asset to the proposed tenancy.

The results of the RFP submissions are summarized in Appendix A.

FINANCIAL IMPLICATIONS

The consultancy contract to be let has an anticipated cost of \$100,000. Funding for this cost will be the PEF and it is expected these costs will be recovered from rent paid by the new tenants.

CONCLUSION

In order to conclude the RFP process and make a final recommendation to Council for the re-tenanting of a portion of the Gastown Parkade premises, Council authority is required to enter into lease negotiations with Eco Fitness Limited Partnership. Additionally, in order to properly assess the financial implications of demising the premises, and consider specific tenant improvement costs, professional consultants are required to expedite the re-tenanting of this important City asset.

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Requests for Proposals
for the tenanting of the Gastown Parkade Premises

Submission Summaries

The results of the RFP are herein summarized as follows:

1. Downtown Eastside Residents Association

Requirements for Proposal

- (a) Proposed Use: 24-hour homeless shelter and community centre.
- (b) Portions of Property: Entire facility.
- (c) Lease Terms: Nominal rent, un-defined term, start-up costs borne by reallocation of \$500,000 VANOC has budgeted for homelessness during 2010 Olympic games.
- (d) Commencement Date: November 1, 2007.
- (e) Lease Amendments: None addressed.
- (f) Tenant's Reputation: Proposal presented by DERA on behalf of the citizens of the Downtown Eastside.
- (g) Financial Covenant: Not addressed.
- (h) Ref./Rental History: Not addressed.

City's Guiding Objectives

- (a) Financial Return: "...will provide sufficient savings to the City by lessening the heavy financial demand on social and municipal services".
- (b) Business Climate: Low-income residents will be off the street. Provide work space/retail for local arts and crafts.
- (c) Increase Tourism: Street-level retail will extend local shopping experience.
- (d) Parkade Use: Not addressed.
- (e) Attract Businesses: Not addressed.
- (f) Street Enhancement: Provide a greenway entrance to premises in the lane between the two buildings. Energize the streets with activity by having the premises populated.
- (g) Business Cycle: Operation of a 24-hour facility will result in less low-income residents loitering on city streets and near local businesses.
- (h) Pedestrian Activity: Increased activity resulting from street retail window displays featuring local unique arts and crafts, etc.
- (i) Enhance "GBIS": Not addressed.
- (j) Promote Art/Culture: Provide work space/retail for local arts and crafts. Offer products for sale along retail frontages.

- (k) Create Opportunities: Create many opportunities for local residents to maintain facility, provide local labour pool, create art and associated retail opportunities.

Evaluation Criteria

- (a) Overall Vision and Use: Get the low-income residents off the streets. Create a caring, well-managed respectful shelter for the most disadvantaged of the local residents. Operate in a fiscally responsible manner with those residents working contributing financially.
- (b) Financial Return: Gastown Parkade will provide a financial return to the City by its cost-effectiveness in effecting cost savings by reducing monies spent on crisis management, criminal justice, policing, municipal resources and healthcare.
- (c) Financial Covenant: Gastown Parkade will project that it will be financially self-sufficient.
- (d) Project Timing: As soon as possible, preferably before the cold weather season.
- (e) Community Support: Attain community support by getting low-income residents off the streets and providing employment opportunities for them at the facility. Additionally, it is anticipated local businesses could draw on a readily available and identifiable local labour pool.
- (f) Hours of Operation: 24-hours per day. There will be a hotel lobby-like area that will function as a community centre and meeting place for residents. Many residents will be engaged in meaningful activities such as art and related retail opportunities.
- (g) History/Experience: The facility would be managed by DERA with input from the homeless community using the most progressive business models available for modern concept shelters.

2. Eco Fitness Limited Partnership

Requirements for Proposal

- (a) Proposed Use: Multiple-concept fitness complex with related retail and office uses.
- (b) Portions of Property: Approximately 31,544 sq.ft., representing the upper floor Cordova Street side.
- (c) Lease Terms: Years 1 - 5 @ \$18.00 per sq.ft. Years 6 - 10 @ \$20.00 per sq.ft., plus taxes and operating costs capped at \$5.00 and \$1.50 respectively, per sq.ft. for 1st year of term. Requesting 180 days Fixturing Period gross rent free and 180 days basic rent free thereafter.
- (d) Commencement Date: End of Fixturing Period. Possession Date of January/February, 2008 requested.
- (e) Lease Amendments: Landlord's form subject to mutual agreement.

- (f) Tenant's Reputation: Eco Fitness has operated since 2002. The ownership and management have over 15 years experience in the industry.
- (g) Financial Covenant: Two-year personal guarantee by principals.
- (h) Ref./Rental History: Landlord and Business references provided.

City's Guiding Objectives

- (a) Financial Return: Provide approximately \$750,000 revenue to the City per annum for 1st five years of the term.
- (b) Business Climate: Anticipate the facility will average 25,000 visits per month by their members, many of whom will frequent other businesses in the local area.
- (c) Increase Tourism: Proximity to major hotels and convention centres will provide clients looking for a full-service quality fitness centre, many of whom will tour and shop Gastown at the same time.
- (d) Parkade Use: Tenant has requested 100 dedicated spots for 2 hr. validated customer parking included in the rent. Customers remaining beyond 2 hrs. to pay the City at regular parking rate as established by Parkade operator.
- (e) Attract Businesses: Increased foot traffic, drawing people to neighbourhood and animating street frontage will help transform area and make new businesses more viable.
- (f) Street Enhancement: Animate Cordova Street frontage.
- (g) Business Cycle: Operation of a 24-hour 7-day per week facility.
- (h) Pedestrian Activity: Anticipate 25,000 member visits per month thus increasing pedestrian activity in the area significantly.
- (i) Enhance "GBIS": Eco Fitness would be an active member of GBIS.
- (j) Promote Art/Culture: Donate wall space to student produced art. Offer rehearsal space in non-peak hours to students. Employ dance students to teach kid and teen programs.
- (k) Create Opportunities: Develop corporate wellness programs and membership discounts. Eco Fitness to commit to specific strategy, in consultation with community stakeholders.

Evaluation Criteria

- (a) Overall Vision and Use: Create a world class multiple-concept fitness complex with related retail and office uses. Uses to include, fitness gym, yoga, spa services and a daycare.
- (b) Financial Return: Provide approximately \$750,000 revenue to the City per annum for 1st five years of the term and approximately \$850,000 per annum for 2nd five years of term.
- (c) Financial Covenant: Two principals of Eco Fitness to personally guarantee the Lease for the 1st two years.

- (d) Project Timing: Possession date January 1, 2008 with operations commencing within 180 days.
- (e) Community Support: Offering a well run, eco friendly operation in a safe environment complete with daycare facilities. Offering space to students to display art and teach classes.
- (f) Hours of Operation: 24-hours per day, 7-days per week.
- (g) History/Experience: Significant experience and history in setting-up and operating these types of facilities. Currently owns and operates two similar facilities in the United States.

3. Xcalibur Bowling & Entertainment Ltd.

Requirements for Proposal

- (a) Proposed Use: 48 Lane Bowling Center, Retail/Community Use Amenities, Restaurant/Sports Bar/Lounge, Youth Lounge, Coffee Bar and Daycare.
- (b) Portions of Property: Entire facility.
- (c) Lease Terms: Based on a Percentage Rent Formula as follows;
Years 1 - 3 @ 7% of Gross Revenue. Years 4 - 6 @ 9% of Gross Revenue. Years 7 - 10 @ 11% of Gross Revenue. Relates to a projected Gross Annual Rental amount of 355K, 368K, 391K, 523K, 542K, 601K, 768K, 802K, 827K, 854K.
Requesting 1-year Fixturing Period gross rent free.
- (d) Commencement Date: 1st Quarter of 2008 requested.
- (e) Lease Amendments: None addressed.
- (f) Tenant's Reputation: Xcalibur is well respected operating since 2001 in their current Surrey location. Strong Management team lead by Ms. Cathy Innes, who is President of Canadian TenPin Federation.
- (g) Financial Covenant: None provided.
- (h) Ref./Rental History: None provided/Current Surrey location since 2001.

City's Guiding Objectives

- (a) Financial Return: Provide approximately \$600,000 revenue to the City per annum, (avg. of 10 year total).
- (b) Business Climate: Bowling is a known and proven business, not just a fad. Bowling is a year round activity that draws from all age groups and income brackets. It is considered a "destination activity" attracting customers from the immediate and surrounding areas.
- (c) Increase Tourism: This location will support tourism not just from the Bowling perspective but due to the other uses included in the facility, such as full service restaurant, and sports bar/lounge.

- (d) Parkade Use: Tenant has requested 30 dedicated staff stalls, at a negotiated monthly rental amount. It is anticipated many of the visitors to the Bowling Centre will utilize the Parkade.
- (e) Attract Businesses: Bowling will complement surrounding growth and businesses by offering a much needed recreational alternative, daycare services and two food/beverage options.
- (f) Street Enhancement: Intent is to create a "family" appeal. This will be a first-class facility maintained to the utmost degree with significant presence on both Water and Cordova Streets.
- (g) Business Cycle: Open all year, except on Christmas Day. Proposed hours of operation are from 9:00 A.M. to 2:00 A.M. for Monday to Thursday and until 4:00 A.M. on Friday to Sunday.
- (h) Pedestrian Activity: Anticipate significant pedestrian activity especially due to the multi-use concept and long operating hours.
- (i) Enhance "GBIS": Not addressed.
- (j) Promote Art/Culture: The Centre will provide several wide-screen displays to showcase multi-media displays and postings of community events. Additionally, there will be ample room for local artists to showcase traditional art within the restaurant and lounge.
- (k) Create Opportunities: Management will be active in the community by offering subsidized bowling to schools, particularly those in East Vancouver and Chinatown. In addition, management will apply to Vancouver School Board to recognize bowling as part of its curriculum for the Physical Education program.

Evaluation Criteria

- (a) Overall Vision and Use: The Xcalibur Gastown operation will be one of the largest bowling and entertainment facilities in the Lower Mainland which caters to families. It will be modern, well managed and provide an affordable alternative to families seeking recreation, 364 days a year.
- (b) Financial Return: Provide approximately \$600,000 revenue to the City per annum, (avg. of 10 year total).
- (c) Financial Covenant: Not addressed.
- (d) Project Timing: Tenancy awarded 1st Quarter 2008. Design and Engineering summer 2008. Begin Construction fall 2008. Test launch summer 2009. Opening fall 2009.
- (e) Community Support: The Gastown Centre will adapt current programs already set-up at the Surrey location. This to include bowling for elementary schools, senior programs, discounts for low-income kids and Big Brothers. In addition reduced rates and promotional offers for community sports teams, and many worthwhile charitable organizations, etc.
- (f) Hours of Operation: 24-hours per day, 7-days per week.

- (g) History/Experience: Currently operate a successful and well respected facility in Surrey since 2001. Very good management team with significant experience in this field.

The City appreciates the time and effort expended by the Downtown Eastside Residents Association and Xcalibur Bowling & Entertainment Ltd. in the preparation of their RFP submissions, but the Director of Real Estate Services is not prepared to recommend either of these Respondents to Council as tenants for the Gastown Parkade. Neither of these proposals met the financial return requirements of the RFP and it is the Director of Real Estate Services opinion that the uses would be expensive and impractical for the City to implement. The current design, zoning, and built form condition of the premises would be prohibitive challenges to implementing the proposed uses of a homeless shelter and bowling alley, respectively.