



ADMINISTRATIVE REPORT

Report Date: October 24, 2013
Contact: Brenda Proskan/Richard Newirth
Contact No.: 604.871.6858/
604.871.6455
RTS No.: 10258
VanRIMS No.: 08-2000-20
Meeting Date: November 5, 2013

TO: Vancouver City Council

FROM: General Manager of Community Services in consultation with the General Manager of Real Estate and Facilities Management

SUBJECT: Wall Production Centre - 162 West 1st Avenue Cultural Amenity Lease Approval and Capital Grant

RECOMMENDATION

- A. THAT Council approve Bard on the Beach Theatre Society (“Bard”) and Arts Club of Vancouver Theatre Society or the Arts Club of Vancouver Theatre Building Society (“Arts Club”) as not-for-profit tenants of the future City-owned air space parcel at 162 West 1st Avenue, Vancouver, legally described as: Air Space Parcel 1, Block 10, District Lot 200A, Group 1, New Westminster District, Air Space Plan EPP25068 (the “Premises”).
- B. THAT Council authorize the Director of Real Estate Services, upon the City obtaining ownership of the Premises, to negotiate and execute leases (the “Leases”) with Arts Club and Bard as two separate tenants of the Premises on the following terms and conditions and as set out in the basic lease terms attached as Appendix A, and upon such other terms and conditions to the satisfaction of the Director of Legal Services in consultation with the General Manager of Real Estate and Facilities Management and the Managing Director of Cultural Services:
 - i. Term: Sixty (60) years commencing on the registration of each Lease in the Land Title Office;
 - ii. Basic Rent: Nominal Rent of Ten (\$10.00) dollars for the term of each Lease (inclusive of payment in lieu of property taxes), plus applicable taxes.

- C. THAT Council approve up to \$7 million in capital funding to be provided as a capital grant to the Arts Club and Bard for the improvements to the Premises, subject to the terms and conditions necessary to complete the project to the satisfaction of the Managing Director of Cultural Services and the Director of Facilities Planning and Development; source of funds to be \$7 million from the 2014 Capital Budget subject to approval of the 2014 Capital Budget.
- D. THAT no legal rights or obligations be created or arise by Council's adoption of these Recommendations until each Lease has been executed by all parties and the terms and conditions of the capital grant are finalised.

Recommendations B and C authorize grants requiring eight affirmative votes of Council.

REPORT SUMMARY

This report recommends that Council authorise staff to enter into nominal leases with both Arts Club and Bard as tenants (the "Tenants") of a new cultural amenity space at 162 West 1st Avenue in Southeast False Creek to be developed as a performing arts production centre and performance space, as per the terms provided in this report. Staff also recommend that the City fund capital infrastructure costs for the Premises including mechanical and electrical services, plumbing, elevator cab, infilling of floors and interior demising walls up to a maximum of \$7 million in the form of a capital grant to the not-for-profit Tenants.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Pursuant to Section 206(1) (a) of the Vancouver Charter, not less than two-thirds of all members of Council must approve a resolution for a grant to a charitable institution. A lease of City-owned property at less than market rent is also considered to be a grant. Both Arts Club and Bard are charitable organizations registered with Canada Revenue Agency and are charitable institutions to which Council may make a grant.

In July 2006, Council approved (RTS 05953) a cultural amenity bonus for a rezoning at 102 to 160 West 1st Avenue (now 162 West 1st Avenue) (the "Development") for the design and construction by the owner, Wall Financial Corporation, for a 4,081.79 m² (43,936 sq. ft.) shell space designed to accommodate a theatre and performing arts production centre to be transferred to the City in the form of an air space parcel for a nominal purchase price (\$1.00) upon completion and upon the City exercising an option to purchase.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

By supporting the recommendations in this report, the City will support a partnership with the two largest theatre companies in Western Canada that have the capacity to develop and sustainably operate what will become a substantive performing arts facility. The City's financial support will also leverage significant infrastructure funding from senior levels of government and private donors, shared services and significant community benefit.

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

REPORT

Background/Context

In 2008 Vancouver's Culture Plan was adopted by City Council outlining the City's vision, goals and priorities for arts and culture in Vancouver. Cultural facilities are essential to every community and ensuring access to appropriate and affordable facilities in Vancouver's rapidly developing real estate market is a challenge, particularly for the non-profit sector. A key City arts and cultural priority is to actively build partnerships to support affordable, sustainable long-term facilities for our arts and cultural community.

Across from "The Village on False Creek" (formerly the Olympic Village), the Premises occupies most of the first two floors of two towers in the Development which is of mixed-use containing close to 550 residential units in four towers. Secured through a major rezoning in 2006, the 43,936 square foot Premises were designed to accommodate a performing arts production centre and performance space to be operated and used by a Vancouver based not-for-profit theatre company. The City secured an option to purchase the Premises as part of the rezoning for the Development. It is anticipated that by mid November 2013, the developer, Wall Financial Corporation, will have transferred ownership of the Premises to the City in the form of an air space parcel.

The Premises have been specifically designed to accommodate a 250 seat theatre (including box office, dressing and green rooms), large rehearsal halls, costume and props shops, and ancillary offices and storage but will be provided to the City as a large unfinished concrete shell without any services installed. In the areas designed for the theatre, rehearsal halls and carpentry shop, the ceiling height is double (26 feet) and free of obstructions.

Along West 1st Avenue there is 250 linear feet of glass "storefront" including a massive double height glass "curtain wall" which is the entire face of the large open concept theatre lobby. Twenty underground parking stalls are included as well as a shaft for a future elevator for the sole use of the amenity space. The developer has recently completed the construction of the shell space.

In the summer of 2012 staff conducted an open tenant selection process for this cultural amenity space resulting in selection of a joint proposal by the Arts Club, Bard and First Pacific Theatre Society (as detailed in a July 25, 2012 memo to Council). During the fall of 2012 the proponents conducted a collaborative feasibility planning process, including a detailed space plan, capital cost estimates, operational planning, implementation and construction timeline, space governance and fundraising analysis and planning.

The space use plan, developed by Proscenium Architects matches the design and intended use of the Premises as determined during the rezoning process. It includes all of the originally planned spaces and also recommends infilling the double height volumes to expand and improve the Premises by adding two additional needed rehearsal spaces. The infill would add 4,394 square feet for a total area of approximately 48,330 square feet.

In late 2012, based on the feasibility results, First Pacific Theatre Society decided not to proceed with tenanting the theatre space in the Premises due to organizational timing. Arts Club and Bard investigated other options in early 2013 which resulted in a revised plan which would have the Arts Club leave the similar sized Revue Stage (not the Granville Island Stage) leased in Granville Island and operate the theatre portion of the Premises to be shared with Bard and available through rentals to other performing arts organizations for close to half of the available time. The new theatre at 162 West 1st Avenue would benefit from a successful operating model, existing theatre equipment that can be repurposed for the new venue, and a significant increase in the amount of time the theatre space would be available for rentals to other performing arts groups.

Strategic Analysis

The plan to bring together Western Canada's largest most established theatre companies, with significant operating, administrative and fundraising capacity is a positive opportunity to collaborate, co-locate, share resources and develop community capacity. With complementary mandates, Arts Club and Bard envision a collaborative "theatrical hub" that includes shared services, a vibrant community program and a commitment to making space available to the arts and cultural community.

As the largest most distinguished theatre company in Western Canada, Arts Club is celebrating its 50th season and with over 700 performances a year with close to a quarter million people in attendance. With an annual operating budget of approximately \$13 million, the Arts Club manages three stages (two leased, one owned) a production centre, a ticketing and call centre and various other ancillary spaces. The plan will see the Arts Club leaving the similar sized Revue Stage. They will then consolidate and co-locate a number of ancillary activities and rehearsal space the company currently rents for roughly the equivalent of their anticipated operating costs for the new space. Additional revenues will be sought to off-set any additional costs including expanded donor and foundation support for new community engagement programming, increased bar revenue and increased rentals. Other more qualitative benefits such as greater efficiency in costume production and rehearsals will also be achieved.

Known for its large Shakespeare festival in Vanier Park, Bard is the second largest theatre company in Western Canada. In its 24th season, Bard presents 208 performances a year to an annual audience of 85,000 people. Bard's most pressing need is to replace and co-locate rehearsal and costume shop space (formerly rented from the Vancouver Playhouse Theatre Company) and to consolidate adhoc short term leases scattered throughout the city which includes a main office and storage. The new space operating costs would be covered by discontinuing existing rental space and generating additional revenue. In the new space, Bard anticipates that estimated new revenues will exceed the anticipated additional expenses. For example, a new multi-year partnership with the Vancouver International Wine Festival has confirmed annual funding of a scale equal to the incremental cost increase. In 2013, new dynamic ticket pricing and expanded audience services have increased patron experience and are having a positive impact on average patron spending. Expanded rentals in the new space for costumes, props and rehearsals, which will be available for up to eight months of the year, are also expected to increase revenues.

By replacing six locations scattered throughout the city several of which are adhoc or have been lost, the new facility will provide a needed long term home that both integrates the various services and activities for both organizations. It will also become home to between 80 and 150 staff, depending on the season, ranging from wardrobe to production to box office staff. This combination will then provide a further benefit to the broader theatre community through co-operative programming, theatre and rehearsal rentals, an important costume and prop shops and expanded public and youth programming will provide a significant community benefit.

This plan addresses several of Vancouver’s cultural space priorities including supporting the development of co-location facilities that integrate multiple organizational functions in one location, expanding artist production spaces in Mount Pleasant, (particularly rehearsal space) and addressing the demand for high-quality, dedicated performance spaces under 250 seats to ensure the ongoing incubation of new works and emerging organizations.

Terms of Lease

Once the City owns the Premises, and should Council approve Recommendation B, the City would enter into two separate leases for portions of the Premises: one with Bard for approximately 16,300 square feet for rehearsal halls, office and costume shop; the second with the Arts Club for approximately 32,000 square feet which includes the theatre, green rooms, lobby, props, costumes, storage, rehearsal halls and offices. The final space allocation will be determined prior to execution of the Leases. In these Leases, the City may also grant licenses to each Tenant for shared space. Both Leases would have the same terms and conditions but would separate the Tenants’ responsibility for specific leased areas within the Premises. Separate agreements between Arts Club and Bard will be put into place by the not-for-profits to govern joint fundraising, construction and management of the Premises. City Facilities Planning and Development will provide oversight during construction. The basic terms for each Lease are set out in more detail in Appendix A.

Financial Implications

Capital

The Premises were secured as in-kind CAC valued at \$7.6 million to accommodate a performing arts production centre and performance space, and will be delivered to the City in the form of a concrete shell requiring additional capital infrastructure improvements at an estimated cost of \$9.4 million (hard and soft costs). The total capital costs of the Premises, including the in-kind developer contribution is estimated at \$20.4 million as illustrated in Table 1 below.

Table 1: Estimated Capital Costs & Funding Strategy

Capital Costs	Total Costs (\$M)
Shell Building (in kind by developer)	\$7.6M
Capital Infrastructure Improvements	
- Hard Costs	\$7.3M
- Soft Costs	\$2.1M
- Fit-out, Furnish & Equipment	\$0.7M
- Fundraising Costs	\$0.3M

- Moving & Temporary Facilities	\$0.2M
- Theatre Lighting & Seats	\$1.0M
- Project Contingency	\$1.2M
\$20.4M	
Funding Sources	Total Contributions (\$M)
City of Vancouver	
- Shell Building (in kind by developer)	\$7.6M
- Capital Infrastructure Improvements	Up to \$7.0M
Arts Club & Bard	
- Senior Governments & Private Donations/Sponsorships	\$5.8M
\$20.4M	

Besides offering a 60-year lease on the Premises at nominal rent, staff recommend that a capital grant of up to \$7 million be provided to the Tenants towards capital infrastructure improvements. It has been City practice to provide amenity spaces that are built out for non-profit partners where appropriate. The City's overall contribution (up to \$14.6 million) would help leverage further financial support from senior governments and private donors and sponsors (\$5.8 million); that is, for every \$1 of City contribution, an additional \$0.4 of external funding would be leveraged. Source of funds for the capital grant would be the 2014 Capital Budget subject to Council approval of the 2014 Budget in December 2013.

In an effort to secure senior government funding, the Tenants contemplate to apply to the Canada Cultural Spaces Fund program administered by the Department of Canadian Heritage. To be eligible, the Tenants need to demonstrate the City's commitment to lease the Premises and that at least 50% of the capital infrastructure improvements, fit-out, furnish, equipment and other project costs have been secured. The funding request to the Canada Cultural Spaces Fund program will likely be submitted in phases over two fiscal years.

Given the anticipated project timeline and matching funding requirements, staff recommend that the City's capital grant of up to \$7 million be distributed in installments with the first installment of up to \$3.5 million to cover design and development, and installation of basic capital infrastructure improvements such as mechanical, electrical, plumbing and elevator that are non-tenant specific. The amount and timing of subsequent installments will be determined based on final construction costs, project schedule, and confirmation of external funding secured.

Disbursement of the capital grant will be subject to the terms and conditions to the satisfaction of the Managing Director of Cultural Services, Director of Facilities Planning and Development, and Director of Finance.

Operating

The Premises would be leased to the Tenants at nominal rent for 60 years (inclusive of rent in lieu of property taxes). The Tenants would be responsible for their operating costs and applicable facility-related costs as outlined in Appendix A. Their proforma indicates that their financial ability to jointly operate the Premises comes from anticipated increases in

facility, prop and costume rental revenues and additional fundraising effort. The City will not be providing further financial guarantees.

Upon taking ownership of the Premises (anticipated in mid-November 2013), the City will be responsible for all operating costs for the Premises and such cost responsibilities will be fully transferred to the Tenants when the Premises are operational and occupied by the Tenants. During the interim construction period, operating cost responsibilities will be allocated between City and the Tenants per Table 2 below.

Table 2: Operating Costs - Responsibility and Timing

	2013 City Obtains Ownership from Developer	2014- 2015 Tenants Start Construction	2015/16 Tenants Occupy Premises
Common Area Maintenance Costs	City	City	Tenants
Operating Costs, Utilities, Repairs, Routine Maintenance	City	Tenants	Tenants

The City will fund the common area maintenance costs until the Tenants have completed the capital improvements and are occupying and operating in the Premises. These costs are for shared services provided by the development and are estimated to be in the range of \$100,000 to \$130,000 per annum (\$2.00 to \$2.75 per sq. ft. subject to refinement as the Premises become operational and stabilized in the first two years). Source of funds for 2014 would be the 2014 Operating Budget subject to Council approval in December 2013; and any necessary funding for 2015 will be addressed as part of the annual budget process.

Capital Life Cycle Replacement Costs

The City will maintain responsibility for the life cycle replacement and capital maintenance which will be prioritized as part of the Capital Planning and budgeting process. The responsibility for all capital costs associated with the mechanical, electrical and plumbing systems and other capital costs including those associated with the building envelope and any structural components of the building such as foundation and slab will be as set out in a Service Level Agreement to be attached to and forming part of the Lease and otherwise as specifically provided for in the Lease, all on terms and conditions satisfactory to the City.

CONCLUSION

Building partnerships to support affordable, sustainable long-term facilities for our arts and cultural community is a key strategic direction for Vancouver. Enabling Arts Club and Bard to develop and operate a new collaborative “theatrical hub” that includes a vibrant community program and services that will be shared with the broader community offers a rare opportunity to transform Vancouver’s theatre infrastructure.

Arts Club and Bard have the operational and financial capacity to develop and sustainably run the proposed space and provide a significant community benefit. Staff therefore recommend

entering into nominal leases with both Arts Club and Bard for the Premises and that the City finance capital infrastructure costs to leverage additional funding and to bring it in line with other City owned cultural amenity spaces.

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Basic Lease Terms For The Cultural Amenity Space
At
162 West 1th Avenue (The “Premises”)
Between
The City of Vancouver (The “Landlord”)
And
Arts Club of Vancouver Theatre Society or Arts Club of Vancouver Theatre Building Society
And
Bard on the Beach Theatre Society (The “Tenants”)

Use

The Premises are to be used for the operation of a not for profit arts and cultural facility that may include performance, exhibition, rehearsal and arts production for the benefit of the public. Any ancillary use of the Premises should support the operations of the intended use of the Premises as described above.

Lease Term and Renewal Options

Sixty (60) years commencing on the date that each Lease is registered in the Land Title Office.

Rent

Nominal rent of Ten Dollars (\$10.00) for the term of each Lease inclusive of payment in lieu of property taxes, plus applicable sales taxes.

Municipal Utility Charges

All Municipal Utility Charges serving the Premises are payable by the Tenants commencing the date on which the Tenants commences construction.

Directly Metered Utilities

The Tenants will be responsible for any and all costs and obligations associated with metered utilities directly serving the Premises commencing the date on which the Tenants commences construction.

Common Area Maintenance Costs

The Tenants will be responsible for any common area maintenance costs for the Premises commencing on the date in which the Tenants are occupying and operating the Premises. If the tenants are occupying and operating only a portion of the Premises (for example the Theatre is under construction but the rehearsal halls, costume, props and office space are operational) the Tenants will be responsible for paying the common area maintenance costs for the portion of the Premises that is operational.

Operating Costs, Repairs and Maintenance

All costs, obligations and expenses related to the operation, regular repairs and routine maintenance, and any required preventative maintenance of the Premises will be the responsibility of the Tenants commencing the date on which the Tenants commences construction.

Capital/Life Cycle Replacement Costs

The responsibility for all capital costs associated with the mechanical, electrical and plumbing systems and other capital costs including those associated with the building envelope, including the roof membrane, wall membrane, exterior painting, and any structural components of the building such as foundation and slab will be as set out in a Service Level Agreement to be attached to and forming part of the Lease and otherwise as specifically provided for in the Lease, all on terms and conditions satisfactory to the City.

Insurance

The Tenants are responsible at all times for maintaining commercial general liability insurance and all risk (broad form) tenants' legal liability insurance, as well as insuring for equipment, trade fixtures, furniture and all other contents, in the amounts and types of insurance to the satisfaction of the Landlord. The Landlord will be named as additional insured on each and every policy. The Tenants will also be responsible for maintaining course of construction insurance during their fixturing period.

Third Party Use

Other than as provided for herein the Lease will include a clause that restricts the Tenants' right to assign, sublet, grant a mortgage or license to another party, without advance written permission by the City. The Tenants will be permitted to license all or part of the Premises to other third parties for occasional use in accordance with an occasional third party use policy that will form part of the Lease.

Naming Rights

Each Lease will require the Tenants to follow the City's *Naming Rights Policy*, including potential restrictions on the right to name the Premises. *Note: under current City Naming Rights Policy, external naming of City owned buildings requires Council Approval.*

Termination and Early Termination

Each Lease will include an early termination clause which provides that each Lease may be terminated by the City if the capital funding required by each Tenant to complete the tenant improvements has not been secured and construction of the tenant improvements is not ready to commence within three years of commencement of the Lease or such date as the parties may otherwise agree, and following termination, the City may develop, sell, lease or otherwise dispose of the Premises at its discretion without any further obligation to the Tenants.

Additional Lease Terms

All additional terms and conditions and any variations of the foregoing as required by the Director of Legal Services and the Director of Real Estate Services in consultation with the Managing Director of Cultural Service.