



ADMINISTRATIVE REPORT

Report Date: November 22, 2013
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Meeting Date: January 21, 2014

TO: Vancouver City Council

FROM: General Managers of Community Services and Real Estate and Facilities Management

SUBJECT: Lease to Non-Profit Tenant and Approval of Lease Terms for City-owned Property Known as Heritage Hall (3102 Main Street)

RECOMMENDATION

- A. THAT Council authorize the Director of Real Estate Services to negotiate and execute a lease (the "Lease") to the Heritage Hall Preservation Society for the City-owned property known as Heritage Hall, situated at 3102 Main Street, legally known as PID: 015-289-427, Lot 1, Block 56, District Lot 302 Plan 424 ("Heritage Hall"), 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 General Manager of Real Estate and Facilities Management, the General Manager of Community Services and the Director of Legal Services.

Term:	Ten (10) years
Option to Renew:	Two (2) options to renew, each for ten (10) years
Basic Rent:	Nominal Rent of ten dollars (\$10.00) per term, (inclusive of rent in lieu of property taxes), plus applicable sales taxes.

- B. THAT the Lease is to be provided on the City's standard lease agreement, drawn to the satisfaction of the Director of Legal Services and Director of Real Estate Services, it being noted that no legal right or obligation will be created and none shall arise until the Lease document is fully executed by both parties.

Recommendation A authorizes a grant requiring eight affirmative votes.

REPORT SUMMARY

This report recommends the Heritage Hall Preservation Society (the “Tenant”) continue as the tenant of Heritage Hall located at 3102 Main Street, and seeks Council authority to enter into the Lease with the Tenant on terms discussed in the body of this report.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Pursuant to Section 206(l) (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 considered to be a grant.

A lease whose value is greater than \$250,000, or whose total term is longer than 10 years, requires Council approval. The proposed lease term is longer than 10 years and is therefore submitted to Council for approval.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

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

REPORT

Background/Context

Heritage Hall located at 3102 Main Street is a City-owned building that was built between 1914 and 1916. The building was designated a heritage “A” structure by the City of Vancouver in 1974, and by Public Works Canada in 1976. Heritage Hall was transferred to the City in 1984 by Her Majesty the Queen in Right of Canada represented by Public Works Canada (the “Crown”). There is a covenant and an option to purchase registered on title to Heritage Hall in favour of the Crown which limits the use of Heritage Hall to primarily non-commercial purposes, provided that the basement level may be used for commercial purposes. Further, the City may only lease Heritage Hall for the non-profit purposes of a non-profit society engaged in the provision of community services in British Columbia, or to the government.

In March 1982, the Tenant, formerly named the Main Source Management Society was formed as a non-profit charitable organization registered as a charity with Canada Revenue Agency, to restore the building and re-open it as a community and cultural resource centre for Vancouver. The Tenant raised funds to perform urgent repairs in early 1983, including the roof and gutters, a re-design of the entire interior including wiring, plumbing, fire escapes, elevators, washrooms, and alarms being brought up to current building code. The Tenant has continued to provide building and maintenance improvements as required.

Heritage Hall is comprised of a 5,800 sq. ft. main floor area used for public and private event rentals, 10,700 sq. ft. of second and third floor space which is subleased as office space to non-profit groups as approved by the Director of Social Development, and a 6,300 sq. ft. basement area, subleased to a theatre group.

Currently, the Tenant occupies Heritage Hall on a month-to-month overholding basis, as the prior lease had expired and was not renewed. Real Estate Services is working closely with other City Departments involved in the delivery of non-profit programming to systematically address non-profit tenant programming content, building asset condition and maintenance responsibilities, as well as ensuring all non-profit tenant leases are current.

The Tenant would like to plan celebrations related to the one-hundredth anniversary of the building in 2016, but requires assurance of their continued tenure prior to making these commitments. Completing the new lease will provide certainty to both the Tenant and City regarding the use and responsibilities of the building moving forward. A summary of the basic terms of the Lease are attached in Appendix A.

There are few local non-profit/charitable organizations positioned to sustain operations in this large heritage building. The Tenant is well positioned and mandated to maintain Heritage Hall, property manage non-profit office space and manage event rentals which benefit the public.

Strategic Analysis

Heritage Hall is a City of Vancouver recognized heritage structure and plays a significant role in housing non-profit organizations and providing space for Vancouver residents for many functions. As a heritage building, Heritage Hall requires attention in regards to maintenance and upkeep.

The Tenant has successfully fulfilled its role as a manager of the building, with the responsibilities of preserving and maintaining this heritage facility and renting out the facility to long term non-profit tenants and for short term events.

Recommendation for Heritage Hall Tenant and Operator

The goals and responsibilities of the Tenant include a dedication to preserving the architectural and historical significance of Heritage Hall, and a determination to contribute to the cultural well-being of the surrounding community. As an un-programmed, reasonably priced neighbourhood building with a distinct history, Heritage Hall plays a unique role in the community as a venue for both non-profit and private events.

Income, including rental income from the main floor ballroom and office rents totalled \$302,404 for the fiscal year ending May 31, 2013. Expenditures, including administration, building operations, maintenance and renovations were \$247,938 for the fiscal year ending May 31, 2013.

A wide variety of non-profit and charitable organizations have used the main floor ballroom over the last fiscal year, including cultural, health services, sports, and multicultural organizations. The main floor ballroom hosted private events, including weddings, retirement parties, graduation, fairs and markets, public consultations and other events. The Tenant applies a sliding-scale of rental fees for the main hall,

allowing non-profit and charitable organizations to pay a lower rate for use of the facility.

In the offices above the main floor, the Tenant has licensed or subleased space, with the City's consent to cultural and social non-profit tenants, which currently include: the Association of Neighbourhood Houses of BC, musica intima, Mount Pleasant Business Improvement Association, New Works Performance Society, the Vancouver Bach Choir and BC Health Coalition. The subtenant located in the basement theatre space is Stage Door - PosAbilities. The Tenant's Board of Directors is made up of a contributing member from each subtenant in addition to several independent community board members.

Financial

Terms of Lease

Recommendation A seeks approval to enter into the Lease with the Tenant for an initial term of ten (10) years with two (2) further ten (10) year renewal options for a total term of thirty (30) years, at nominal rent of ten dollars (\$10.00) per term, payable in advance and inclusive of payment in lieu of property taxes. The Tenant will be responsible for internal systems capital maintenance, lifecycle upgrades and repairs, utilities, communications (including internet, cable, and phone), security systems for Heritage Hall, ongoing day to day maintenance, janitorial, liability and contents insurance, and program operating and service delivery. The City will have responsibility for the capital maintenance and lifecycle upgrades for the building envelope and structure of Heritage Hall.

An outline of the basic terms of the Lease is attached in Appendix A. The final form of the Lease will include a Service Level Agreement ("SLA") that details each area of responsibility for repair and maintenance as approved by the Director of Facilities Planning and Development. The SLA will be customized for this Tenant based on their financial capacity and the current City standard of performance of capital maintenance work.

Currently the City practice is to enter into five (5) year leases with two (2) five (5) year renewal options for a total lease period of fifteen (15) years. This allows early evaluation if a non-profit tenant undergoes changes that affect their ability to support their responsibilities. However, in this case an initial term of ten (10) years with an additional two (2) ten (10) year renewal options (total of thirty (30) year lease period) is being recommended as this organization has demonstrated an excellent long term track record of maintaining and managing Heritage Hall and through the new Lease will be committing to a long term partnership with the City involving substantive capital maintenance and repair obligations.

Budget Implications

The City will be responsible for building envelope, major capital maintenance and life cycle upgrades of a building envelope and structure moving forward.

The amount of \$66,000 will be required to complete assessment studies and minor repairs to the building envelope and structure in 2014 and the funding for these have been included in the 2014 Real Estate and Facilities Management Capital Budget.

Future capital maintenance and equipment lifecycle replacement costs for the City's responsibilities under the SLA would be addressed through the City's regular capital planning and budgeting process.

CONCLUSION

Staff recommend that the Tenant continue as the operator of Heritage Hall (3102 Main Street) and that Council authorize entering into the Lease with the Tenant on the terms and conditions set out in this report.

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**BASIC LEASE TERMS FOR THE HERITAGE HALL AT
3102 MAIN STREET BETWEEN
THE CITY OF VANCOUVER
AND
HERITAGE PRESERVATION SOCIETY**

Lease Term and Renewal Options

Ten (10) years, with two (2) further options to renew each for a term of ten (10) years.

Rent

Nominal prepaid rent of Ten Dollars (\$10.00) per term, inclusive of rent in lieu of property taxes, plus applicable sales taxes.

Utility Charges

All Utility charges, including any municipal utility charges, serving Heritage Hall are payable by the Tenant.

The Tenant will be responsible for any and all costs and obligations associated with metered utilities directly serving Heritage Hall.

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 Heritage Hall, will be the responsibility of the Tenant.

Capital/Life Cycle Replacement Costs

The responsibility for all capital costs associated with the HVAC systems, mechanical, electrical, security, plumbing, fire suppression and protection systems will be the responsibility of the Tenant. The capital costs 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 the responsibility of the City 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 Tenant is 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 City. The City will be named as additional insured on each and every policy.

Use

Heritage Hall is to be used primarily for non-commercial, non-profit charitable objects and activities for the benefit of the residents of the Province of British Columbia. The Tenant shall not suffer, cause nor permit any commercial or business activities of any nature whatever save and except only in the basement level of Heritage Hall, provided however, commercial or business activities may be permitted from time to time in other portions of the

premises if the Crown gives written consent to commercial or business activities in other portions of Heritage Hall.

Public Service Objectives

The Tenant will continue to operate Heritage hall as both a non-profit administrative centre for Vancouver-based social and cultural organizations, and as a venue for a wide variety of events that welcome the broader public to enjoy this valued heritage asset.

Third Party Use

Other than in accordance with the "Occasional Third Party Use Policy" provisions provided for in the Lease as noted above, the Lease will include a clause that restricts the Tenant's right to assign, sublet, grant a mortgage or license to another party, without advance written permission by the City.

Naming Rights

The Lease will require the Tenant to follow the City's Naming Rights Policy, including potential restrictions on the right to name the Premises, (including any portion of the Premises).

Termination and Early Termination

The City may terminate this agreement with 30 days written notice if the Tenant fails to comply with the Public Services Objectives. The Tenant may terminate the lease upon three (3) months written notice if the Tenant intends or has ceased to operate in Heritage Hall.

Additional Lease Terms

All of the foregoing Lease terms and all additional terms and conditions shall be as required by and be to the satisfaction of the Director of Legal Services and the Director of Real Estate Services in consultation with the Managing Director of Social Development.