



IN CAMERA

## ADMINISTRATIVE REPORT

Report Date: February 2, 2017  
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Meeting Date: February 7, 2017

TO: Vancouver City Council  
FROM: General Manager of Real Estate and Facilities Management  
SUBJECT: Lease of 1431 West Broadway

### IN CAMERA RATIONALE

This report is recommended for consideration by Council on the In Camera agenda as it relates to Section 165.2(1) of the *Vancouver Charter*: (e) the acquisition, disposition or expropriation of land or improvements, if the Council considers that disclosure could reasonably be expected to harm the interests of the city.

### RECOMMENDATION

THAT Council authorize the Director of Real Estate Services to execute a lease (the "Lease") to Omer DeSerres Inc. ("DeSerres") for the City-owned property having a civic address of 1431 West Broadway, a portion of that property legally described as Parcel Identifier: 015-201-261, Lot 15, Except Part in Plan 4379, Block 331 District Lot 526 Plan 590 shown in Appendix A attached (the "Premises") on the following general terms and conditions:

Term: Five (5) years commencing March 1, 2017.

Termination Clause: 18 Months written termination from either the Landlord or Tenant.

Renewal Options: One (1) option to renew in favour of the tenant for an additional five (5) year term on the same terms and conditions provided herein except rent, which is to be negotiated at the then market rates as a condition of lease renewal.

Rentable area: 5,677 square feet.

**Rent:** A total rent, inclusive of common area maintenance, parking and building insurance costs (the "Rent") is based on the following rates:

Term	Total Rent (psf)	Total Annual Rent (Excl. GST)
Year 1	s.17(1)	
Year 2		
Year 3		
Year 4		
Year 5		

**Parking:** The Rent will include the exclusive use via a Parking Licence Agreement of one (1) parking stall for DeSerres at 1441-1445 West Broadway, an adjoining City owned property.

**Use:** Retail sale of art supplies and related business such as training and workshops.

**Utilities:** DeSerres will be responsible for the cost of all utilities located within the Premises. These expenses are not included in the Rent.

**Other Terms:** The lease is to be provided on the City's Standard Lease Agreement with reasonable amendments, drawn to the satisfaction of the Directors of Legal and Real Estate Services, it being noted that no legal right or obligation is created and none shall arise until the lease document is fully executed by both parties.

### **REPORT SUMMARY**

This report seeks Council approval to lease the Premises to DeSerres for a term of five (5) years commencing on March 1, 2017. The floor area used in calculating rent is 5,677 sq. ft. in size. Rent is based on s.17(1) psf escalating to s.17(1) psf over five years. Total rental value over the five year term is s.17(1) plus GST.

### **COUNCIL AUTHORITY/PREVIOUS DECISIONS**

The Director of Real Estate Services, Associate Directors of Real Estate Services, or Supervisor of Property Negotiations, can execute Licence Agreements, Month to Month Leases, Offers to Lease, and Leases (the "Commercial Lease"), where the City is either the lessor or lessee, or licensor or licensee, where the total rental or licensee fee value is less than \$750,000 and the term (including renewal options) is no more than ten (10) years.

The General Manager of Real Estate and Facilities Management or the Director of Finance can approve the material terms of each Commercial Lease, which, in cases

where the City is the licensee or lessee, may include a commercially reasonable indemnity in favour of the licensor or lessor.

The proposed lease to DeSerres exceeds the total value of \$750,000 over the life of the term and is therefore submitted to Council for approval.

### ***CITY MANAGER'S/GENERAL MANAGER'S COMMENTS***

The General Manager of Real Estate and Facilities Management recommends APPROVAL of the foregoing recommendation.

### ***REPORT***

#### ***Background/Context***

The City purchased 1431 West Broadway on April 1, 2015, to facilitate the future Broadway Rapid Transit Project. Timing for redevelopment of the site for transit use is uncertain and will not be known until a request for proposals is submitted for the Broadway Rapid Transit Project after receiving funding from all levels of government. The City will continue leasing this property until it is needed for transit purposes.

The property is currently tenanted by DeSerres whose existing lease expires on February 28, 2017. DeSerres existing lease is triple net generating s.17(1) annually plus recoveries for property taxes and other expenses. After recoveries, this translates into a current total rent of approximately s.17(1) annually. Signing a new lease will allow the City to bring the tenant onto its standard gross lease template and increase revenue until this site is required for transit purposes.

#### ***Strategic Analysis***

DeSerres is a leading dealer of arts and crafts supplies in Canada. They operate 33 DeSerres stores across the country and are a 3<sup>rd</sup> generation family run business which has been in operation since 1908.

DeSerres is a very strong tenant and the Director of Real Estate Services recommends signing a new lease. In order to ensure that the lease does not interfere with redevelopment of the site to facilitate the Broadway Rapid Transit Project, the lease will include an 18 month termination clause that the City can exercise.

The current market total rental rate for similar types of commercial space within the surrounding area ranges from s.17(1) gross per square foot per annum. The Rent negotiated for the Premises is considered to represent fair market value given the large size of the space and the termination clause required by the City.

*Implications/Related Issues/Risk (if applicable)**Financial*

The total Rent for the five (5) year lease term will be s.17(1) plus GST inclusive of property taxes, common area maintenance costs, and building insurance. The Rent will be credited to the PEF.

A Facility Condition Assessment was conducted on the Premises in 2015. The report recommended s.17(1) in maintenance expenditures over the next 5 years, although many of these repairs are not urgent and can be deferred.

The City is responsible for the structural maintenance and repair of the Premises. The Lease will require that DeSerres be responsible for the cost of all utilities within the Premises.

All legal documents are to be completed to the satisfaction of the City's Director of Legal Services and Director of Real Estate Services.

*Environmental*

As part of the pre-purchase due diligence, the City's Hazardous Materials Team conducted a hazardous materials screening in 2015 which identified the presence of hazardous building materials in the building. Should the Tenant elect to conduct any renovations during their tenancy, the City's Hazardous Materials Team will work with the Tenant to ensure data exists or is collected from the areas which will be disturbed by the renovations, and the City will oversee any required abatement, which will be conducted at the Tenant's expense.

*CONCLUSION*

The Director of Real Estate Services is of the opinion that the rent negotiated is representative of current fair market rental value for the type, location, condition and age of the premises, and considering the termination provisions required by the City.

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