



IN CAMERA

ADMINISTRATIVE REPORT

Report Date: May 15, 2017
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Meeting Date: June 27, 2017

TO: Vancouver City Council

FROM: General Manager of Real Estate and Facilities Management

SUBJECT: Proposed Sub-Sublease of City-owned Premises Situated at 691 East Broadway to Ba-Le Deli and Bakery Ltd.

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 sub-sublease (the "Lease") to Ba-Le Deli and Bakery Ltd. ("Ba-Le" or the "Tenant") for the City-owned property with a civic address of 691 East Broadway, being premises within a building on property legally described as PID: 028-721-942, Lot A, Block 119, District Lot 264A, Group 1, New Westminster District Plan BCP 49417, outlined in red in Appendix A attached (the "Premises") on the following general terms and conditions:

Term: Ten (10) years commencing December 1, 2017.

Option to Renew: Three (3) options to renew in favour of Ba-Le for an additional five (5) year term each, on the same terms and conditions provided herein except rent, which is to be negotiated at the then market rates as a condition of the Lease renewal.

Lease area: 1,980 square feet.

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

	Per Month	Per Annum (per sq.ft)
Year 1 & 2	s.17(1)	
Year 3 & 4		
Year 5 & 6		
Year 7 & 8		
Year 9 & 10		

Tenant Inducements: Cash Allowances - Nil

Fixturing Allowance - s.17(1) month fixturing period to demise and construct its tenant improvements. The fixturing period commences on July 1, 2017. Ba-Le s.17(1) the fixturing period, but will be responsible for payment of all its utility costs.

s.17(1)

Parking: The total Rent will include the exclusive use of two (2) parking stalls for Ba-Le used during the Lease. Two additional parking stalls will be licensed on a month to month basis until they are needed for future tenants of the building.

Use: Deli, bakery and light meal eatery.

Utilities: Ba-Le 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 current standard form of lease for commercial tenants in this building. Terms and conditions of the Lease are to be drawn to the satisfaction of the Directors of Legal and Real Estate Services, it being noted that no legal right or obligation shall arise until the Lease is fully executed by both parties. The Tenant is responsible for the costs of regular service, maintenance, repair and replacement of the HVAC units that exclusively serve the Premises.

Realtor Commission: s.17(1) to be paid to Tenant realtor representative.

REPORT SUMMARY

This report seeks Council approval to lease the Premises to Ba-Le for a term of ten (10) years commencing on December 1, 2017 plus three (3) options to renew for a further five (5) years each. The Premises is 1,980 sq. ft. in size. Total Rent is s.17(1) psf escalating to s.17(1) psf over ten (10) years. Total rental value over the ten (10) year term is s.17(1) plus GST s.17(1).

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 license fee value is less than \$750,000 and the term (including renewal options) is no more than ten (10) years.

Total rental value of the Lease exceeds the total value of \$750,000 and the total term (including renewal options) exceeds ten (10) years; therefore, the terms of this Lease are being 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 owns the lands at 651-691 East Broadway, on which the Premises are located and has entered into a sixty (60) year ground lease with the Vancouver Native Housing Society ("VNHS") for VNHS to construct non-market housing on the lands. Upon completion of the housing project with ground floor commercial units, the City subleased back the commercial portion of the project from the VNHS. The City, in turn, is leasing out the commercial units via a sub-sublease arrangement. For simplicity, the City's sublease from VNHS, and the City sub-subleases are described throughout this report and its Recommendation simply as leases and the sub-tenants thereunder shall be referred to as tenants.

VNHS has constructed and operates an eight (8) storey social housing building (the "Building") on the site. The ground floor of the Building is comprised of a separate social service centre and commercial retail unit spaces. The social service centre administered by the Pacific Community Resources Society ("PCRS") provides youth service programs to homeless and at risk youth.

The 7,838 leasable square feet of shell commercial retail units (the "City CRU's") on the ground floor have been leased back from VNHS to the City at a nominal rate. A budget of s.17(1) plus applicable taxes was established for required tenant improvements to be undertaken by either the City or as negotiated with prospective tenants, to facilitate leasing of the commercial component (up to six (6) commercial units).

691 East Broadway was previously leased to Salam Enterprises Ltd.; however, despite being a very experienced business operator, their business did not succeed at this location and the City has reclaimed the space.

Currently 2,306 SF of the City CRU's is leased to La Boussole, a French community centre, and the remainder is vacant. This report seeks authorization to lease the 1,980 square foot commercial retail space at 691 East Broadway to Ba-Le which will leave 3,552 square feet of space remaining to be leased.

Strategic Analysis

The proposed Tenant has thirty (30) years of proven success in the food retail and wholesale business. Their retail business provides quick grab and go Vietnamese cuisine while their wholesale business provides French baguettes to local businesses such as Pho 99, Kingsway Deli, Little Saigon Restaurant, Hawksworth and Chewies. Ba-Le has another corporate operation on Kingsway and two franchise locations in Chinatown and Richmond.

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 total Rent negotiated for the Premises is considered to represent fair market value. Staff has also negotiated a lease without any cash allowance for tenant improvements, as many of the improvements were already installed by the previous tenant. The tenant worked with a trusted realtor who was instrumental in securing the above lease terms. Accordingly the City agreed to pay the realtor commission as part of the overall negotiations.

Financial

The total Rent for the ten (10) year lease term will be s.17(1) plus GST, inclusive of common area maintenance costs, parking and insurance. This number takes into consideration s.17(1). Upon occupancy by the Tenant, the City will pay the Tenant's real estate agent a commission of s.17(1). The total Rent will be credited to the PEF, and the commission will be funded from the PEF.

As this is a new building, a Facility Condition Assessment is not required at this time. The City is responsible for the maintenance and repair of the Premises, except for structural repairs to the Building, pursuant to the lease to the City from VNHS. The City is also responsible for a proportionate share of the repair and maintenance costs of the Common Areas and Common Facilities of the Building as provided for in the lease between VNHS and the City. The City's proportionate share varies based upon the nature of the Common Area or Common Facilities and the type of expenses incurred. The total Rent to be paid by Ba-Le in the proposed Lease includes the

anticipated costs to be paid by the City to VNHS, and those maintenance and repair costs for the Premises are to be paid directly by the City under the terms of its Lease. The Lease to Ba-Le will also provide that Ba-Le will be responsible for all maintenance and 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.

CONCLUSION

The proposed Lease represents an opportunity for the City to secure a tenant with a strong track record and established following, and should bring additional traffic to the complex. The Director of Real Estate Services is of the opinion that the total Rent negotiated is representative of current fair market total rental value for the type, location, condition and age of the Premises.

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Subject Premises





