



IN CAMERA

ADMINISTRATIVE REPORT

Report Date: July 4, 2017
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VanRIMS No.: 08-2000-21
Meeting Date: July 25, 2017

TO: Vancouver City Council

FROM: General Manager of Real Estate and Facilities Management

SUBJECT: Proposed Sub-Sublease of City-owned Premises situated at 675-683 East Broadway to Nada Grocery Inc.

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 Nada Grocery Inc. ("Nada" or the "Tenant") for the City-owned premises having a civic address of 675-683 East Broadway 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: Five (5) years commencing February 1, 2018.

Option to Renew: Three (3) options to renew in favour of Nada 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, and there will not be any tenant inducements.

Lease area: 2,332 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	s.17(1)	
Year 2		
Year 3		
Year 4		
Year 5		

Total Rental value for the initial five year term is s.17(1)

Tenant Inducements: Cash Allowance - The Landlord will provide the Tenant with an improvement allowance of s.17(1) inclusive of GST], to assist with tenant fixturing. The allowance will be paid upon receipt of completed work to the Landlord's satisfaction. The funding source for the tenant improvements is the approved 2017 PEF Capital Budget.

Fixturing Allowance - The Landlord will provide the Tenant with a Six (6) month fixturing period to demise and construct its tenant improvements. The fixturing period commences on August 1, 2017. s.17(1) s.17(1), but will be responsible for payment of all its utility costs.

s.17(1)

Parking: The total Rent will include the exclusive use of three (3) parking stalls for Nada's use during the Lease.

Use: Grocery store and sale of related accessories and products, including a café, juice and smoothie bar.

Utilities: Nada 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.

REPORT SUMMARY

This report seeks Council approval to lease the Premises to Nada for a term of five (5) years commencing on February 1, 2018 plus three (3) options to renew for a further five (5) years each. The Premises is 2,332 sq. ft. in size. Total Rent is s.17(1) psf, escalating to s.17(1) psf over five (5) years. Total rental value over the five (5) year term is s.17(1) plus GST, including the rent free period. While the rent represents market value over the term, the increments allow this new business a lower rent in its opening years to establish itself in the community.

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 over the initial term plus options will exceed 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).

683 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 sq. ft. of the City CRU's is leased to La Boussole, a French community centre, and 1,980 sq. ft. is leased to Ba-Le Deli and Bakery. The remainder is currently vacant. This report seeks authorization to lease the 2,332 sq. ft. commercial retail space at 675-683 East Broadway (the Premises) to Nada which will leave one retail unit of 1,220 sq. ft. remaining to be leased in the complex.

Strategic Analysis

The proposed Tenant (Nada) will be Canada's first 100% package free grocery store. Their stated goal is to reduce food related waste and plastic pollution. Customers will bring their own reusable containers to purchase local, organic and ethically sourced products. This business aligns with the City's 2020 Greenest City action plan.

Nada has done extensive market research into their business model, including setting up "pop-up shops" which use a small section of the Patagonia Vancouver store once per month to get exposure for their concept and gain customer feedback on their products. The business has secured a strong following with 20% to 50% customer retention rate from each successive pop-up store and has been featured in local, national and international media articles, including coverage by Globe & Mail, The Huffington Post, the Georgia Straight, Global TV, CBC, Canadian Grocer, and the front page of the Vancouver Sun.

The operator of the business has 10 years of experience in the food industry and will be supported by a six member advisory board with a combined 120 years of expertise in senior positions with grocery stores, finance, technology and logistics, retail operations, branding and marketing.

Financial

The total Rent for the five (5) 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). The total Rent will be credited to the PEF.

The current total market 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.

The Landlord will provide the Tenant with an improvement allowance of s.17(1) inclusive of GST, to assist with tenant fixturing. The allowance will be paid upon receipt of completed work to the Landlord's satisfaction. The funding source for the tenant improvements is the approved 2017 PEF Capital Budget.

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 commercial component, except for structural repairs to the Building, and is 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 total Rent to be paid by Nada in the proposed Lease includes the anticipated common area repair and maintenance costs. The Tenant is responsible for the costs of regular service, maintenance, repair and replacement of the HVAC units that exclusively serve the Premises. Nada pays all its own utility costs.

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 demonstrated following which furthers the City's green objectives. 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, and recommends approval of the foregoing.

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Subject Premises





