



IN CAMERA

ADMINISTRATIVE REPORT

Report Date: August 17, 2017  
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VanRIMS No.: 08-2000-21  
Meeting Date: October 3, 2017

TO: Vancouver City Council  
FROM: General Manager of Real Estate and Facilities Management  
SUBJECT: Proposed Sub-Sublease of City-owned Premises situated at 667 East Broadway to Optaderm Products 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 Optaderm Products Inc. ("Optaderm" or the "Tenant") for the City-owned premises having a civic address of 667 East Broadway outlined in red in Appendix A attached and located within a building having a civic address of 651 - 691 East Broadway, legally described as PID: 028-721-942, Lot A, Block 119, District Lot 264A, Group 1, New Westminster District Plan BCP 49417 (the "Premises") on the following general terms and conditions:

Term: Ten (10) years commencing June 1, 2018.  
Option to Renew: One (1) option to renew in favour of Optaderm 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 the Lease renewal.  
Lease area: 1,220 square feet.

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

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

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

Tenant Inducements: Cash Allowance - The Landlord will provide the Tenant with an improvement allowance of s.17(1) psf 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 s.17(1) fixturing period to demise and construct its tenant improvements. The fixturing period commences on November 1, 2017. The Tenant will not pay any Rent during the fixturing period, but will be responsible for payment of all its utility costs.

Parking: The Rent will include the exclusive use of two (2) parking stalls for Optaderm's use during the Lease.

Use: Cosmetics sales, aesthetics salon and laser clinic

Utilities: Optaderm 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 Optaderm for a term of ten (10) years commencing on June 1, 2018 plus one (1) option to renew for a further five (5) years, for use as a cosmetic retailer, aesthetics salon and laser clinic. The Premises is 1,220 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. The rent charged represents market rates.

## **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.

The General Manager of Real Estate and Facilities Management or the Director of Finance 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.

Total rental value of the Lease (including the renewal option) exceeds the total value of \$750,000 and the total term (including the renewal option) 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).

This report seeks authorization to lease the 1,220 sq. ft. commercial retail space at 667 East Broadway (the Premises) to Optaderm, which is the last unit to be leased in this complex.

### *Strategic Analysis*

Optaderm provides skin care products, cosmetics, consultation and a laser clinic for all of their clients skin care needs. They have been in business for 30 years in the Regent Medical Building at Broadway and Yew, but now require a new location as this site will be redeveloped in the near future. Optaderm has a stable financial record and is proud to pay all 11 of their staff a living wage.

The proposed lease of the Premises will allow them to maintain their existing client base, while bringing them closer to their manufacturing facility located at Venables Street and Woodland Drive in Vancouver. All of their products are researched, designed and made in Vancouver.

### *Financial*

Rent for the ten (10) year lease term will be s.17(1) plus GST, inclusive of common area maintenance costs, parking and insurance. The 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) per square foot per annum. The total Rent negotiated for the Premises is considered to represent fair market value.

The City will provide 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.

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 Rent to be paid by Optaderm 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. The Tenant 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 strong track record and established following, and should bring additional traffic to the complex, benefiting all tenants. 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.

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