



Date: February 23, 2000

TO: Board Members - Parks and Recreation
FROM: General Manager - Parks and Recreation
SUBJECT: Ferguson Point Teahouse and Seasons in the Park - Rent Reviews

RECOMMENDATION

- A. THAT the rent for the Ferguson Point Teahouse for the term January 1, 2000 - December 31, 2004 be set at 5¼% of total gross revenue (including liquor).
- B. THAT the rent for Seasons in the Park for the term March 1, 2000 - February 28, 2005 be set at 5¼% of total gross revenue (including liquor).
- C. THAT a payment in lieu of property taxes of \$5.00/sq ft be set at both restaurants from the start of the new terms and the rate be reviewed each year effective January 1, 2001 to reflect any change in property tax assessments for businesses in Vancouver.
- D. THAT an allowance of \$600.00 per month be credited to Seasons in the Park for maintaining the public washrooms in the basement of the building.
- E. THAT an additional five year option be given to Sequoia Enterprises Inc. for both restaurants on the condition that these options are not assignable until the end of the terms identified in Recommendations "A" and "B".
- F. THAT no legal rights shall arise and no consents, permissions or licences are granted hereby and none shall arise or be granted hereafter unless and until all contemplated legal documentation has been executed and delivered by all parties.
- G. THAT once the form of all legal documentation has been approved by the General Manager and the Director of Legal Services for the City of Vancouver, that the General Manager be authorized to execute and deliver such documentation on behalf of the Board.

BACKGROUND

Both the Ferguson Point Teahouse and Seasons in the Park are fine dining restaurants operated by Sequoia Enterprises Inc. Their owner, Brent Davies, has operated The Teahouse since 1977 and Seasons since 1989. Mr. Davies has had a positive relationship with the Board and both restaurants are considered among the best in Vancouver.

The present status of the two leases is that the Teahouse has two five year options remaining that expire on December 31, 2009 and Seasons also has two five year options that expire on February 28, 2010.

DISCUSSION

1. Performance during the past 5 year terms

Both restaurants pay the Board a rent of 5¼% of gross sales (including liquor). At Seasons the lessee also pays 10% of gross sales from a mobile seasonal ice cream cart that operates during the summer months.

In 1995 the Board agreed that the leased restaurants should start paying an amount in lieu of property tax and that it be phased in to reach market levels over a period of five years. In 1995 the Teahouse paid \$3.00/ sq ft and this was increased by 50¢ a year until a rate of \$5.00/ sq ft was reached in 1999.

In the case of Seasons, since the lessor had spent significant capital funds on renovating the restaurant, the Board agreed to postpone the payment of an amount in lieu of property until this rent review and then the market rate should be established.

The following is a summary of rents received from the two restaurants over the past five years:

Ferguson Point Teahouse

Year Ending	Gross Revenue	Rent	Amount in lieu of Property Tax
Dec 31, 1995	\$3,430,526	\$180,103	\$15,000
Dec 31, 1996	\$3,412,590	\$179,161	\$17,500
Dec 31, 1997	\$3,465,955	\$181,963	\$20,000
Dec 31, 1998	\$3,344,811	\$175,603	\$22,500

Dec 31, 1999	\$3,429,000	\$180,222	\$25,000
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Seasons in the Park

Year Ending	Gross Revenue	Rent	Amount in lieu of Property Tax
Dec 31, 1995	\$3,941,946	\$216,180	-
Dec 31, 1996	\$4,042,096	\$215,434	-
Dec 31, 1997	\$3,924,547	\$207,236	-
Dec 31, 1998	\$3,757,042	\$200,060	-
Dec 31, 1999	\$3,829,000	\$203,825	-

2. Additional 5 year options

Mr. Davies has sent a letter to the Board requesting that they consider an additional five year option for both leases as part of the current rent negotiations. Mr. Davies advises that his company has invested substantial funds in the construction, expansion and on-going maintenance of the two restaurants. He states that in order to continue offering the public the same level of service, on-going expenditures will be required and increased tenure necessary to secure appropriate bank financing.

It is agreed that Mr. Davies has consistently operated the restaurants to a high standard and the two facilities have been well maintained. With ten years remaining on the leases it is not unreasonable for the lessee to want some security of tenure before contemplating improvements or renovations. Past practice has often resulted in restaurant lessees justifying requests for additional terms by specifying certain capital improvements. Both Seasons and the Teahouse have in the past been awarded additional terms through this practice.

In this case, the lessee is requesting additional five year terms without outlining specific improvements. The track record of Mr. Davies is such that staff are confident that his company will continue to maintain both establishments and the additional tenure will enable them to plan ahead in a strategic way with more confidence.

In order to protect the Board against the lessee assigning the lease with the longer terms, it is recommended that the five year options are not assignable for five years. This prevents the lessee from selling the business with a longer lease term which would appreciate the selling price

substantially. Mr. Davies has agreed to this condition being part of the recommendation.

Rent Review

In the summary of rents paid by the two restaurants, the Board has received consistent and above average rents over the past five years. On a square foot basis, before the amount in lieu of property taxes, the Teahouse paid the equivalent of \$36.04 sq ft and Seasons \$32.35 sq ft in 1999.

As indicated in the recent Board report on the rent review for the Prospect Point Café, it has always been difficult to compare our restaurant facilities with downtown establishments. On the positive side our restaurants benefit in the summer from the influx of visitors to our parks. On the downside, these facilities are far less attractive in the winter months and lack the street appeal and proximity to commercial and business areas.

Having compared the rent of these two restaurants with other similar park facilities in other jurisdictions as well as private sector rents, it is believed the current rent of 5¼% of gross revenue (including liquor) offers the Board a fair and equitable rent for the next five year terms.

It should also be noted that effective this year, Seasons will be paying an additional amount in lieu of property tax which will be \$31,500. (6300 sq ft x \$5.00). It is recommended that similar to Prospect Point, during the next term, any annual change to the property tax rate for businesses in Vancouver apply to Park Board facilities.

Seasons maintaining public washrooms

When Seasons renovated the restaurant in 1990, part of the agreement was that they maintain and provide supplies for the public washrooms in the basement of the building. They have now requested that since other restaurants do not have such a condition in their lease and due to the fact they will be paying an additional amount in lieu of property tax, that they be relieved of this obligation. Staff believe that Season's request is reasonable but have negotiated with them that they continue to provide this service for the sum of \$600 per month for the next five year term. The benefits for Seasons continuing the cleaning are essentially the fact that they have staff on site who can provide service during longer hours of operation and respond to maintenance issues in the most prompt and efficient way.

With the new annual payment in lieu of property tax at Seasons (\$31,500) less the washroom maintenance credit (\$7,200) the net benefit to the Board in 2000 will be \$24,300.

SUMMARY

Brent Davies and his company, Sequoia Enterprises Inc., have operated the Teahouse and Seasons in the Park to a high standard in the past and provided the Board with an above average rent at both locations.

The additional five year term is not assignable yet offers the lessee security of tenure and a better ability to secure financing for ongoing improvements and renovations.

Subject to revenues in 2000 remaining fairly consistent, there will be an increase at Seasons of \$24,300 due to the new payment in lieu of property tax less the washroom maintenance credit.

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