



Date: November 6, 2003

TO: Board Members - Parks and Recreation
FROM: General Manager - Parks and Recreation
SUBJECT: Mill Marine Bistro - Approval of a change to the Rent and Term of the Lease

RECOMMENDATION

- A. THAT the Board approve a revised rent of 6.25% of gross revenue to the Mill Marine Bistro Ltd. for a period of 10 years from June 1, 2003 to May 31, 2013.*
- B. 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.*

BACKGROUND

The Mill Marine Bistro is located in Harbour Green Park, a newly developed 10 acre park situated approximately 500 metres to the east of the Coal Harbour Community Centre. The park has been developed for the Park Board using funds provided by Marathon Developments Inc. as a requirement for the development of the adjacent lands.

As part of the negotiations for the site Marathon agreed to fund a food service building and public washrooms. In order to allow the successful proponent to customize the interior to their own specifications Marathon completed the building "shell" and gave the Board an allowance of \$150,000 to be used by the food service operator to go towards the completion of the interior which consists of 1,773 ft². Adjoining the Café is an outside patio of 645 ft².

The Board operates it's own beach and park take-out concessions but leases out it's restaurants more specialized operations to operators who have a background in managing similar facilities. Our experience has shown that the private sector is both willing to inject capital funds into our facilities and also to obtain the best financial return in a very competitive market place.

In the Spring of 2002 the proposal call was advertised nationally and locally and potential bidders were contacted. Only one proposal was received by the Board and the main reason given for other companies not responding was that the overall Coal Harbour development was still a work in progress and several years away from completion.

On June 10, 2002, the Board approved the following resolutions:

- A. *THAT the Board award a five year contract to a corporate entity with George and Daniel Frankel as the principals, to lease the new Café at Harbour Green Park for a period of five years.***
- B. *THAT the annual rent be set at 10% on the first \$500,000 of gross revenue and 12% on all revenue over \$500,000 with a minimum annual rent set at \$12,000 for the first year, \$24,000 for the second year and \$36,000 for years three to five.***
- C. *THAT an annual payment in lieu of property taxes of \$5.46/ft² (2002 rates) be set from the date of opening and the rate be revised each year to reflect any change in property tax assessments for businesses in Vancouver.***
- D. *THAT the Board contribute \$150,000 as a fixturing allowance and the tenant agree to fund and complete all other improvements to the Café before the date of opening.***
- E. *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.***

DISCUSSION

The initial proposal from George and Daniel Frankel was based on the development and operation of a licensed café and take-out facility. There would be both self-serve tray service and table service. As plans for the facility progressed, Daniel Frankel, with the advice of consultants and an evaluation of community demographics, decided to place more emphasis on a year-round, full service restaurant with moderate prices.

One of the main reasons was there was already a summer tray service/take-out café operation at the nearby Coal Harbour Community Centre (also operated by Mr Frankel) and the small size of the new location made it difficult to have a viable take-out operation and make full use of the area for an outside patio. Secondly, community research indicated that a sit-down establishment was desirable in this neighborhood.

The resulting change in the style of service has impacted the operation in a number of ways and Mr Frankel has requested a change to the lease term and rental formula:

1. Lease Term

In determining the length of a lease term the main factor has always been the level of investment provided by the tenant. Apart from the \$150,000 allowance from Marathon Developments for tenant improvements Mr Frankel has stated that to date his total investment is approximately \$400,000. This amount includes about \$200,000 in equipment and furnishings and the balance in leasehold improvements.

Mr Frankel has stated that in order to finance this amount and project a satisfactory return on the investment a term longer than the approved 5 years is required. It is believed a term of 10 years is justified in these circumstances and it will provide the tenant with a level of security to plan ahead and grow the business to the benefit of both parties.

2. Projected Gross Sales and Rent payable to the Board

The original rent formula of 10% of gross sales up to \$500,000 and 12% over \$500,000 was based on a fast food style with a limited menu and daylight hours of operation. Projected gross sales in the first 3 years were \$250,000, \$400,000 and \$500,000 with rent to the Board totaling \$115,000.

With the change in style to a restaurant with table service both indoors and on the outdoor patio there are increased operating costs, in particular higher labor costs. The expanded menu has resulted in additional staffing in both the kitchen and the complement of serving staff thus increasing the overall labor costs.

In his revised projected financial statements for the next 3 years Mr Frankel has estimated gross revenues of \$1,000,000, \$1,250,000 and \$1,350,000. At a rent of 6.25% of gross sales the rent over the three years would be \$225,000, an increase of \$110,000 from the initial projections.

Based on the bistro's performance to date it is believed that Mr Frankel's projections are certainly attainable. In the first four months of operation gross sales were \$518,375.

SUMMARY

Since the Board's approval of the award of this contract in June, 2002 there have been significant changes as to the style, service and resulting capital investment by the operator and it is believed that these changes will benefit the local community and visitors to Harbour Green Park.

The recommended changes to the lease term and rental formula will provide the operator with security of tenure for a longer term and enable him to better finance his capital expenditures. The Board will benefit from a more successful business operation with a resulting higher rental payment each year.

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