

Date: January 6, 2006



TO: Board Members – Vancouver Park Board
FROM: General Manager – Parks and Recreation
SUBJECT: Fish House Restaurant – Assignment of lease and rent review

RECOMMENDATION

- A. THAT the Board approve the assignment of the Fish House in Stanley Park Ltd. to Canadian Hotel Income Properties Real Estate Investment Trust (CHIP REIT)*
- B. THAT the rent for the Fish House for the term November 1, 2005 – October 31, 2010 be set at 6% for the first \$3,500,000 of gross revenue (including liquor) and 4% of gross revenue over \$3,500,000 (including liquor).*
- C. THAT an additional five year option (November 1, 2010 – October 31, 2015) be given to CHIP REIT in return for a capital investment of a minimum of \$250,000 over the first three years of the current term.*
- D. 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.*
- E. 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

The Fish House in Stanley Park is presently leased by Daishinpan (Canada) Inc. and has operated as the Fish House in Stanley Park Ltd. since 1998.

In 2000 the Board approved the following resolutions:

- A. THAT the rent for the term November 1, 2000 – October 31, 2005 be set at 5¼% of total gross sales (including liquor).

- B. THAT a payment in lieu of property taxes of \$5.00/ sq ft be set from the start of the new term and that the rate be reviewed each year effective January 1, 2001 to reflect any change in property tax assessments for businesses in Vancouver.
- C. THAT an additional five year option be given to the Fish House Restaurant from November 1, 2005 – October 31, 2010 and that a rent review take place if the option is exercised.

DISCUSSION

In April, 2005 Daishinpan advised the Board that they wished to renew the sublease of the Fish House in Stanley Park for a further 5 years commencing November 1, 2005 and requested an additional five year term from November 1, 2010.

Staff had commenced negotiations for a new rent and lease extension when Daishinpan advised the Board that they wished to assign the balance of their lease to Canadian Hotel Income Properties, Real Estate Investment Trust (CHIP REIT). From that point onwards negotiations for a new rent and lease extension took place with CHIP.

CHIP REIT was created in 1997. It is a Vancouver based company specializing in hospitality. Currently their portfolio consists of 32 owned hotels with total assets of \$542 million. With the acquisition of the Fish House (and the Cannery Restaurant) from Daishinpan the Trust is diversifying its portfolio to include restaurants. This is in keeping with its mandate of seeking properties that have the potential for cash-flow growth as well as capital appreciation.

Staff have met with senior management from CHIP and examined their 2004 annual report. CHIP have the financial capacity and experience in the hospitality industry to operate the Fish House to a high standard and consequently improve the annual sales at the restaurant. They have stated that they do not intend on making any personnel changes as a result of the ownership change.

RENT

The Fish House Restaurant for the past five years has been paying the Board a rent of 5¼% of gross revenue. In 2004 gross revenue was \$3,230,205 with rent to the Board being \$169,586.

In October, 2005 the Board increased the rent to two other fine dining restaurants in our park system, the Sequoia Grill in Stanley Park and Seasons Hilltop Bistro in Queen Elizabeth Park from 5¼% of gross revenue to a two-tier structure of 6% of gross revenue on existing revenues and 4% over an agreed upon base. It had been determined that the rate of increase for the restaurants had not kept pace with the growing Park Board costs in running two major parks. Also, all of the other more recent rental agreements for restaurants or gift shops in parks have been signed at rates in excess of 6% of gross revenue. Although they are paying more in base rent the new structure gives the

restaurants the incentive to increase their gross sales and pay a lower rent on sales over \$3,500,000.

The amount in lieu of property tax, which is currently \$5.89 sq ft (2005 rates) is reviewed on an annual basis and reflects any percentage change in property tax assessments levied to businesses in Vancouver.

OPERATIONAL PLAN AND ADDITIONAL 5 YEAR OPTION

CHIP intends to assume ownership of the Fish House in April. Their vision is to energize the operation by infusing new capital and utilizing its national sales and marketing network to increase overall revenues.

As part of their negotiations CHIP has requested an additional 5 year option to renew the lease, to run from November 1, 2010 to October 31, 2015. Staff are supportive of this request as CHIP have indicated they are willing to invest approximately \$250,000 over the next three years to upgrade both the building and furniture and furnishings within the restaurant.

It has been the practice of the Board to approve options to renew a lease to a satisfactory tenant based on capital investment in the building by the tenant. This enhances the Board's facility and at the same time provides security to the tenant for their capital invested.

SUMMARY

The assignment of the Fish House Restaurant to CHIP REIT will result in a new owner investing funds to renovate and develop the restaurant to the Board's benefit.

CHIP REIT has agreed to the new rent structure which puts The Fish House on a comparative level with other similar restaurants in our system.

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