

Date: May 6, 2010



**TO: Board Members – Vancouver Park Board**  
**FROM: General Manager – Parks and Recreation**  
**SUBJECT: Prospect Point Café - Rent Review and Lease Extension**

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## RECOMMENDATION

- A. THAT the Board approve a rent of 6% of gross food and beverage revenue and 8% of gift shop revenue for the Prospect Point Café for the period December 1, 2009 – November 30, 2014 and 6% of gross food and beverage revenue and 10% of gift shop revenue for the period December 1, 2014 – November 30, 2019.*
- B. THAT the Board approve a five year renewal option for the Prospect Point Café for the period December 1, 2014 – November 30, 2019 based upon a minimum capital expenditure of \$160,000 to be undertaken by December 31, 2010.*
- C. THAT all legal documentation is to be in a form which is satisfactory to the Director of Legal Services for the City of Vancouver and the General Manager.*
- D. THAT the General Manager be authorized to execute and deliver such documentation on behalf of the Board.*
- 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.*

## BACKGROUND

In 1984 the Board awarded a ten year lease to the Prospect Point Café to redevelop the former Park Board operated coffee shop/gift shop at Prospect Point that was in need of extensive renovations, and operate it as a restaurant with expanded gift shop and food take-out services. One of the conditions was the expenditure of at least \$500,000 in capital improvements.

In November, 1994 the Board approved a new five year lease with two five year renewal options based upon a significant major capital investment in the facility by the lessee.

In 2005 the Board approved a rent of 8% of gross revenue for the period December 1, 2004 – November 30, 2009 and a five year renewal option for the period December 1, 2009 – November 30, 2014 based upon a minimum capital expenditure of \$500,000.

## DISCUSSION

The Prospect Point Café is divided into three types of businesses; restaurant, food take-out and gift shop. It is a diverse operation, and very different to other restaurant operations in Stanley Park. The restaurant is a licensed, full service facility (150 seats) with a large outdoor patio (80 seats). The concept is casual dining with an emphasis during the daytime on affordable meals for park visitors. The prime market is tourists in the summer months. The location of the business is at an historic lookout point which is a stopping point on most city tour routes.

A variety of hot and cold foods and beverages are available from the take-out kiosks which are very busy during the summer months. The gift shop offers a wide variety of merchandise including local and Canadian souvenirs and gifts.

### Building Inspection

A recent building inspection indicated that approximately \$160,000 has to be spent on the roof, structural components, mechanical/plumbing/HVAC systems and electrical systems. The lessee has indicated that all work will be completed by December 31, 2010 and our maintenance staff will review the work at that time.

It is the Board's practice to approve lease renewals based upon an injection of capital expenditures by the lessee, subject to the overall good performance and compliance with all terms of the lease.

Staff recommend that the lessee be given a further five year option; from December 1, 2014 to November 30, 2019 in return for this additional capital investment.

### Rent Review

Since 1996 the rent at the Prospect Point Café has been a blended rate of 8% of all gross revenue. At the present time restaurants rents average 6% at our leased restaurants with higher rents for gift shops and take-out food service.

The gross revenues and rent at the Prospect Point Café for the past two years have been as follows:

	<b>2008</b>	<b>2009</b>
<b>Food &amp; Beverage</b>	\$1,361,049	\$1,185,188
<b>Gift Shop</b>	\$ 594,261	\$ 417,883
<b>Gross Revenues</b>	\$1,955,310	\$1,603,071
<b>Rent</b>	\$ 156,425	\$ 128,246

The results over the past four years show a decline in gross sales at Prospect Point of 21% which reflects a lower rent to the Board. The restaurant operator has attributed the sales decrease to many factors including:

- Windstorm damage and subsequent related construction
- New road configuration (the cut off to Stanley Park Drive at Prospect Point no longer passes in front of the restaurant)
- Business climate, drop in tourism and the present state of the economy
- Limited parking and less tour bus parking than pre-construction
- Unreliable power supply which at times has resulted in the temporary closure of the restaurant (The Board now has a portable electrical generator that can be used in power failures)

At present 74% of the Café's revenue is generated from the food and beverage operation and 26% from the gift shop.

In light of the declining gift shop sales that are due to many factors that have been beyond the control of the Operator, it is recommended that for the next 5 year term to charge a rent of 6% of all gross food services revenue and 8% on all gift shop sales. This would bring the Prospect Point Café in line with the majority of our other restaurants (Teahouse, Seasons, Shaughnessy, Fish House) which have a 6% rent on food and beverage sales. The existing rent of 8% of gift shop sales would remain the same as before.

In the next 5 year term (December 1, 2014 – November 30, 2019) it is recommended that the Prospect Point rent for the gift shop increases to 10% which is similar to the rent currently being paid by the Legends of the Moon gift shop at the Brockton Totem Poles.

If this new rent structure is compared to the old structure the average rent difference for the past 2 years would be \$24,742. This is shown as follows:

		<b>2008</b>	<b>2009</b>
<b>Existing rent</b>	<b>8% of all sales</b>	\$ 156,425	\$ 128,246
<b>Proposed rent</b>	<b>6% of food &amp; bev sales 8% of gift shop sales</b>	\$ 129,204	\$ 104,542
<b>Difference</b>		<b>\$ 27,221</b>	<b>\$ 23,704</b>

The amount in lieu of property tax, which was \$6.21/sq ft in 2009, is adjusted each year to take into account any change to the property tax rate for commercial businesses in Vancouver. In 2009 the Prospect Point Café paid \$34,776 in lieu of taxes for a total rent of \$163,022.

## **SUMMARY**

The Prospect Point Café is a diversified operation serving a varied clientele throughout the year. In the past four years it has encountered many challenges, some of which have been beyond their control and have resulted in lower sales, particularly from the gift shop.

A reduction in the rent formula is justified for the next five year term to help the operation return to a profitable venture. The new formula for food and beverage services is consistent with other restaurants operating in our major parks and the gift shop rent will be increased during the next term.

The Operator at the Prospect Point Café has agreed with the revised rent formula for the next two terms.

Prepared by:

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