



Date: May 14, 2015

TO: Park Board Chair and Commissioners  
FROM: General Manager - Vancouver Board of Parks and Recreation  
SUBJECT: Teahouse and Seasons in the Park Lease Modification

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## RECOMMENDATION

- A. THAT the rent for the Teahouse for the term January 1, 2015 - December 31, 2019 be set at 4% for the first \$2,000,000 of gross revenue (including liquor and patio) and 6% of gross revenue beyond \$2,000,000;
- B. THAT the rent for Seasons in the Park for the term March 1, 2015 - February 26, 2020 be set at 4% for the first \$4,500,000 of gross revenue (including liquor and patio) and 6% for gross revenues beyond \$4,500,000;
- C. THAT an additional three year option be given to the Sequoia Company of Restaurants Inc. for the Teahouse under conditions as outlined in this report;
- D. THAT no legal rights shall arise and no consents, permissions or licenses 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 of the Park Board and the Director of Legal Services for the City of Vancouver, that the General Manager of the Park Board be authorized to execute and deliver such documentation on behalf of the Board.

## POLICY

The Park Board approves all use of lands under its jurisdiction.

## BACKGROUND

Both the Teahouse (at Ferguson Point in Stanley Park) and Seasons in the Park (Seasons) are fine dining restaurants operated by the Sequoia Company of Restaurants. Their owner, Brent Davies, and his company Sequoia Company of Restaurants Inc. (Sequoia) have operated the Teahouse since 1977 and Seasons since 1989. Also operated by the Sequoia is the Sandbar restaurant on Granville Island and Cardero's in Coal Harbour.

The present status of the two leases is that the Teahouse has two five year options remaining that expire on December 31, 2024 and Seasons has two five year, plus one four year option that expire on February 28, 2028.

The previous term had the below rental structure:

Current Rent Structure
<b>Seasons</b>
6% - 0- \$4,500,000
4% - Beyond
<b>Teahouse</b>
6% - 0- \$3,500,000
4% - Beyond

The Teahouse provided rent/property tax of \$244,942 and Seasons provided rent/property tax of \$364,497 in 2014.

The current leases for both restaurants have language requiring a review of rental rates at the expiration of the current term and failing agreement by both parties that rental rates be determined by arbitration.

#### DISCUSSION

Staff has worked with the Sequoia to review and determine mutually agreed upon revised rental rates for the new five year term as outlined below:

Current Rent Structure	Proposed Rent Structure
<b>Seasons</b>	<b>Seasons</b>
6% - 0- \$4,500,000	4% - 0- \$4,500,000
4% - Beyond	6% - Beyond
<b>Teahouse</b>	<b>Teahouse</b>
6% - 0- \$3,500,000	4% - 0 - \$2,000,000
4% - Beyond	6% - Beyond

The proposed change in rent structure reflects the desired model of the higher percentage rate being applied to the higher gross revenue level. This model provides a higher return to the Park Board as gross revenues increase either due to menu inflation or organic growth by the restaurants. The Teahouse has experienced growth of 21.7% over the past two years and Seasons has experienced growth of 16.5% over the same period.

Staff have run financial models at low, medium and high gross revenue growth rate assumptions and have determined the following outcomes on the combined rent returns of Seasons and Teahouse to the Park Board upon the implementation of the proposed rent structure:

Impact 2016			Impact Over Remaining Term		
Low	Medium	High	Low	Medium	High
-\$41,000	-\$34,000	-\$21,000	+\$8,000	+\$235,000	+\$321,000

While there will be a short term reduction in rent returns over the remaining life of the leases, there is an increased return at all levels. In addition to the revised rent structure it is proposed that an additional three year option term be given to Sequoia for the Teahouse to better align it with the expiry of the Seasons lease. Sequoia will commit to spending a minimum of \$250,000 in upgrades at the Teahouse in the next five years. The benefits of any upgrades will accrue to the Park Board as the structure is a Park Board asset.

#### SUMMARY

The Sequoia Company of Restaurants and their owner Brent Davies have had a successful and positive relationship with the Board since the late 1970's. They have maintained both the Teahouse and Seasons restaurants to a high standard and continue to upgrade the buildings on a regular basis.

The revised rent terms and extension of the lease for the Teahouse will provide rent clarity for the new rental periods and improved returns to the Park Board over the remaining life of the agreements.

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