

October 12, 1995

SUBJECT: DENMAN GARDEN INN RESTAURANT - RENT REVIEW AND LEASE RENEWAL

#### RECOMMENDATIONS

- 1) THAT the Board approve a five year lease renewal for the Denman Garden Inn Restaurant for the period of January 1, 1996, to December 31, 2000.
- 2) THAT the rent for the lease period remain at 7% of the total gross revenue, excluding liquor, to be paid monthly, by the 15th day of the following month.
- 3) THAT a payment in lieu of property taxes be phased in and charged at the rate of \$1.00/sq. ft. for the first year, \$1.50/sq. ft. for the second year, \$2.00/sq. ft. for the third year, \$2.50 sq. ft. for the fourth year and \$3.00/sq. ft. for the final year.
- 4) THAT no legal rights shall arise hereby and none shall arise thereafter until the execution of the contemplated documents.

#### BACKGROUND

The Denman Garden Inn opened in 1976 and is located adjacent to the West End Community Centre.

On June 27, 1977 the Board approved the assignment of the lease to Mr. Tom Chung, the present operator. The initial lease was for a period of 10 years with a five year option to renew. On July 7, 1986 the Board approved a rent of 7% of gross sales (excluding liquor) for the five year renewal term.

On December 10th 1990, the Board approved a new lease commencing August 1, 1991 and expiring December 31, 1995, which included a renewal option for a further five years to December 31, 2000.

#### DISCUSSION

The lessee, Mr. Tom Chung, has requested a lease extension for a further five years as per his renewal option.

#### Rental Review

Comparative revenues for the past five years are shown below.

Year (ends Jul. 31st)	Food Sales	Liquor Sales	Gross Sales	Rent (7% of Food Sales)
1991	290,360	18,274	308,634	20,325
1992	291,296	20,315	311,611	20,390
1993	274,638	18,253	292,891	19,224
1994	260,584	15,763	276,347	18,240
1995	265,078	14,927	280,005	18,555

Food sales and rents to the Board show a steady decrease. Although food sales for 1994 and 1995 have been maintained at the same level, liquor sales continue to drop.

Having discussed the restaurant's performance with the lessee we believe that owing to the following factors a rent increase cannot be supported:

#### 1) The Restaurant's Specific Market

The Denman Garden Inn Restaurant serves primarily a clientele of senior citizens, and patrons of the West End Community Centre that have limited income.

#### 2) The Restaurant's Current Financial Situation

In the Cumberland report it was recommended that future rents should relate to a percentage of all sales, including liquor sales. In this case, due to low liquor sales (they represent only 5.3% of total sales), and the continuing decline in liquor sales, the benefit to the Board is greater if the rent percentage is applied mainly to food sales.

The trend in diminishing returns from liquor sales is consistent with other similar businesses. Education of the public and tougher measures by the police to curtail liquor consumption by drivers has impacted sales.

Due also to the type of patrons that frequent the establishment, liquor sales are lower than in other Park Board leased restaurants.

#### 3) Operating Restrictions

The restaurant is required to use only low profile signage on Denman Street to compliment the exterior of the West End Community Centre.

#### Payment in Lieu of Property Taxes

In the Cumberland report a charge in lieu of property taxes was

deemed to be appropriate. Since this is a charge additional to the new rent, and in view of the restaurant's poor financial performance, staff recommend that the amount be phased in over the five year lease to reduce the impact of the new charge to the operator. This is consistent with other rent reviews recently approved by the Board.

It is therefore proposed that the annual amount be set at \$1.00/sq. ft. effective January 1, 1996, \$1.50/sq. ft. effective January 1, 1997, \$2.00 sq. ft. effective January 1, 1998, \$2.50 sq. ft. effective January 1, 1999, and \$3.00 sq. ft. effective January 1, 2000. The restaurant areas amount to 1,520. sq. ft.

#### Projected Total Rent

+ Payment in Lieu of Property Taxes Based on 1995 Projections

1996	18,500	+	1,520	=	\$ 20,020.
1997	18,500	+	2,280	=	\$ 20,780.
1998	18,500	+	3,040	=	\$ 21,540.
1999	18,500	+	3,800	=	\$ 22,300.
2000	18,500	+	4,560	=	\$ 23,060.

The estimated rent of \$23,060 payable to the Board during the last year of this lease amounts to \$15.17 per square foot. This rent is deemed to be at the lower end of comparable rents for the restaurant's location in Denman Street.

#### Improvements

Mr. Chung has complied with improvements to the kitchen and restaurant since 1991, as agreed to, in the last award of lease that amount to around \$65,000.

A new railing and patio tables and chairs have also been added to the entrance of the restaurant as an attempt to captivate more customers in the Summer months.

#### Service Level

In the last five years no complaints have been received by staff either on the standards of food and beverages or the service to patrons.

The restaurant staff is friendly, and provide a special service for the particular clientele of elderly and limited income customers.

#### Competition

Denman Street has undergone a significant transformation during the last three years, and has witnessed a proliferation of reasonably priced restaurants and coffee bars.

Due to the steady decline in the volume of sales, profitability

and subsequent rents to the Board, staff will conduct a full review of the operation before the expiration of this lease renewal.

#### JUSTIFICATION

The lessee of The Denman Garden Inn has operated a restaurant that fulfils the needs of the West End Community Centre and its patrons.

Since there has been a steady decline in liquor sales in recent years it would be prudent for the Board to maintain the same rent structure for the next five years, which at present is 7% of the gross sales excluding liquor.

The recommended new rent includes an amount in lieu of taxes, that is consistent with other recently negotiated renewals by the Board.

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