

July 16, 1997

SUBJECT: HNR INC. - LEASE FOR THE FOOD SERVICE AT THE AQUATIC CENTRE

RECOMMENDATION:

THAT HNR Inc. be granted a lease for a five year period from September 19, 1997 to September 18, 2002.

THAT the rent remain at ten (10%) percent of the first \$100,000, and fifteen (15%) over \$100,000 of annual gross revenues, for the new lease period.

THAT a payment in lieu of property taxes be phased in and charged at the rate of .50c/sq. ft. for the first year, of .75c/sq. ft. for the second year, \$1.00/sq. ft. for the third year, \$1.25/sq. ft. for the fourth year and \$1.50/sq. ft. for the fifth year.

THAT no legal rights shall arise hereby and none shall arise thereafter until the execution of the contemplated documents.

BACKGROUND

After a call for proposals Miriam's were awarded the operation of a snack bar inside the Aquatic Centre in September 1992, and was granted a five year lease that expires on September 18, 1997.

Miriam's Ice Cream and Scones Ltd. operates a number of successful ice cream and food service units in the Lower Mainland.

DISCUSSION

The present operator states that \$20,000 have been spent to date on leasehold improvements, which include equipment and fixtures. The current rent payable to the Board is ten (10%) percent of the first \$100,000 and fifteen (15%) over \$100,000 of annual gross revenues.

The operation provides services to all the facility patrons, spectators and the general public and include catering for swim meets, and other events at the Centre.

The available fare ranges from soft beverages, coffees, ice cream, a variety of

pastry items, sandwiches, light meals and candy novelties.

The Board's staff at the Aquatic Centre have provided positive feedback and stated that the service has improved, especially since the present management team of Serge Borys and Dianna Pakulat took over in January, 1996. Mr Borys and Ms Pakulat have formed a company (HNR Inc.) and since Miriams do not wish to continue operating the snack bar after the present lease expires (September 18, 1997), they have made a proposal for a lease of their own for the next five years.

The proposal includes operating the existing snack bar and a request to service two areas outside the Centre. The first is an upper patio west of the building and overlooking Beach Avenue, and the second on the paved area outside the main entrance to the Centre.

The patios would be operational during the high season only, weather permitting from April to September, approximately 11.00 a.m. to 9.00 p.m. All costs related to the patios will be paid for by the lessee.

The upper west patio would have 8 tables with umbrellas and would serve specialty coffees, cold beverages, light meals and pastries. The patio near the main entrance would consist of a cappuccino, self contained cart, and 4 tables with umbrellas. The fare would consist of specialty coffees, cold beverages and pastries.

The two deck areas would not be part of the designated leased area and HNR have agreed to operate them on a trial basis in 1998 so that both staff and HNR can assess the demand and public reaction to the new service.

It is believed that the outside areas will attract some local residents and passers-by. In addition, some Aquatic Centre patrons will prefer purchasing their food and beverages and eating outside the facility since it has a high humidity level.

Rental Review

Comparative revenues are shown below for the past 4 years:

Year (Jan.-Dec.)	Food Sales	Rent
		(10% up to \$100,000) (15% over \$100,000)
1993	\$114,820	\$12,223
1994	\$ 88,662	\$ 8,866

1995	\$ 89,753	\$ 8,975
1996	\$ 99,317	\$ 9,931

The new management team have changed the declining trend of 1994 and 1995, and have shown an improved performance in 1996. The real sales in 1996 would have been in the magnitude of \$110,000 since the Aquatic Centre closed for maintenance one additional month in that year. Usually the centre closes only in August of every year.

The revenues projected by the new company are:

Year (Jan.-Dec.)	Food Sales	Rent (10% up to \$100,000 15% over \$100,000)
1998	\$147,000	\$17,050
1999	\$161,700	\$19,255

Having reviewed the past performance of this operation it is recommended that the existing rent formula should not be changed. With the higher percentage paid on revenues over \$100,000 and the additional payment in lieu of property taxes the Board will generate additional revenues. The lessee will continue to pay all utility costs related to the snack bar operation.

Although the operation of the patios only takes place during the peak season they form an integral part of the revenue enhancements expected by HNR. During a closure of the Centre, due to scheduled maintenance, the upper west patio will not operate, since no indoor washrooms will be available. The proponents further understand that during this closure, operation of the self contained cappuccino cart in the main entrance patio may be affected.

Payment in Lieu of Taxes

Since the early 1990's a charge in lieu of taxes has been charged to leased restaurant operations by the Board when a new lease or a lease assignment has been negotiated.

It is recommended that due to the relatively low revenues of this operation that the payment be set at a similar rate that was approved for the Denman

Garden Inn Restaurant in October, 1995.

The payment in lieu of property taxes would be phased in and charged at the rate of .50c/sq. ft. for the first year, of .75c/sq. ft. for the second year, \$1.00/sq. ft. for the third year, \$1.25/sq. ft. for the fourth year and \$1.50/sq. ft. for the fifth year.

The food service operation occupies 1440 sq.ft. The payment in lieu of taxes above would yield the following additional revenues:

1st. Year	\$720.00
2nd. Year	\$1,080.00
3rd. Year	\$1,440.00
4th. Year	\$1,800.00
5th. Year	\$2,160.00

Improvements

HNR proposes to spend \$20,000. in general improvements. Much of the expenditure will be spent on equipment needs such as the cappuccino cart, bakers' oven, dishwasher, tables and chairs, remodelings to the existing indoor counter, and mechanical and electrical work.

Extension Request

It has been the Board's practice to seek public proposals whenever a new business opportunity arises or if they do not wish to continue with an existing lessee once their term has expired. In this case, the proponent is the management team working for Miriams, the existing lessee. Miriams have requested an assignment of their current lease to HNR but with only two months remaining under the agreement it would be easier from a legal perspective to allow the present lease to expire and award a new lease to HNR. They are prepared to inject some additional monies into the operation in order to increase sales and improve the existing level of service.

Based on past experience at this location, it is doubtful if a new request for proposals would result in a better offer to the Board. It is believed that HNR should be given the opportunity to continue for a further five year term and the operation assessed again before the end of that period.

JUSTIFICATION

The existing management team of Miriam' s at the Aquatic Centre has provided good service and should be given the opportunity to continue improving and expanding the service.

The inclusion in the rent of an amount in lieu of property taxes is consistent with other recently negotiated renewals by the Board.

Prepared By:
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