

Date: June 28, 2006



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

RECOMMENDATION

- A. THAT the Board approve a rent of 8% of gross revenue for the Prospect Point Café for the period December 1, 2004 – November 30, 2009.*
- B. THAT the Board approve a five year renewal option for the Prospect Point Café for the period December 1, 2009 – November 30, 2014 based upon a minimum capital expenditure of \$500,000.*
- C. THAT all building deficiencies identified in a 2006 building inspection be completed by May 1, 2007.*
- 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

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 service take-out components. 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. It was and still 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 of the lessee and compliance with all terms of the lease.

Renovations to the facility, estimated to cost \$1,500,000 were to be completed within a two year time frame (December 1, 1994 - November 30, 1996). This condition was fulfilled.

The rent for the first two years (December 1, 1994 - November 30, 1996) was set at 7% of total gross revenue (including liquor) and the next three years (December 1, 1996 - November 30, 1999) at 8% of total gross revenue (including liquor).

In January 2000, the Board approved the rent at Prospect Point remaining at 8% of total gross revenue for the next 5 years (December 1, 1999 - November 30, 2004).

In November 2004, the Board approved the postponement of the rent review and the amount in lieu of property tax for one year as the lessee was contemplating some significant capital improvements. Under consideration was the reconstruction of the former historic signal station that would be used as both an interpretative centre and additional food service outlet.

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 a 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 extremely busy during the summer months. The gift shop offers a wide variety of merchandise including local and Canadian souvenirs and gifts.

Lessee Improvements

Due to the high cost of re-establishing the signal station the lessee decided his priority at this time would be to inject capital funds into the renovation of the existing facility. In the past year over \$350,000 has been spent covering the outside deck, expanding and renovating the gift shop and upgrading utility services. In addition, \$182,000 has been spent on furniture and equipment.

A building inspection by staff this year determined that a further \$75,000 should be spent by the lessee on several deficiencies including upgrades to the sprinkler system, deck supports and perimeter cladding. It is proposed to give the lessee until May 1, 2007 to complete this work.

The total cost of capital and maintenance improvements will be approximately \$600,000. Staff recommend that the lessee be given a further five year option from December 1, 2009 to November 30, 2014 in return for this additional capital investment. A rent review will be undertaken before the renewal term.

Rent Review

In 2005 the gross revenue at the Café was \$2,007,983 and the rent to the Board was \$160,684 plus an additional \$29,807 in lieu of property tax.

The amount in lieu of property tax, which was \$6.00/sq ft in 2005, is adjusted each year to take into account any change to the property tax rate for commercial businesses in Vancouver. In 2006 it will be \$6.13/sq ft.

There has been a comprehensive rent review for Park Board restaurants during the past year and the Board has approved a rent of 6% of gross sales at the Sequoia Grill, Seasons in the Park and the Fish House. At present, 54% of the Café's revenue is generated from the restaurant and 46% from the gift shop and take-out concessions. These two components have a lower labour cost than the restaurant and the Board has historically obtained rents of 10% or higher from other leased or licensed businesses.

It is therefore recommended to continue charging the Prospect Point Café an overall rent of 8% of gross revenue. From an administrative point of view collecting a blended rent is easier for both the Operator and the Board and provides the Operator with the incentive of maximizing sales in all areas of the business. Although there are no similar operations to the Prospect Point Café there are several leased operations that have two components (for example, the Watermark at Kits Beach has a restaurant and a concession component) and a blended percentage rent is levied on all sales.

SUMMARY

The Prospect Point Café is a diversified operation serving a varied clientele throughout the year. It is believed the injection of capital funds to improve the facility will help maximise revenue and provide an improved level of service to the public. The Board will therefore benefit from both an increased rent and a well-maintained building for the next five year term.

Prepared by:

Stanley District
Vancouver Board of Parks and Recreation
Vancouver, BC

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