
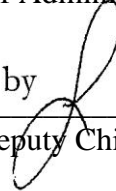


Item No. 11.1.4
Halifax Regional Council
November 8, 2011

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Original signed by 
Richard Butts, Chief Administrative Officer

Original Signed by 
Mike Labrecque, Deputy Chief Administrative Officer

DATE: October 7, 2011

SUBJECT: Commercial Retail Lease Proposal - Halifax Ferry Terminal

ORIGIN

This report originates from the Lease end and subsequent vacating of Tim Hortons at the Halifax Ferry Terminal, and a request from Metro Transit for retaining a new commercial retail tenant for the Halifax Ferry Terminal. The negotiated lease term of ten (10) years, with a renewal of five (5) year terms, exceeds the delegated authorities of the CAO and requires approval by Halifax Regional Council.

RECOMMENDATION

It is recommended that Halifax Regional Council authorize the Mayor and Municipal Clerk to enter into a Lease Agreement between the Halifax Regional Municipality (Landlord) and Starbucks Coffee Canada, Inc. (Tenant), based upon the terms and conditions as outlined in Table 1 and the Budget Implications of this report.

BACKGROUND

The Halifax Ferry Terminal houses a 300 square foot commercial retail space. This space had been occupied by Tim Hortons for over fifteen years. Tim Hortons vacated in May 2011 and relocated to the former Perk's Coffee Shop adjacent the Ferry Terminal¹.

Earlier this year, staff began the process of marketing the leasable premises at the Ferry Terminal through an assignment to an approved qualified brokerage firm, CB Richard Ellis. Interest was received from several local and national coffee houses; however, the process only yielded one formal lease proposal offer from Starbucks Coffee Canada, Inc.

DISCUSSION

The subject premises at the Halifax Ferry Terminal is a very attractive commercial location for retail food service, and a successful vendor is of strategic importance in terms of offering Transit customers, downtown visitors, and employees a service at this location. The negotiated proposal with Starbucks provides an experienced operator and solid financial terms for the Municipality. From a base rent perspective, the negotiated rate of \$150 per square foot is top market pricing for this category of retail food service.

The recommended financial terms and conditions of the Starbucks Lease are outlined in Table 1 below:

TABLE 1

<i>Premises</i>	5077 George Street, Halifax
<i>Landlord</i>	Halifax Regional Municipality
<i>Tenant</i>	Starbucks Coffee Canada, Inc.
<i>Rental Area</i>	300 sq. ft.
<i>Term</i>	Ten (10) year initial term. Anticipated to commence February 1, 2011, after tenant fixturing period.
<i>Base Rent</i>¹	\$150 per sq. ft. (\$45,000 per annum plus HST) Years 1 to 5 \$167 per sq. ft. (\$50,000 per annum plus HST) Years 6 to 10
<i>Option to Renew</i>	Five (5) year at market value to a maximum of 10% of previous term or \$55,000
<i>Additional Rent by Tenant</i>	Utilities, realty taxes, daily operating, maintenance and repairs of the premises

¹ The new Tim Hortons is a sub-tenant of MGL Investment Limited. MGL owns the former Perk's premises and holds a ground lease for the lands which are municipally owned. As part of our approval of the sub-tenancy, MGL waived its right of first refusal on the Halifax Ferry Terminal prior to the Municipality bringing the space to open market.

<i>Tenant Leasehold Allowance</i>	A Landlord Tenant Improvement Allowance of \$25,000 towards the cost of the Tenant's Fit-Up. Allowance shall be paid upon store opening. Tenant shall be provided with an eight (8) week fixturing period and the first three (3) months free of base rent. The Tenant will pay additional rent during the fixturing period.
<i>Landlord Base Building Work</i>	The Landlord shall provide the premises in an " as is " condition, save and accepting that it shall perform the following Landlord base building work: <ul style="list-style-type: none"> • Create or supply a garbage enclosure suitable for the Tenants refuse and recycling. This shall be exclusive or shared in common with the Halifax Ferry Terminal and/or any other Tenants; • HVAC supplied to the Premises, two (2) ton capacity; and • 200 Amp 3 Phase Power.
<i>Special Conditions</i>	The Landlord agrees that it shall not complete any re-development (this would not include required maintenance or emergency work) of the Halifax Ferry Terminal within the first five (5) years. However, should the Tenant exercise its option to renew for any subsequent terms, they will agree to a redevelopment clause that will allow the Landlord to renovate or redevelop all or part of the facility, provided the Tenant is given a six (6) month notice to terminate the lease and any remaining extended term(s).

BUDGET IMPLICATIONS

Lease revenue to Metro Transit over the full term of this proposed lease is \$738,750.00, minus estimated lease expenses in the amount of \$62,607.76, plus net HST of \$2,683.37, for a total cost of \$65,291.13 (see attached Lease Commitment Schedule). Lease Expenses will be funded from Metro Transit Project and Operating Budgets as follows:

Expenses associated with this transaction are: tenant allowance, base building work and brokerage fees. These costs will be covered by Project No. CB200428 - Transit Terminal Upgrades & Expansion, and operating account number R624 - Metro Transit Administration. The budget availability has been confirmed by Finance.

Budget Summary: Project No. CB200428 Transit Terminal Upgrades & Expansion

Cumulative Unspent Budget	\$2,919,631
Less: Estimated base building work (incl. Net HST)	<u>\$ 18,000</u>
New Balance	\$2,901,631

Operating Account R624 Metro Transit Administration

Less: Tenant Allowance (HST Exempt)	\$ 25,000
Less: Brokerage Fees (Incl. Net HST)	<u>\$ 22,291</u>

The balance of funds in Project No. CBC00428 (\$2,901,631) will be used for the remaining Transit Terminal Upgrades and Expansion Projects.

Adjustments or deficiency allowances resulting from the Lessee's due diligence inspection, if required, shall be to a maximum of fifteen percent of the base building work.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Project and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Project and Operating reserves, as well as any relevant legislation.

COMMUNITY ENGAGEMENT

N/A

ALTERNATIVES

Nil

ATTACHMENTS

Schedule "A" – Lease Commitment Schedule

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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Phil Townsend, Director, Planning and Infrastructure

Schedule "A" – Lease Commitment Schedule

Year	Lease Revenue	Revenue		Sub-Totals
1	\$45,000 /12mths x 9mths = \$33,750 (3 month free rent period)	\$33,750		
2-5	\$45,000 x 4 = \$180,000	\$180,000		
6–10	\$50,000 x 5 = \$250,000	\$250,000		
11– 15	\$55,000 x 5 = \$275,000	\$275,000		\$738,750
1	Lease Expenses		Expenses	
	Tenant Allowance		HST Exempt \$25,000	
	Brokerage Fees		Incl. Net HST \$22,291	
	Base Building Work (est)		Incl. Net HST \$18,000*	-\$65,291
Total Revenue Over Term of the Lease and Renewals				\$673,459

*Note: This is an estimate of costs.