



# Corporate NO: R065

# Report COUNCIL DATE: March 26, 2001\_

<b>REGULAR COUNCIL</b>			
<b>TO:</b>	<b>Mayor &amp; Council</b>	<b>DATE:</b>	<b>March 26, 2001</b>
<b>FROM:</b>	<b>General Manager, Parks, Recreation and Culture Department and the General Manager, Engineering Department</b>	<b>FILE:</b>	<b>8077-010</b>
<b>SUBJECT:</b>	<b>Guilford Recreation Centre - Coffee and Food Services Space</b>		

## RECOMMENDATION

That the City enter into a 5-year lease with two 5-year renewal terms with Esquires Coffee for a coffee and food services retail space at the Guildford Recreation Centre, with an upset limit of \$244,400 to be borrowed from the Legacy Reserve Fund.

## BACKGROUND

On July 17, 2000 Council approved in principle the issuing of a Request For Expression of Interest (RFEI) for a coffee and food retail space in the new Guildford Recreation Centre. Information packages outlining the opportunity were sent out to the nine responding companies. An outside consulting firm was used to do an analysis of the retail/commercial market with regards to the basic rent and tenant improvement allowances for the Guildford area.

## DISCUSSION

Four official proposals were received on the RFEI. These included Blimpies Subs and Salads, Seattle's Best, Sheffield Gourmet and Esquires Coffee. A review team was formed to evaluate the proposals which consisted of representatives from Finance, the Realty Services Division, Libraries and Parks, Recreation and Culture.

After a thorough evaluation was completed by the review team, Esquires Coffee was selected as the best fit for the coffee and food services space at the Guildford Recreation Centre. Esquires Coffee is a growing Surrey based company that now has 28 locations in the lower mainland, with four of them being in Surrey. All of their Surrey locations have proven to be successful. For the most part they are a franchised operation, although Esquires Coffee will be the company that signs the lease agreement for the retail space.

**Project Cost:** A total estimated cost of \$244,400 has been identified by the quantity surveyor involved with the Guildford Recreation Centre and Guildford Library projects.

This cost includes the basic interior shell, HVAC and plumbing rough-ins and interior walls. The tenant is responsible for completing the rented 1,200 square feet of interior space including all floor and wall coverings, equipment and furnishings. The relatively high cost of construction is caused by the location of the coffee shop at the exterior entrances to the Recreation Centre and Library on 105<sup>th</sup> Avenue. These additional costs include demolishing the existing façade, emergency access to the Library, the construction of a new emergency access to the Library, additional foundations due to poor soils and groundwater, new exterior cladding and glazing, exterior sidewalk, steps, and ramp for the disabled. Every attempt will be made to reduce the costs and the amount of the loan from the Legacy Reserve Fund.

**Financial Structure of Lease Agreement:** The details of the lease structure have been negotiated and concluded. The leased portion of the premise is 1,200 square feet with an initial lease term of five (5) years with two (2) options to renew for further terms of five (5) years. The net rent will be \$27 per square foot per annum for the first term, increasing to \$27.50 for the second term. A business plan was developed to assess the financial payback of the retail space lease opportunity. The plan shows a 10 year payback period for Legacy Reserve Funding borrowing of \$244,400; this is based on an annual payment of \$32,400 for the first five years and \$ 33,000 for the second five years, at an interest rate of 6%.

**Comments From Surrey Public Library Services:** Partnerships between coffee shops and the Surrey Library are long overdue. Comments from public libraries that have introduced coffee services into their high traffic locations have been extremely positive. Library staff at locations without coffee services are regularly asked for such an amenity. Customer comments at locations where coffee services have been introduced have been: “best thing you've ever done at the library”, and “it's so nice to be able to have coffee and read the newspaper at the library”. The coffee shop owners have also communicated their satisfaction with these partnerships and are looking at renewing their lease agreements.

**Business Case:** This project is a commercial project with some risk and, as such, a nominal return of 6% on the use of City funds is less than desirable. The private sector market requires an increase in return of projects with some risk; on this type of a project businesses would likely require a 10 to 12 % return on investment, based upon a 10 year repayment, as opposed to a 6 % return. While the provision of the coffee shop does enhance the service to the City's customers at the facility, the return on investment is lower than may be expected on this type of project if done privately. The presence of the coffee shop, however, is expected to have a positive overall impact on the use levels of the Guildford Recreation Centre and Library, both in terms of attracting new users and in retaining existing users. The anticipated positive impact on Recreation Centre revenues contributes to the overall Business Case for including the coffee shop operation.

There are two options as outlined below:

Option 1 The City fund the construction and enter into the lease with Esquires for a coffee shop attached to the Guildford Recreation Centre and Library building to provide for a first class facility and experience for its users. While the construction of the coffee shop can be strongly supported by the Library and Parks, Recreation and Culture in terms of improved service to their customers, it cannot be supported purely from a business perspective based upon returns expected by the private sector.

Option 2 The City not enter into a lease with Esquire Coffee and not fund the construction of the coffee shop as the return on investment is not adequate to support the level of expenditure required, based upon private sector expectations.

## CONCLUSION

Esquires Coffee is very excited about the Guildford Recreation Centre location and are very confident that this site will prove to be successful for both themselves and the City of Surrey. The provision of coffee and food services in the Guildford Recreation Centre and Guildford Library will add to the patron experience and level of service that the City will be able to provide. The leasing out of a prime location to Esquires Coffee will not only prove to be of long term financial benefit to the City, but is also expected to attract new patrons and revenues to the facility.

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