Agenda – Executive Policy Committee – March 16, 2022

Report – Standing Policy Committee on Property and Development, Heritage and Downtown Development – March 7, 2022

Item No. 3 Proposed Rental Restructuring – Inner City Retail Tenants in City-Owned Facilities

STANDING COMMITTEE RECOMMENDATION:

On March 7, 2022, the Standing Policy Committee on Property and Development, Heritage and Downtown Development Committee concurred in the recommendation of the Winnipeg Public Service, as amended, and submitted the following to Council:

1. That notwithstanding the provisions of any lease agreement, the City waive 50% of the rent and fees to be paid by the retail tenants identified in Schedule A for a period of six months (February – July 2022).

2. That the termination provision of 275 days in the Lease Agreement with Ga Hee Lee and Brad Park (operating as Seoul Nami Sushi) be amended to 30 days.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Report – Standing Policy Committee on Property and Development, Heritage and Downtown Development – March 7, 2022

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On March 7, 2022, the Standing Policy Committee on Property and Development, Heritage and Downtown Development concurred in the recommendation of the Winnipeg Public Service, with the following amendment:

- In Recommendation 1, add the words "50% of the" immediately prior to "rent and fees"

and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Title: Proposed Rental Restructuring – Inner City Retail Tenants in City-Owned Facilities

Critical Path: Standing Policy Committee on Property and Development, Heritage and Downtown Development – Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Pittet	J. Kiernan	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

The COVID-19 pandemic has reduced the number of citizens travelling to and working in downtown Winnipeg. City facilities that are leased to third party retail tenants, primarily the concourse and skywalk businesses within the Weather Protected Walkway System (WPWS), have experienced a significant decline in sales over the past two years and most retail tenants in City facilities are in a tenuous financial position.

In an effort to retain the existing retail tenants and not expand the inventory of vacant space (there are presently four vacant retail units in the WPWS), the Public Service recommends that a rental waiver be approved for the tenants outlined in Schedule A. The waiver includes monthly rental payments and Council-approved fees for new lease agreements.

The Public Service also recommends that the termination notice provision in the Lease Agreement with Seoul Nami Sushi be reduced from 275 to 30 days; this tenant is actively marketing their business for sale and have requested this reduction to limit their future rental obligations should they not be able to sell. The reduction would allow the City to market the space if required.

RECOMMENDATIONS

1. That, notwithstanding the provisions of any lease agreement, the City waive rent and fees to be paid by the retail tenants identified in Schedule A for a period of six months (February – July 2022).

2. That the termination provision of 275 days in the Lease Agreement with Ga Hee Lee and Brad Park (operating as Seoul Nami Sushi) be amended to 30 days.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Council approval is required to waive Council-approved fees.

IMPLICATIONS OF THE RECOMMENDATIONS

Requiring tenants to pay full market rent at a time when revenues are down could lead to small business bankruptcies and long-term vacancy issues within the City's Inner-City retail portfolio.

A portion of the proposed six-month rental waiver period will have elapsed (i.e. February and March 2022) prior to Council's consideration of this matter. A retroactive waiver will be required for those two months, which will be accomplished through a reversal of charges or rental credit.

Seoul Nami Sushi is actively marketing their business for sale and has requested a reduction to the termination notice included in their lease agreement in the event they are not successful. The reduced termination notice may be exercised by either party, enabling the City to market the space).

HISTORY/DISCUSSION

On March 30, 2020, the Province issued a Public Health Order as a result of COVID-19 which forced many businesses to temporarily shut down or reduce their occupancy. Most businesses have since reopened, though many continue to struggle financially.

During the initial Public Health Order, the City elected to close and/or reduce hours of the skywalk system and underground concourse within the downtown area (in addition to other City facilities). The skywalk and concourse were fully re-opened in late June 2020 under reduced hours, and returned to full operating hours in the fall of 2021.

Several tenants within the underground concourse and skywalk have been unable to reopen due to the limited daily foot traffic, or have reopened but experienced revenues at a fraction of previous levels and are not showing signs of recovery. The City's skywalk/concourse spaces can be challenging locations to secure tenants due to the level of surrounding competition. Once a City unit is occupied, it is important to retain tenants, supporting short and long-term viability.

The City's Inner-City retail tenants outlined in Schedule A have struggled to remain profitable during the pandemic. Federal Government subsidy programs do not provide full rental relief and require a minimum revenue decline to apply for the available programs.

FINANCIAL IMPACT

Financial Impact Statement

Date: January 27, 2022

Project Name:

First Year of Program 2022

Proposed Rental Restructuring – Inner City Retail Tenants in City-Owned Facilities

	2022	2023	2024	2025	2026
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 72,377	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	72,377	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Direct costs represent foregone rental revenue and lease fees. Incremental revenue consists of several new leases with total rental and fees revenue of roughly the equivalent amount (assumed to be equivalent for the purposes of this analysis. Neither the waiver nor the new lease revenue are budgeted. Given they offset each other, no budget adjustment is required.

Mike McGinn Jan. 27, 2022

Mike McGinn, CPA, CA
Manager of Finance

CONSULTATION

This Report has been prepared in consultation with:

Legal Services (as to legal issues)

OURWINNIPEG POLICY ALIGNMENT

01-3 Direction 8 – Encourage Activities Beneficial to the Winnipeg Economy

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

Poverty Reduction Strategy – Goal 3

"Equity is Embedded in all City Employment and Income Opportunities."

SUBMITTED BY

Department: Planning, Property and Development
Division: Real Estate and Land Development
Prepared by: Bridget Peterson, Property Administrator
Date: February 3, 2022
File No:

Attachments: Schedule A

SCHEDULE A				
Property	**Lease**	**Lease From**	**Lease To**	**Proposed Rent and Fee Waiver**
Graham Ave, 266 (SKYWALK)	Kowintco Inc. o/a Subway	09/01/12	02/28/23	$14,893.20
Main St, 365 (CONCOURSE)	Julia Heeyung & Andrew Ryu (Lottery Kiosk)	01/01/17	08/31/23	$1,451.68
Main St, 365 (CONCOURSE)	Thom Bargen Coffee & Tea Inc.	01/15/18	04/30/23	$2,473.32
Main St, 365 (CONCOURSE)	Ga Hee Lee and Brad Park o/a Seoul Nami Sushi	05/13/19	05/12/24	$6,988.12
Main St, 365 (CONCOURSE)	Kyung Ho Lee & Hamin Jun	02/01/10	Expired, month to month	$12,053.32
Main St, 365 (CONCOURSE)	Seon Hee Park d/b/a Cutting Station	06/01/13	10/31/22	$7,536.68
Main St, 365 (CONCOURSE)	Deals for Dollars	03/01/10	Expired, month to month	$20,063.32
Sargent Ave, 999 (CINDY KLASSEN CENTRE)	Phaivanh Somvichith, c/o Kim Tuong Express	04/01/09	Expired, month to month	$6,917.30
TOTAL				**$72.376.94**