



## REAL - YQR Distillery Ltd. Lease

<b>Date</b>	August 4, 2021
<b>To</b>	Executive Committee
<b>From</b>	Financial Strategy & Sustainability
<b>Service Area</b>	Land, Real Estate & Facilities
<b>Item No.</b>	EX21-56

### RECOMMENDATION

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The Executive Committee recommends that City Council:

1. Consent to REAL entering into a Sublease to YQR Distilleries Ltd. of a portion of the City-owned property and facilities located at 1700 Elphinstone Street (Campus) for a potential total term, including all possible extensions, of 80 years and otherwise in accordance with the terms and conditions as described in the Discussion section of this report and further summarized in Appendix A. (Pursuant to the approval of the Campus Lease Agreement between the City and the Regina Exhibition Association Limited (REAL) and Master Site Plan.)
2. Delegate authority to the City Manager, or his designate, to provide written confirmation on behalf of the City of said consent.
3. Delegate authority to the City Manager, or his designate, to sign or authorize the signing of any required planning permits on behalf of the City, as landowner, to initiate any necessary planning processes for the development contemplated by the said Sublease.
4. Approve these recommendations at its meeting on August 11, 2021, after giving public notice in accordance with *The Public Notice Policy Bylaw, 2020*.

## ISSUE

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Further to a Campus Lease Agreement (Campus Lease) which is under consideration concurrent with this report, between the City of Regina (City) and the Regina Exhibition Association Limited (REAL), REAL leases and is responsible for the operation, maintenance and development of the City owned property and facilities located at 1700 Elphinstone Street (Campus). In accordance with the Campus Lease, REAL has requested the City's consent to enter into a Sublease (see Appendix A) to YQR Distillery Ltd. of a portion of the Campus, being the building known as the Agribition Building, and located as shown on the attached Appendix B. City Administration has reviewed the Sublease and confirmed that the terms and conditions contained within are consistent with the requirements of the Campus Lease as well as with terms and conditions as might be typically provided by the City for like ventures. The responsibility of the day-to-day operation and management of the Sublease will rest with REAL.

Pursuant to the terms of the Campus Lease, REAL is authorized to Sublease portions of the Campus, without the City's consent, on condition that, among other requirements, the term of the Sublease does not exceed the current term of the Campus Lease. In this case the proposed Sublease, if fully extended, is for a total term of 80 years which exceeds the current term of the Campus Lease. Accordingly, City Council approval is required.

Administration is recommending the City consent to REAL entering into the Sublease as presented by REAL and as described in this report.

## IMPACTS

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### **Policy/Strategic**

The Campus Lease authorizes REAL to enter into Subleases of the site, subject to obtaining the City's prior consent where the proposed term of the Sublease could exceed the current term of the Campus Lease. Section 41 of *The Regina Administration Bylaw* authorizes the City Manager to approve leases of City owned property with some exceptions, including any lease involving a term over 10 years.

In this instance, Council approval is required as the potential term of the proposed Sublease is both longer than the current term of the Campus Lease and exceeds 10 years.

The proposed development is consistent with policy 12.6 of *Design Regina: The Official Community Plan Bylaw 2013-48* in Section D10 Economic Development Goal 2 Economic Growth:

- 12.6 Collaborate with community economic development stakeholders across the region to leverage shared economic advantages and tourism opportunities, including but not limited to:

12.6.4 Maximizing potential linkages and leveraging special economic assets such as Innovation Place, the Global Transportation Hub, Regina International Airport, the University of Regina and other specific lands and land uses with high linkage/spinoff potential.

REAL Campus is the largest civic and sport resource in the city. This development is consistent with REAL Strategic Plan for the Campus, which was previously supported by City Council. It supports the continuing financial vitality of the Campus by increasing activation of the site and provides an additional opportunity for services to residents, users of the Campus and the travelling public. The development expands the Campus to support its place as an important community destination, point and institution.

The Campus is located within, and part of the City Centre Core as identified in the City's *Design Regina: The Official Community Plan Bylaw*. In the proposed Sublease, REAL agrees that its use, management and development of the Campus, including development of the Master Site Plan, will be consistent with the vision and guiding principles as established in the City Centre Core Framework approved by City Council on April 14, 2021.

### **Financial**

The City will not see a direct revenue stream from this lease as rental revenues are retained by REAL. However, the revenue will assist in offsetting operational costs to REAL and fulfilling its obligations under the Campus Lease with respect to the repair, maintenance and capital renewal of the Campus. The annual lease rate for the Sublease starts at \$420,000 (based on a 42,000 square foot lease at \$10/square foot) and increases annually at the lesser of three per cent or the increase to all items consumer price index for Saskatchewan. Operational costs are payable by the tenant at an apportioned rate relative to their use.

REAL and/or the tenant will be responsible for the cost of any new, or changes to existing, infrastructure that may be required to directly or indirectly support any proposed subject related to the Sublease, in accordance with City standards and applicable legal requirements.

Administration estimates the City will receive \$34,200 in new municipal property tax revenue. The library portion of the property tax is estimated at \$3000 and the school portion at \$19,500.

The City will retain ownership of the land.

### **Environmental**

City Council set a community goal for the City of Regina of achieving net zero emissions and sourcing of net zero renewable energy by 2050. In support of this goal, City Council asked Administration to provide energy and greenhouse gas implications of recommendations so that

Council can evaluate the climate impacts of its decisions. The recommendations in this report have limited direct impacts on energy consumption and greenhouse gas emissions.

## **OTHER OPTIONS**

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City Council could refuse to consent to the Sublease or provide consent subject to conditions or to REAL negotiating changes to any specific terms that are of concern.

## **COMMUNICATIONS**

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Public notice of the Campus Lease, including the granting of authority to sublet the property, was given in accordance with *The Cities Act* and *The Public Notice Policy Bylaw, 2020*. Because the proposed Sublease has the potential to extend beyond the current term of the Campus Lease, public notice of Council's intention to consider this matter was also given in accordance with applicable legislation.

A copy of this report has been provided to REAL and Council's decision will also be provided to REAL who will communicate with the proposed tenant.

## **DISCUSSION**

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REAL is a non-profit, municipal corporation wholly controlled by the City of Regina. REAL's corporate mandate includes that it will "develop, operate and maintain the City and other facilities to provide world-class hospitality for trade, agri-business, sporting, entertainment and cultural events that bring innovation, enrichment and prosperity to the community." In February 2020, REAL presented the City's Priorities and Planning Committee with its renewed Strategic Plan for 2020-2035 outlining its intention to expand existing and develop new commercial opportunities on the Campus that support its mandate.

REAL has historically undertaken the care and management of the Campus pursuant to previous operating and leasing agreements entered into with the City over many decades.

By separate report, the City considered an updated Campus Lease Agreement with REAL that reflects the continuation of the traditional scope of REAL's role in relation to the Campus, but also includes expanded authority to pursue new development and subleasing opportunities for portions of the Campus where such proposals are consistent with the Strategic Plan, the approved Master Site Plan and other conditions as outlined in the Campus Lease. Council has also recently approved a Master Site Plan for the Campus, which identifies site layout, proposed development parcels, existing facility uses and proposed land uses. The proposed Sublease complies with both the requirements of the Campus Lease and with the use identified for this location on the Master Site Plan.

Further to its overall role in managing and operating the Campus and its authority under the Campus Lease, REAL has secured and vetted the proposed tenant and is directly responsible for negotiating the commercial terms for the proposed Sublease and for managing the rights and obligation of the landlord thereafter. However, based on the length of the proposed term, which, if fully extended, has the potential to extend the Sublease beyond the current term of the Campus Lease, the City's consent is required.

The key business terms of the Sublease for which consent is requested are outlined below:

- **Tenant** – The proposed tenant, YQR Distillery Ltd., is a locally owned company controlled by Sperling Silver Distillery Ltd. that has operated in Saskatchewan since 2012.
- **Leased Premises & Use** – The proposed leased premises are within the Agribition Building located within the Campus. The tenant will have exclusive occupancy of approximately 42,000 square feet, comprising the majority of the building, except for approximately 10,000 square feet of shared common area. The leased space will be used only for those purposes described as: operating a distillery/warehouse/production facility for alcoholic beverages, a liquor supplier, a liquor store with drive thru access, and a banquet room/restaurant/brew pub, including an outdoor patio space. Subject to REAL's consent, the tenant may also operate a culinary and brewing educational institute on the premises.
- **Term** – The Sublease is granted for an initial term of 40 years, with an option for the tenant to extend the terms for two subsequent terms of 20 years each. The full term, if all options are exercised, is 80 years.
- **Rent** – Rent escalates annually over the term, increasing by the lesser of the Consumer Price Index or three per cent and starting at \$10.00 per square foot of lease area in the first year. The rental rate was established by Colliers International and determined to be commercially competitive.
- **Taxes** – The tenant is responsible for payment of the applicable property taxes to be assessed against the leased premises.
- **Tenant Improvements/Work** – The tenant is responsible, at its expense, for construction of all required improvements to the building and the leased premises, including the installation of any additional servicing capacity required for its intended use of the premises and acquiring the necessary permits for the same. REAL is responsible for acquiring the requisite development approvals specific to allow for the leasing and operation of the planned activities as proposed.

- **Other** – The Sublease is subject to the satisfaction or waiver of the following conditions precedent:
  - approval by REAL's board of directors which was obtained by resolution made at its meeting on July 22, 2021
  - approval by City Council; and
  - receipt by the tenant of all governmental approvals and permits for its proposed operations.

If either of the later two conditions are not met, the Sublease will not proceed.

## **DECISION HISTORY**

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On April 29, 2020 (CR20-24), City Council authorized REAL to pursue material alterations to the Campus for the development of commercial opportunities which are aligned with their REAL 2.0 Strategic Plan.

This lease has not been before Council prior to today.

The recommendation contained in this report requires City Council approval.

Respectfully Submitted,

Respectfully Submitted,



Sauna Bzdel, Director, Land, Real Estate & Facilities

7/21/2021



Barry Lacey, Exec. Director, Financial Strategy & Sustainability

7/27/2021

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## **ATTACHMENTS**

Appendix A - Sublease Summary

Appendix B - Plan Diagram