



### **Agenda Action Form Overview**

The Board is requested to approve and authorize execution of a Lease Agreement with Neighbor's LLC to operate a restaurant in the County Administration Building II located at 201 E Main Street, in accordance with the terms and conditions as set forth in the Lease Agreement attached to this Agenda Item. The proposed lease term is 10 years with options for two 5-year renewals. The starting lease rate for the first 10 years \$52,656 per year for the first two years, escalating to \$65,820 for years 9 and 10. The lease agreement requires that Neighbor's complete all upfit construction within 180 days at their cost, with the County contributing \$100,000 toward the total cost for all tenant improvements in the form of a rental offset. The restaurant is anticipated to be open by the end of 2019. Neighbor's will be a diner style restaurant, serving breakfast, lunch and dinner. The owners also intend to seek an ABC permit to sell beer and wine.

### **Background/Justification**

The renovation of the Durham County Administrative Building II included two first floor spaces designed and built to provide restaurant lease spaces. These spaces are considered "cold, dark shells," meaning that there is no heat, lighting or finishes installed. Each lease space is separately metered for electricity, natural gas, and water, and tenants are responsible for all utility costs. Tenants must design and install all electrical, plumbing, and mechanical systems (HVAC) needed to operate. The County will contribute \$100,000 toward the cost of these improvements through an offset to the lease rate over the first 5 years of the lease term rather than as a cash contribution. It is standard practice in restaurant leases for the landlord to provide funds towards the initial upfit, which includes improvements made to the space which are left behind at the end of the lease. The tenant will pay Additional Rent to cover the cost to the County for trash and recycling services for the restaurants, and maintenance of the grease trap which is shared between the two lease spaces.

In June 2018, the Board endorsed the plan for leasing the restaurant space in Admin II. The process for securing the best tenant fit for these highly visible spaces was defined around a set of Guiding Principles that spelled out the County's objectives for the new restaurant spaces, including: activation of East Main Street with pedestrian activity and outdoor dining, presentation of a strong business plan and a solid financial position to ensure long-term success, a process that encouraged diverse and small business participation, high quality menu options at moderate prices, and something unique in the market to stimulate interest and encourage customer loyalty.

In August 2018, staff issued a Request for Proposals seeking tenants for both spaces. Submissions were due in October 2018, but because no proposals were received, the deadline was extended to January 2019. The County then received two proposals; however, one later withdrew.

Neighbor's LLC responded to the County's Request for Proposals in January 2019. Their proposal was generally found to be in alignment with the requirements of the RFP. Staff engaged the services of TradeMark Properties to assist in evaluating the business plan, financial capacity and viability of the proposal, and advise the County in negotiating the Letter of Intent and Lease Agreement with Neighbor's. The parties have concluded negotiations, and the proposed terms and conditions are now presented to the Board for its approval.



**Policy Impact**

This is Durham County's first lease for restaurant space in the newly renovated Admin II building. The Board has been very supportive of having commercial restaurant space on the first floor to support multiple downtown goals, particularly activating this stretch of Main Street with uses that are open in the evenings and on weekends. This lease supports the guiding principles for leased space, approved by the Board in June 2018 and listed above.

The attached Lease Agreement supports Strategic Plan Goal 1 "Community Empowerment and Enrichment," and Goal 5 "Accountable, Efficient and Visionary Government"

**Procurement Background**

Staff worked with the Purchasing Division to prepare and issue the RFP, in conformance with all applicable statutes. Although this is not a purchase per se, standard Purchasing rules and protocols were followed.

**Fiscal Impact**

Based on the lease rates for each year of the proposed Lease Agreement, Durham County will receive \$583,604 over the initial ten-year lease period, minus the offset to the rental rate equal to \$100,000 for a net of \$492,380.

Tenant will pay Additional Rent to allow the County to fully recover the cost of trash/recycling removal, and grease trap maintenance. This cost is passed through to the Tenant at full costs without any overhead or administrative fee added.

**Recommendation**

The County Manager recommends that the Board approve and authorize execution of a Lease Agreement with Neighbor's LLC to operate a restaurant in the County Administration Building II located at 201 E Main Street, in accordance with the terms and conditions as set forth in the Lease Agreement attached to this Agenda Item.