

Food Incubator Tenancy Program at 5200 Yonge Street

Date: May 26, 2021

To: General Government and Licensing Committee

From: Interim General Manager, Economic Development and Culture, and Executive Director, Corporate Real Estate Management

Wards: 18 – Willowdale

SUMMARY

This report seeks City Council authority to create a food incubator tenancy program (the "Food Incubator Tenancy Program") that will encourage the establishment and initial growth of small food businesses in the city.

Through the Food Incubator Tenancy Program, the City of Toronto (the "City") will enter into lease agreements with eligible start-up food entrepreneurs at below market rent for four (4) food stations equipped with commercial-grade kitchen appliances in a space of approximately 7,235 square feet (the "Food Incubator Tenancy Space"), located on the ground floor and second floor of the condominium building at 5200 Yonge Street. Alternatively, the City can enter in a lease agreement with a head tenant, who would subsequently enter into sub-leases with eligible start-up food entrepreneurs at below market rent.

The City will also enter into a lease agreement with a not-for-profit organization or a public post-secondary educational institution at below market rent for an approximately 425 square feet space adjacent to the food stations, equipped with a full kitchen plus a large pizza and hearth oven. This space is known as the Food Learning Innovation Place (F.L.I.P.).

Food vendors and the F.L.I.P. operator will be chosen by a Tenant Selection Committee comprised of the local Councillor, City staff and members from academia. The Food Incubator Tenancy Program will help selected eligible start-up food entrepreneurs reduce their investment and business risk and support the revitalization of the food retail industry during and after the COVID-19 pandemic.

RECOMMENDATIONS

The Interim General Manager, Economic Development and Culture, and the Executive Director, Corporate Real Estate Management, recommend that:

1. City Council authorize the Food Incubator Tenancy Program to encourage the establishment and initial growth of small food service businesses pursuant to section 84 of the City of Toronto Act, 2006, as described in Appendix C of this report;
2. City Council authorize the Executive Director, Corporate Real Estate Management, to approve and execute below market rent lease agreements with:
 - a. eligible owners of small food businesses, to be selected by the Tenant Selection Committee, to lease the four (4) food stations located on the ground floor of the condominium building located at 5200 Yonge Street within the Food Incubator Tenancy Space, substantially based on the terms and conditions listed in Appendix D, and on such other or amended terms and conditions acceptable to the Executive Director, Corporate Real Estate Management, or their designate and in a form acceptable to the City Solicitor; or
 - b. a not-for-profit organization or a public post-secondary educational institution, to be selected by the Tenant Selection Committee, as the head tenant to lease the four (4) food stations at the Food Incubator Tenancy Space to eligible owners of small food business, substantially based on the terms and conditions listed on Appendix E, and on such other or amended terms and conditions acceptable to the Executive Director, Corporate Real Estate Management, or their designate and in a form acceptable to the City Solicitor; and
 - c. a not-for-profit organization or a public post-secondary educational institution, to be selected by the Tenant Selection Committee, to lease the Food Learning Innovation Place space, substantially based on the terms and conditions listed on Appendix F, and on such other or amended terms and conditions acceptable to the Executive Director, Corporate Real Estate Management, or their designate and in a form acceptable to the City Solicitor.

FINANCIAL IMPACT

The leases and subleases entered into under the Food Incubator Tenancy Program will follow a cost recovery principle. In accordance with the leases and subleases, the tenants and sub-tenants will be responsible for all operating costs and property taxes related to the Food Incubator Tenancy Space. In the current year, costs are expected to be fully recovered, assuming compliance with the lease and subleases, resulting in a net zero impact to the City. Any adjustments required to the budget in relation to emerging operational changes will be submitted for consideration as part of the 2022 Budget process for Economic Development and Culture.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

DECISION HISTORY

At its meeting on July 16, 2013, City Council adopted “Final Report - Official Plan Amendment and Zoning By-law Amendment Applications - 5182-5192, 5200 and 5218 Yonge Street” and authorized the City to enter into a Section 37 Agreement with the developer of 5200 Yonge Street to secure the property.

<https://www.toronto.ca/legdocs/mmis/2013/ny/bgrd/backgroundfile-58890.pdf>

COMMENTS

Background

The Greater Toronto Area ("G.T.A.") possesses all of the qualities to support a globally competitive food and beverage cluster. It has a strong urban core, a diverse labour pool, connections to nearby rural agricultural lands and an existing base of innovation. The G.T.A. is already home to the largest concentration of food and beverage manufacturers in Canada, and is one of the largest food and beverage clusters in North America. In 2015, annual food and beverage sales in the G.T.A. exceeded \$21 billion.

The restaurant and hospitality sector is a major contributor to Toronto's economy and prior to the onset of the pandemic in March 2020, was growing rapidly. For the first time in recent history, the food service sector was surpassing the food retail sector in sales, meaning that more money was being spent on prepared, in-service and take-out food than on food purchased for home consumption. Since the start of the COVID-19 pandemic, the restaurant industry has been impacted by reduced seating, total lockdown measures, and shifts in demand. It is expected that the COVID-19 pandemic will be responsible for a significant number of closures of independent, street level restaurants in the coming years.

Rationale for the Food Incubator Tenancy Program

Given the above noted challenges, the City will need to respond with ways to support new entrants into the industry in order to successfully fill these vacant spaces and foster small business recovery. Smaller footprints for restaurants and the creation of ghost kitchens (commercial cooking space with no dine-in option shared by numerous operators), food halls and community marketplaces are retail models that can replace or complement full service food and beverage operations and be more resilient to the impacts of future pandemic like sector threats. According to the Food and Beverage Magazine, the global market for ghost kitchens and virtual brands, which was \$43.1 billion in 2019, is on track to be in excess of a \$1 trillion business globally by 2030.

The creation and capital financing of a food service operation can be daunting for new entrants to the industry. Both equipment and infrastructure costs make it challenging for new and diverse entrepreneurs wishing to build a food business. The failure rate for new restaurants in the first three (3) years of operation is approximately 20 percent. Profitability of the food service industry is quite low with most independent operators achieving a three (3) to four (4) percent net profit. Many food service businesses, as the COVID-19 pandemic illustrates, cannot survive extended business interruptions or significant economic downturns, especially in the absence of extraordinary government support measures.

The purpose of this Food Incubator Tenancy Program is to provide the infrastructure and training through the City's Small Business Enterprise Centre program ("Enterprise Toronto") to allow start-up food entrepreneurs to begin a new and innovative food service business of their own in a shared food hall equipped with commercial-grade kitchen appliances. This program is also consistent with the objective of laying the foundation for Toronto's social and economic recovery as outlined in EX17.1 "Towards Recovery and Building a Renewed Toronto".

Food Incubator Tenancy Space at 5200 Yonge Street

The location at 5200 Yonge Street is two (2) blocks north of the City's North York Civic Center and Toronto Transit Commission North York Centre Subway Station, and less than five (5) minutes to Highway 401 by automobile. The building itself has underground access to the subway station. There are 374 residential units above the Food Incubator Tenancy Space within the building, as well as 38,500 square feet of office space. In the local area, there is approximately eight (8) million square feet of office space, three (3) theatres, numerous restaurants and large format retailers. The location provides great access to condo residents and street traffic. A location and site map is included in Appendix A.

The Food Incubator Tenancy Space is located on the northeast corner of the condominium building located at 5200 Yonge Street. This space will be conveyed to the City imminently as part of the Section 37 benefit related to the development of 5200 Yonge Street.

The Food Incubator Tenancy Space consists of three (3) major areas:

Area One (1) - The Food Hall and Food Stations

Within the 4,995 square foot food hall located on the ground floor, there are four (4) commercial grade food preparing stations and display areas (the "Food Stations"), which will allow four (4) tenants the ability to run their own food service operation in order to prove concept. Each station ranges from 200 to 290 square feet and includes commercial grade kitchen equipment, which will be conveyed to the City along with the property. The food hall also features 21 foot ceilings and over 200 feet of frontage onto Yonge Street.

Area Two (2) - the Food Learning, Innovation Place ("F.L.I.P.")

The F.L.I.P. is a 425 square foot space located at the front of the food hall and includes a full kitchen plus large pizza and hearth oven.

Area Three (3) - the Common Areas

Common areas include a common seating area, cleanup and dishwashing station, dedicated washrooms, and a mechanical room.

The common seating area will offer food court style tables and chairs to be shared by all tenants. A shared clean up and dishwashing station located in the middle of the food hall will also be provided for all the tenants. The dedicated washrooms and mechanical room are located on the mezzanine level directly above the food hall.

The layout of the Food Incubator Tenancy Space is included in Appendix B.

Food Incubator Tenancy Program

Through the Food Incubator Tenancy Program, the City of Toronto (the "City") will enter into lease agreements with eligible start-up food entrepreneurs at below market rent for the food stations. Alternatively, the City can enter in a lease agreement with a head tenant, who would in turn enter into sub-leases with eligible start-up food entrepreneurs at below market rent.

The City will also enter into a lease agreement with a not-for-profit organization or a public post-secondary educational institution at below market rent for the F.L.I.P.

The food vendors and F.L.I.P. operator will be chosen by a Tenant Selection Committee comprised of the local Councillor, City staff and members from academia. The Program will help selected eligible start-up food entrepreneurs reduce their investment and business risk and support the revitalization of the food retail industry during and after the COVID-19 pandemic.

For more details of the Food Incubator Tenancy Program, please see Appendix C.

CONTACT

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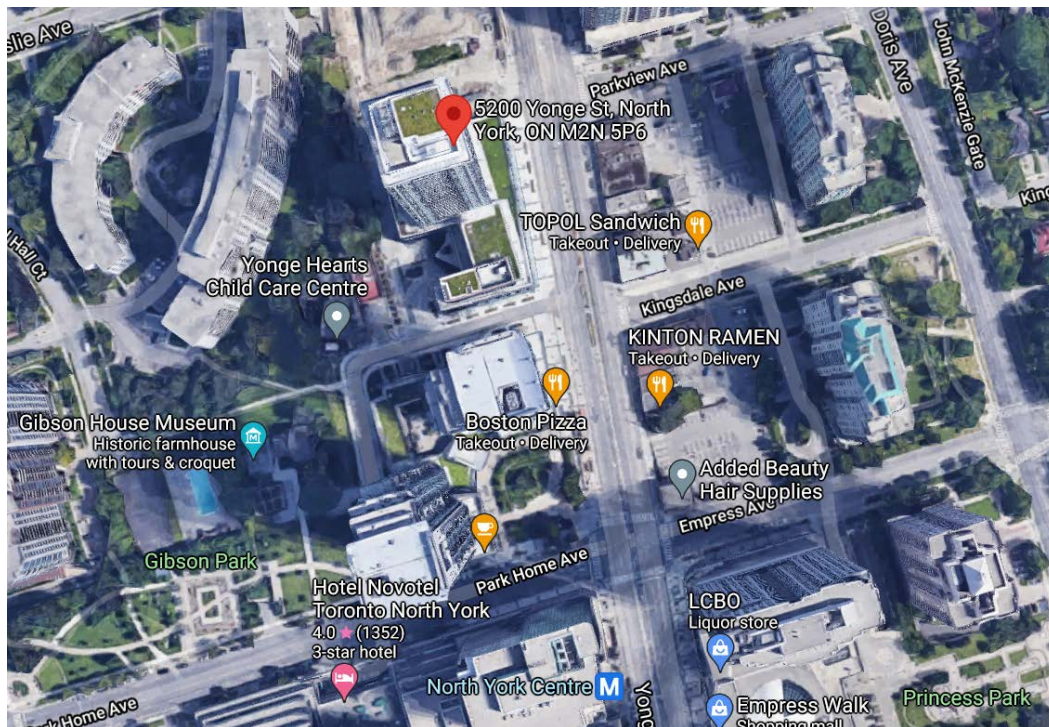
Cheryl Blackman
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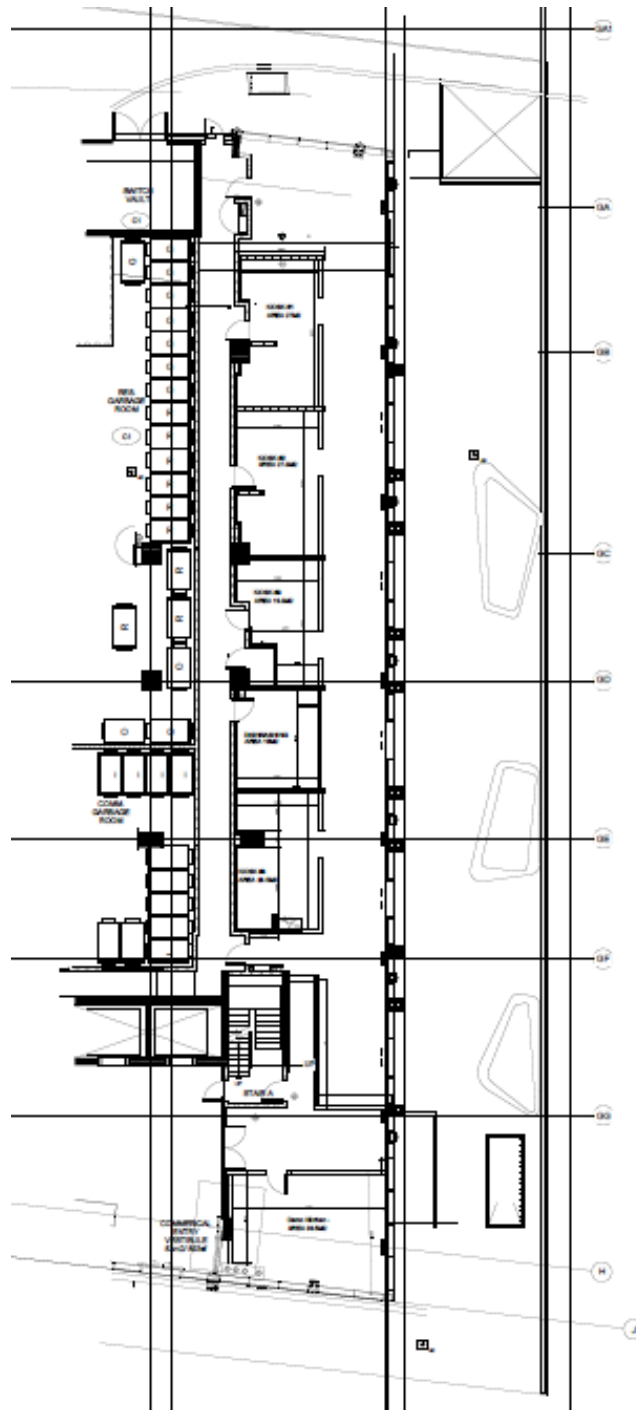
ATTACHMENTS

Appendix A – Location Map and Site View of the Food Incubator Tenancy Space
Appendix B – Layout of the Food Incubator Tenancy Space
Appendix C – The Food Incubator Tenancy Program
Appendix D – Major Terms and Conditions of the Food Station Lease
Appendix E – Major Terms and Conditions of the Food Station Head Lease
Appendix F – Major Terms and Conditions of the F.L.I.P. Space Lease

Appendix A - Location Map and Site View of Food Incubator Tenancy Space



Appendix B - Layout of the Food Incubator Tenancy Space



Appendix C - The Food Incubator Tenancy Program

The Food Incubator Tenancy Program is established to allow start-up food entrepreneurs with some food production experience to begin a new and innovative food service business of their own in a shared food hall equipped with commercial grade appliances, on a cost recovery basis and at below market rent.

As many food service operators are providing take out service during the COVID-19 pandemic while indoor dining is not allowed, each tenant will also be allowed to provide grocery and take-out items with small essential grocery needs for the residents in the area. For the most part, these tenants will provide quick service grab and go items to their patrons.

i) Tenancy for the Food Stations

The four (4) tenants will be selected to operate the four (4) food stations. The leases with the tenants will offer below market rent and follow a cost recovery principle. The lease term will be two (2) years with an option to extend for one (1) year. Please refer to "Additional Rent (Operating Costs)" in Appendix D for cost recovery details.

The invitation for tenancy application will be distributed through various channels within the food service industry. The four (4) tenants or a head tenant, will be selected by an established Tenant Selection Committee consisting of the local City Councillor, staff from Economic Development and Culture, Corporate Real Estate Management and Social Development, Finance and Administration, and representation from academia. A scoring mechanism is being developed and each of the applications will be reviewed under the scoring regime by representation of the Tenant Selection Committee with the full committee responsible for the final 4 selections.

Major vendor selection criteria include:

- Tenant cannot duplicate/be in competition with other tenants in the Food Incubator Tenancy Space;
- Tenant cannot be a chain operator or run a successful service restaurant elsewhere;
- Tenant should have three to five (3-5) years of experience in the food industry (either in the kitchen or food preparation area or in the service area); and
- Any new business applying will need to be incorporated, either provincially or federally and not a sole proprietorship, and have a Toronto head office address

The City can either choose to: 1) enter into a lease with each of the tenants directly, or 2) enter into a head lease with a not-for-profit organization or a public post-secondary educational institution who will in turn enter into subleases with the small business owners. Major terms and conditions of the leases are included in Appendix D and E.

Along with the space, the tenant will be able to access the assistance and training from the City's Small Business Centre Enterprise Toronto program to learn how to operate a sustainable business.

ii) Tenancy for the F.L.I.P.

The F.L.I.P. will be operated as a test kitchen, demonstration kitchen, cooking school, workshop, and event space. The F.L.I.P. will offer additional start-up food service businesses to test new concepts for up to three (3) months. The F.L.I.P. will be kept animated throughout its existence. Events and food tastings will be allowed, including cooking demonstrations. The F.L.I.P. can also be used as a space to support community initiatives such as preparing meals for the senior community during the COVID-19 pandemic.

The F.L.I.P. will be leased to a not-for-profit organization which will then licence the space to start-up food service businesses. A Request for Expression of Interest ("R.E.O.I.") will be sent out to various not-for-profit organizations to find a suitable tenant to lease the F.L.I.P. kitchen.

The City may choose to lease the F.L.I.P. to a not-for-profit organization or a public post-secondary educational institution with which the City is a partner. Such not-for-profit organization or public post-secondary educational institution will then license the space to start-up food service businesses.

Once selected, the City will enter into a lease with the tenant on a cost recovery basis and at below market rent. Major terms and conditions of the lease are included in Appendix F.

iii) Tenancy for both the Food Stations and the F.L.I.P.

The City can alternatively choose to enter into a head lease with one (1) not-for-profit organization, who will operate both the food stations and the F.L.I.P. This head tenant will in turn enter into subleases with small business owners, on a cost recovery basis and at below market rent with respect to the food stations.

Appendix D - Major Terms and Conditions of the Food Station Lease

Landlord	City of Toronto
Tenant	Tenant to be selected by the Tenant Selection Committee
Leased Area	Food Stations plus allocated common areas
Basic Rent	\$2.00
Term	2 years
Renewal Option	Tenant has the option to extend the lease for 1 year only. There will be no more option to renew after the combined initial term and renewal term of 3 years, in compliance with the City of Toronto Act.
Additional Rent (Operating Costs)	Operating costs could include but not be limited to utilities, common area costs, condo fees, maintenance and repair costs, insurance, property taxes, property management fee, marketing expenses for the space, and allocation of depreciation of the equipment after the first 2 years of operation of the Food Incubator Tenancy Space.
Net Lease	The lease shall be absolutely net to the Landlord. During the Term or any extension or renewal thereof, the Tenant shall be responsible for all applicable costs, taxes, charges, expenses and outlays of any nature whatsoever arising from or relating to the use and occupancy of the Leased Area. Any obligation which is not stated to be that of the Landlord shall be the Tenant's responsibility. Capital improvements as defined under general accounting principles in accordance with Canada Revenue Agency's standards shall be the responsibility of the Landlord.

<p>Early Termination:</p>	<p>The City shall have the right to terminate the Lease for any purpose at any time during the Term and any renewal/extension thereof upon providing the Tenant with sixty (60) day's prior written notice.</p>
<p>Use:</p>	<p>Food services including food take out and grocery shopping</p>
<p>Conduct of Business:</p>	<p>Tenant shall in good faith, occupy and continuously, actively and diligently conduct its business in accordance with its use clause, in conformity with the standard of practice prevailing in the same field of business</p>
<p>Tenant's Records</p>	<p>Landlord shall have the right to examine the Tenant's records and documents related to gross revenue, including records from POS systems. The Tenant must keep and make available record of gross revenue.</p>
<p>Indemnity by Tenant:</p>	<p>The Tenant shall fully indemnify and save harmless the Landlord, its respective employees, agents and those for whom it is at law reasonable for of, from and against all claims whatsoever. The Tenant agrees that it will not pursue any claim against a third party which may result in any claim by such third party against the Landlord.</p>
<p>Assignment and Subleasing:</p>	<p>The Tenant shall not sell, assign or otherwise dispose of its rights and obligations under the Lease or permit any other person or organization to occupy or use the Leased Area, or any part thereof, or sublet the Lease Area, or any part thereof, to a third party or in any way charge, encumber or pledge the Lease or its interest therein without the prior written consent of the Landlord, which consent may be unreasonably withheld or delayed and need not be based upon any financial considerations whatsoever.</p>

Condition of Leased Area:

The Tenant shall accept the Leased Area in an "as is" condition.

Appendix E - Major Terms and Conditions of the Food Station Head Lease

Landlord	City of Toronto
Tenant	Not-for-profit organization or public post-secondary educational institution to be selected by the Tenant Selection Committee
Leased Area	Food Stations plus allocated common areas
Term	2-5 years
Renewal Option	Tenant has the option to extend the lease for negotiated term of 2-5 years
Basic Rent	\$2.00
Additional Rent (Operating Costs)	Operating costs could include but not be limited to utilities, common area costs, condo fees, maintenance and repair costs, insurance, property taxes, property management fee, allocation of depreciation of the equipment after the first 2 years of operation of the Food Incubator Tenancy Space.
Net Lease	The lease shall be absolutely net to the Landlord. During the Term or any extension or renewal thereof, the Tenant shall be responsible for all applicable costs, taxes, charges, expenses and outlays of any nature whatsoever arising from or relating to the use and occupancy of the Leased Area. Any obligation which is not stated to be that of the Landlord shall be the Tenant's responsibility. Capital improvements as defined under general accounting principles in accordance with Canada Revenue Agency's standards shall be the responsibility of the Landlord.

<p>Early Termination:</p>	<p>The City shall have the right to terminate the Lease for any purpose at any time during the Term and any renewal/extension thereof upon providing the Tenant with sixty (60) day's prior written notice.</p>
<p>Use:</p>	<p>Run a food service start-up program for food takeout and grocery shopping.</p>
<p>Conduct of Business:</p>	<p>Tenant shall in good faith, occupy and continuously, actively and diligently conduct its business in accordance with its use clause, in conformity with the standard of practice prevailing in the same field of business</p>
<p>Tenant's Records</p>	<p>Landlord shall have the right to examine the Tenant's records and documents related to gross revenue, including records from POS systems. The Tenant must keep and make available record of gross revenue.</p>
<p>Indemnity by Tenant:</p>	<p>The Tenant shall fully indemnify and save harmless the Landlord, its respective employees, agents and those for whom it is at law reasonable for of, from and against all claims whatsoever. The Tenant agrees that it will not pursue any claim against a third party which may result in any claim by such third party against the Landlord.</p>

<p>Assignment and Subleasing:</p>	<p>The Tenant shall not sell, assign or otherwise dispose of its rights and obligations under the Lease or permit any other person or organization to occupy or use the Leased Area, or any part thereof, or sublet the Lease Area, or any part thereof, to a third party, save and except to a food start-up company (the "Subtenant") selected by the Tenant Selection Committee. The Tenant shall not in any way charge, encumber or pledge the Lease or its interest therein without the prior written consent of the Landlord, which consent may be unreasonably withheld or delayed and need not be based upon any financial considerations whatsoever.</p> <p>The subleases must contain the same terms and conditions of Appendix D above, save and except for the right to assign and sublease. The subleases should also be on a cost recovery basis to the Tenant and allow the Tenant to charge Subtenants Additional Rents paid by the Tenant to the Landlord. The Tenant shall have the right to charge the Subtenants a reasonable amount of management fee including marketing costs, which shall be reviewed and approved by the Landlord each year.</p>
<p>Condition of Leased Area:</p>	<p>The Tenant shall accept the Leased Area in an "as is" condition.</p>

Appendix F – Major Terms and Conditions of the F.L.I.P. Space Lease

Landlord	City of Toronto
Tenant	Not-for-profit organization or public post-secondary educational institution to be selected by the Tenant Selection Committee
Leased Area	F.L.I.P. area plus allocation of common area
Basic Rent	\$2.00
Term	2 years
Renewal Option	Tenant has the option to extend the lease for 2 years
Additional Rent (Operating Costs)	Operating costs could include but not be limited to utilities, common area costs, condo fees, maintenance and repair costs, insurance, property taxes, property management fee, allocation of depreciation of the equipment after the first 2 years of operation of the Food Incubator Tenancy Space.
Net Lease	The lease shall be absolutely net to the Landlord. During the Term or any extension or renewal thereof, the Tenant shall be responsible for all applicable costs, taxes, charges, expenses and outlays of any nature whatsoever arising from or relating to the use and occupancy of the Leased Area. Any obligation which is not stated to be that of the Landlord shall be the Tenant's responsibility. Capital improvements as defined under general accounting principles in accordance with Canada Revenue Agency's standards shall be the responsibility of the Landlord.

<p>Early Termination:</p>	<p>The City shall have the right to terminate the Lease for any purpose at any time during the Term and any renewal/extension thereof upon providing the Tenant with sixty (60) day's prior written notice.</p>
<p>Use:</p>	<p>A test kitchen, demonstration kitchen, cooking school, workshop, and event space</p>
<p>Conduct of Business:</p>	<p>Tenant shall in good faith, occupy and continuously, actively and diligently conduct its business in accordance with its use clause, in conformity with the standard of practice prevailing in the same field of business</p>
<p>Tenant's Records</p>	<p>Landlord shall have the right to examine the Tenant's records and documents related to gross revenue, including records from POS systems. The Tenant must keep and make available record of gross revenue.</p>
<p>Indemnity by Tenant:</p>	<p>The Tenant shall fully indemnify and save harmless the Landlord, its respective employees, agents and those for whom it is at law reasonable for of, from and against all claims whatsoever. The Tenant agrees that it will not pursue any claim against a third party which may result in any claim by such third party against the Landlord.</p>

<p>Assignment and Subleasing:</p>	<p>The Tenant shall have the right to license the F.L.I.P. area for the Uses defined above. The licence term shall not be more than 3 months. The Tenant may licence the Leased Area without the Landlord's prior written consent. Such license should also be on a cost recovery basis to the Tenant and allows the Tenant to charge licensees Additional Rents paid by the Tenant to the Landlord. The Tenant should be allowed to charge the licensees a reasonable amount of management fee including marketing costs, which should be reviewed and approved by the Landlord each year. Other than the above, the Tenant should not charge the licensees any other expenses, fees or rent, except for expenses, fees and rent reviewed and approved by the Landlord.</p> <p>The Tenant shall not otherwise sell, assign or otherwise dispose of its rights and obligations under the Lease or permit any other person or organization to occupy or use the Leased Area, or any part thereof, or sublet the Lease Premises, or any part thereof, to a third party or in any way charge, encumber or pledge the Lease or its interest therein without the prior written consent of the Landlord, which consent may be unreasonably withheld or delayed and need not be based upon any financial considerations whatsoever.</p>
<p>Condition of Leased Area:</p>	<p>The Tenant shall accept the Leased Area in an "as is" condition.</p>