



Date: May 5, 2019

To: Thomas J. Bonfield, City Manager
Through: W. Bowman Ferguson, Deputy City Manager
From: Steven W. Hicks, Director, General Services Department
Subject: Proposed Lease with Sweets by Shayda Company at Morgan/Rigsbee Garage

Executive Summary

Sweets by Shayda Company, a North Carolina S-Corporation, and Shayda Wilson propose to enter a new ten-year lease with the City of Durham for a bakery specializing in French desserts such as macaroons, cakes and pastries, including catering service for private events. Sweets by Shayda bakery operations will be at the new Morgan/Rigsbee parking garage in commercial retail space at the corner of E. Morgan and N. Mangum Street. The proposed leased premises consist of approximately 1,200 square feet of internal space in the commercial retail area of the parking garage at street level and approximately 100 square feet of exclusive outdoor seating area.

Under the proposed lease, the initial term will be for ten years commencing on June 1, 2019 and ending on May 31, 2029. The rent for the first year of the term will be \$2,500.00 per month and will escalate by two and three-quarters percent (3.00%) each year during the term. The projected total revenue for the initial ten-year term is \$324,344.78

The lease also includes the opportunity for two (2) five-year extension terms with annual rental increases of three percent (3.00%) during each year of the extended term. If the first extension occurs, the City will receive revenue totaling \$215,051.04 between June 1, 2029 and May 31, 2034. If the second occurs, the City will receive revenue totaling \$248,143.82 between June 1, 2034 and May 31, 2039.

Recommendation

The General Services Department recommends that City Council

1. Authorize the City Manager to execute a ten-year lease with the opportunity to extend the tenancy with Sweets by Shayda Company and Shayda Wilson for commercial retail space in the new parking garage at the corner of Morgan and Mangum Streets.

Background

The City of Durham constructed a parking garage at the corner of Morgan and Mangum Streets which provides 667 parking spaces and features approximately 21,264 square feet of commercial retail space. Of that 4,723 is dedicated for the Transportation Office and 15,687 is available for retail leasing.

Sweets by Shayda will be located in Suite 105 of the new parking garage. Owner Shayda Wilson graduated from NC State with a degree in accounting and then attended Le Cordon Bleu Paris, earning a pastry degree. For the last several years they have been cooking their delicious sweets

out of a home kitchen and testing her products.

Sweets by Shayda retail location will be a space where people can come in for a pastry with coffee, and for a special treat before or after all the fun events in the Downtown Durham area. Their objective includes creating a space where they are the go-to dessert destination in the area by providing a unique selection of items with the highest quality.

Having a retail space will fill a void in the Downtown Durham market for a pastry shop that focus on macarons and individual desserts. Their products are at a price point where everyone will be able to afford to purchase from their shop and will have an environment for everyone to feels welcomed. They are looking to continue their wholesale operations and gain new wholesale customers as they can produce more within a space that is their own. They will also strive to increase weekend event orders and getting the word out about their new retail space in order to have an influx of walk-in customers.

Issues/Analysis

The City of Durham's Strategic Plan outlines that "continuing to reinforce policy elements that include infrastructure as a business incentive tool" is a goal for the City and supports business development, job creation, retention and recruitment. Construction of convenient and affordable parking contributes to this economic development goal and achieves the recommendation of a downtown garage outlined in the Transportation Department's Parking Study.

Shared economic prosperity is an ongoing municipal goal and the tenant selection takes into consideration furtherance of a diverse economy. Securing the highest rental rate for the commercial lease spaces may not be the absolute highest priority, but potential rental income will be a significant consideration in tenant selection.

The City of Durham desires to increase pedestrian traffic along Morgan and Mangum Street. The addition of this restaurant is anticipated to add to the visitors along this corridor increasing sales opportunities for numerous businesses in this area. Additionally, this tenant is expected to increase paying visitors to the new parking garage providing revenue to the city.

The lease includes both corporate and personal obligations on the parts of Sweets by Shayda and Shayda Wilson, with the personal guarantees to be released after sixty months of the restaurant's operation, if there has been no default of performance in the lease terms. This lease authorizes the City Manager to release the personal guarantees after that period.

Alternatives

The City could choose not to approve the lease with Sweets by Shayda. If the lease is not approved the City will need continue to recruit an alternate tenant in order to generate rental revenue for this location. In the short term this will affect the potential revenue the City could generate beginning June 1, 2019.

Financial Impact

The City will receive the following revenue during the ten-year term of the lease. All funds will be deposited into the General Fund. The rent schedule is as follows

Year	Year Begins	Year Ends	Monthly Rent	Total Annual Rent
1	6/1/19	11/30/19	Abatement	Abatement
1	12/01/19	11/30/20	\$2,500.00	\$30,000.00
2	12/01/20	11/30/21	\$2,575.00	\$30,900.00
3	12/01/21	11/30/22	\$2,652.25	\$31,827.00
4	12/01/22	11/30/23	\$2,731.82	\$32,781.81
5	12/01/23	11/30/24	\$2,813.77	\$33,765.26
6	12/01/24	11/30/25	\$2,898.19	\$34,778.22
7	12/01/25	11/30/26	\$2,985.13	\$35,821.57
8	12/01/26	11/30/27	\$3,074.68	\$36,896.22
9	12/01/27	11/30/28	\$3,166.93	\$38,896.22
10	12/01/28	5/31/29	\$3,261.96	\$19,571.76

*3.00% assumes increase in rental rates year over year.

The city will deliver to the tenant a cold dark shell (unfinished interior and lacking heating, ventilation, air conditioning (HVAC) and without concrete flooring, lighting, ceilings or interior walls). The city will provide a tenant improvement allowance of \$60.00 per square foot as a reimbursement as a part of the tenant improvements for a total expenditure of \$69,420.00. This tenant allowance is typical for the Durham commercial market for first generation leases (second generation leases do not usually demand as much upfit support from the Landlord). Sweets by Shayda will spend approximately \$150,000 of their personal funds in addition to the tenant improvement allocation for a total project cost of approximately \$219,420.00. Funds for this upfit are in project code 4800C002-731000-CC402.

SDBE Summary

This item does not require review by the Equal Opportunity/Equity Assurance Department.

Attachments

Lease Agreement