



# City of San Antonio

## Agenda Memorandum

**File Number:**16-1971

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**Agenda Item Number:** 10.

**Agenda Date:** 6/16/2016

**In Control:** City Council A Session

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**DEPARTMENT:** Center City Development Office

**DEPARTMENT HEAD:** John Jacks

**COUNCIL DISTRICTS IMPACTED:** 1

### **SUBJECT:**

Amendment to Lease Agreement for Mercado O'liva, LLC

### **SUMMARY:**

This ordinance amends the Lease Agreement with Mercado O'liva LLC. The Amendment will change the structure of monthly lease payment from a fixed amount to a percentage payment based on gross monthly sales.

### **BACKGROUND INFORMATION:**

As part of the renovation of Plaza de Armas Building, located at 115 Plaza de Armas, the City, through a competitive process, selected Mercado O'liva, LLC to operate a restaurant in this 2,509 square foot first floor space. City Council approved a lease on March 20, 2014 and the restaurant opened in July 2015. Serving lunch, dinner and weekend brunch the restaurant's focus is on a menu with healthy concepts, locally provisioned food choices, along with ready to serve products that are produced in Texas.

In business for less than a year, the operator has experienced many of the issues associated with a startup restaurant, including developing a customer base, minimizing staff turnover, having enough capital and leveraging marketing opportunities. The O'liva team has produced well received restaurant reviews in several publications and it is expected that the restaurant will continue to build upon its efforts and develop a loyal clientele. As a champion of development in the civic core, it is incumbent for the City to promote not only brick and mortar activity but also to develop destination establishments that encourage visitors and residents alike to explore what downtown has to offer. The Plaza de Armas building houses City offices, and it also features a public art gallery that hosts events and receptions. The development of San Pedro Creek adjacent to the Plaza

de Armas will serve as a catalyst that will invigorate and revitalize the western edge of downtown. O'liva is also an integral part of economic development in the area.

To fully realize this development, there will be years of construction activity that will serve as an impediment to O'liva's success. Staff has proposed restructuring the rent for the retail space to be based on a percentage of sales. This approach will balance the challenges of being an urban pioneer in an untested market with potential upside if the development of San Pedro Creek produces the expected results.

#### **ISSUE:**

Approval of this item will provide Mercado O'liva, LLC temporary economic relief and provide time for the new restaurant to continue to grow its sales and customer base.

#### **ALTERNATIVES:**

The City may elect not to approve this Amendment and the original Lease Agreement will continue to be in effect.

#### **FISCAL IMPACT:**

O'liva has experienced slower than anticipated sales growth. Annual sales are forecast to be \$415,000, far short of the originally expected goal of \$600,000. In lieu of the current base rent of \$2,300 per month, staff recommends percentage rent of 4.5% of all sales above \$50,000 per month. If monthly sales are less than \$50,000, then no rent will be paid. The \$50,000 figure is representative of the amount of sales necessary to make the business profitable. Based on a review of costs of operations, if sales do not reach that level the business will not produce enough income to sustain itself. The table below demonstrates the changes to the monthly rent as a result of approval of this Amendment to the Lease Agreement.

Monthly Rent Table:

Term	Current Lease Rent	Amendment to Lease Rent	Net Change
9/1/15 to 2/29/16	\$0.00	\$0	None
3/1/16 to 8/31/16	\$2,299.92	\$0	Revenue loss of \$13,799.52
9/1/16 to 8/31/17	\$2,529.91	Percentage of Sales	Rent Based on Sales
9/1/17 to 8/31/18	\$2,782.90	Percentage of Sales	Rent Based on Sales

#### **RECOMMENDATION:**

Staff recommends approval of this Amendment with Mercado O'liva, LLC to restructure rent to be paid on a percentage of sales.