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**Item No. 9.1.3**  
**HRM Grants Committee**  
**May 2, 2016**

**TO:** Chair and Members of the HRM Grants Committee

**SUBMITTED BY:** Original Signed  
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Peter Stickings, Acting Director, Operations Support

**DATE:** March 23, 2016

**SUBJECT:** Less than Market Value Lease Agreement to Spencer House Seniors Centre, for  
5596 Morris Street, Halifax

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### **ORIGIN**

This report originates with a request from the Tenant to enter into a new lease agreement with Halifax Regional Municipality (HRM), as their lease agreement has expired.

### **LEGISLATIVE AUTHORITY**

HRM Charter Section 63(1), the Municipality may sell or lease property at a price less than market value to a non-profit organization that the Council considers to be carrying on an activity that is beneficial to the Municipality; and (2) A resolution to sell or lease property referred to in subsection (1) at less than market value shall be passed by at least a two thirds majority of the Council present and voting.

### **RECOMMENDATION**

It is recommended that HRM Grants Committee:

1. Recommend that Halifax Regional Council authorize the Mayor and Municipal Clerk to enter into a less than market value lease agreement with Spencer House Seniors Centre for the leased premises located at 5596 Morris Street, Halifax, as per the key terms and conditions set out in Table 1 in the discussion section of this report.

## **BACKGROUND**

Spencer House Seniors Centre (SHSC) is a non-profit registered charity which provides services and programs to encourage seniors to live a healthy independent lifestyle which is within HRM's programming mandate. SHSC is almost exclusively government funded through grants.

The original lease agreement for 5596 Morris Street commenced on March 1, 1983, for a term of five years with two five-year renewal options, which fully expired in February 1998.

The SHSC entered into a new five year agreement with HRM in April 2003 which included one five-year renewal option. At the expiration of the initial term the group did not exercise their option to renew. This has resulted in the group holding over on a month to month basis. The agreement includes an annual base rent increase of three percent which is applied annually in April. The SHSC base rent is currently \$3,870 per annum which is approximately \$1.23 per square foot.

## **DISCUSSION**

In spring 2015, staff from Parks and Recreation and Operations Support met with both the Executive Director and the executive board members of the Spencer House Seniors Centre to begin the lease discussions. An Offer Letter was sent to the Spencer House Seniors Centre in August 2015. The SHSC board confirmed their agreement and accepted the proposed terms and conditions in late November 2015.

Comparable Class 'C' rents – are averaging base rent of \$10.00-13.00 per square foot plus additional rent and property taxes of \$9.00-12.00 per square foot. The subject property would be considered moderately below a Class 'C' building for comparative purposes and as a result the market base rent for this space has been calculated at \$8.00 per square foot. The recommended annual base rent increases are intended to transition the group towards market value rent while slightly increasing the reserve account. The base rent as recommended in this report is less than market value with the base rent difference of \$21,262.50 in year one, which represents the equivalent of an 'operating grant' for the property's use. The term 'operating grant' represents the opportunity cost associated with HRM leasing the space at less than market value.

The rent is deposited into Capital Reserve Account Q112 - 5594-96 Morris-FCE, a reserve account established under the initial lease agreement. Q112 does not have an approved Reserve Business Case; however, each year reserve funds are allocated for building repairs and maintenance.

The annual funds from Q112 have previously been sufficient to cover the building repair costs; however, in the 2015-2016 fiscal year, the costs have exceeded sixty thousand dollars. These repairs include the annual sprinkler inspection, general repairs, driveway repairs, catch basin repairs and capital replacement to the porch and the building sills. The estimated cost to complete the projected list of capital repairs required over the next five years is \$185,000; therefore, current rental revenue is insufficient to meet the capital repair costs and additional funds would be required.

At the Regional Council meeting on February 16, 2016, a motion related to the other tenant in the building was passed to "Defer until we receive a staff report regarding the opportunities and financial implications of establishing a childcare policy similar to Richmond BC to support the integration of not for profit daycares at below market rent in new and existing recreation facilities." Although this request for a staff report on daycares is not directly related to the Spencer House Seniors Centre, it may have an impact on the reserve account since the other half of this building is occupied by South End Community Day Care.

HRM entering into a less than market value lease agreement with the Spencer House Seniors Centre is not anticipated to have a negative impact on the pending staff report regarding daycares.

The proposed Lease terms and conditions recommended by staff are outlined below in Table 1.

Table 1

<b>Recommended Key Lease Terms and Conditions</b>	
<b>Property Address</b>	5596 Morris Street, Halifax
<b>Landlord</b>	Halifax Regional Municipality
<b>Tenant</b>	Spencer House Seniors Centre
<b>Area</b>	3,150 square feet
<b>Term</b>	Five Years (October 1, 2015 – September 30, 2020)
<b>Commencement Date</b>	October 1, 2015
<b>Use</b>	Spencer House Seniors Centre administration and to provide programs, activities and services to seniors
<b>Base Rent</b> <i>Year 1 - \$1.25 per sq. ft.</i> <i>Year 2 - \$1.25 per sq. ft.</i> <i>Year 3 - \$1.50 per sq. ft.</i> <i>Year 4 - \$1.75 per sq. ft.</i> <i>Year 5 - \$2.00 per sq. ft.</i>	\$3,937.50 + HST per annum, payable monthly \$328.13 + HST \$3,937.50 + HST per annum, payable monthly \$328.13 + HST \$4,725.00 + HST per annum, payable monthly \$393.75 + HST \$5,512.50 + HST per annum, payable monthly \$459.38 + HST \$6,300.00 + HST per annum, payable monthly \$525.00 + HST
<b>Additional Rent</b>	The Tenant is responsible to pay the utilities and other associated costs related to the maintenance and operation of the leased premises. The Tenant is responsible for the snow clearing & ice control for their walkways, entrances, stairs and emergency exits and for the grounds maintenance for the area around their leased premises.
<b>Property Taxes</b>	The tenant will be responsible to pay the property taxes which are assessed as a result of the lease and pay as they fall due and are invoiced by HRM.
<b>Insurance</b>	Commercial General Liability in the amount no less than \$5,000,000 and any other insurance required by HRM as set forth in the agreement. If alcohol is served, stored or consumed on site then liquor liability must be included in the insurance which coverage must be satisfactory to HRM. HRM is to be named on the policies as additional insured.
<b>Notice</b>	Either party shall have the option to terminate this agreement upon providing six (6) month's written notice to the other party at any time and for any reason.
<b>Condition</b>	The tenant accepts the premises on an "as is" basis.
<b>Parking</b>	The tenant may use the parking spot at the end of the driveway as an accessible parking spot for their members and guests. There is no other parking available at this location.

### **FINANCIAL IMPLICATIONS**

The Capital Reserve Account Q112 - 5594-96 Morris-FCE will receive the revenue from the base rent from this lease in the amount of \$3,937.50 excluding HST per annum for the first year of the term.

The five year term includes three base rent increases. In year three the base rent will increase to \$1.50 per square foot, \$4,725.00 per annum exclusive of HST, in year four the base rent will increased to \$1.75

per square foot, \$5,512.50 per annum exclusive of HST and the final base rent increase in year five is to \$2.00 per square foot, \$6,300.00 exclusive of HST per annum.

The annual rent deposited into Capital Reserve Account Q112 - 5594-96 Morris-FCE leaves a funding gap for the ongoing repairs and maintenance to the facility. The projected list of capital repairs required over the next five years is approximately \$185,000 for which HRM will budget accordingly and complete as required.

The tenant will be responsible to pay their proportional share of the property taxes as they fall due and are invoiced by HRM.

**Budget Summary, 5596-96 Morris Street, Q112**

Projected net available balance, March 31, 2016	\$ 74,888
Budgeted revenue including interest	\$ 8,119
Budgeted withdrawals	<u>\$(30,000)</u>
Projected net available balance, March 31, 2017	\$ 53,007

**Q112, 5594-96 Morris Street.** (1996) No approved reserve business case. Reserve came forward during amalgamation. Intent of reserve is to receive rent from Spencer House Seniors and Southend Daycare. The withdrawals are intended to be for building recapitalization. The recommendation does not have a negative effect on the reserve, as this is confirming the rent deposited to this reserve.

**RISK CONSIDERATION**

Staff has considered potential risks to HRM associated with the proposed recommendation. For instance, there is a risk of default if SHSC encounters a negative financial impact to their budget such as an increase in operating costs, loss of government funding and/or changes to their eligibility or acceptance to the 2014-001-ADM Tax Relief to Non-Profit Organizations all of which are considered low risk to HRM. The recommended less than market rent does not provide sufficient funding to offset the anticipated repair and maintenance costs, therefore, HRM will need to budget accordingly for future repairs and maintenance costs.

The proposed alternative of a market value lease has a higher risk for HRM due to SHSC's limited funding. The higher base rent and changes to their eligibility or acceptance to the 2014-001-ADM Tax Relief to Non-Profit Organizations would increase the likelihood of financial default to HRM.

**COMMUNITY ENGAGEMENT**

Community engagement was not completed as this group has continually occupied the leased premises since 1983.

**ENVIRONMENTAL IMPLICATIONS**

There are no known environmental implications.

**ALTERNATIVES**

1. The HRM Grants Committee could recommend that Regional Council lease the property at market value to the Spencer House Seniors Centre.

**ATTACHMENTS**

None

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A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/index.php> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

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