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## Item No. 5

**Halifax Regional Council**  
**January 20, 2009**  
**Committee of the Whole**

**TO:** Mayor Kelly and Members of Halifax Regional Council

**SUBMITTED BY:**

A handwritten signature in black ink, appearing to read "Mike Labrecque", written over a horizontal line.

Mike Labrecque, Director Transportation and Public Works

**DATE:** January 15, 2009

**SUBJECT:** Corporate Office Accommodation Planning

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### INFORMATION REPORT

#### ORIGIN

This report originates with the pending lease expiry of the municipal office requirement at Duke/Scotia Square in February 2011.

**BACKGROUND**

The current corporate accommodation mix for the Halifax Regional Municipality was established primarily through interests or commitments made by the individual municipal units before amalgamation. Namely, the City of Halifax’s fifteen year lease at Scotia Square and the City of Dartmouth’s sixty five year lease commitment at Alderney Gate. Two key events have initiated a review of the current corporate accommodation mix and the development of some corporate accommodation options going forward:

< **Acquisition of Alderney Gate in 2005<sup>1</sup>**

The purchase of Alderney Gate in 2005 was driven by long term financial savings associated with ownership over the existing 65 year lease and the opportunity for further corporate consolidation at this location.

<b>Costs &amp; Savings</b>	<b>Projected</b>
Projected net cost of leasing through 2055	<b>\$156,523,200</b>
Projected net ownership costs through 2055	<b>\$91,303,100</b>
<b>Projected Net Savings over 50 Years</b>	<b>\$65,220,100</b>
<b>Net Present Value of Projected Savings</b>	<b>\$13,505,000</b>

The March 2005 Staff Report further outlined that the purchase was important from a strategic accommodation perspective stating “the Municipal property ownership on the Dartmouth Waterfront is significant and very concentrated. This makes it an ideal, affordable, and practical location for a corporate campus over the long term. The Municipal land and building holdings include the Dartmouth Ferry Terminal, Alderney Landing, the School Board Building, and several development sites north of Alderney Gate. The Municipality’s holdings along the Dartmouth Waterfront, including Alderney Gate, are key to managing the Duke Tower business decisions in advance of 2011.”

< **Pending expiry date of the leases at Duke Tower/Scotia Square in early 2011**

To support the planning leading up to the 2011 lease end date staff issued a public request for proposals for the preparation of a Corporate Accommodation Plan and entered into a contract with Citigroup Properties Limited to review and assist staff in assessing the Municipality’s corporate accommodation requirements. The scope of this plan is limited to the core portfolio of owned and

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<sup>1</sup> A three year financial performance statement for the period ending March 2008 for Alderney Gate is provided as Attachment A to this report. Cash flow and operating expenses have met the plan to date inclusive of reserve contributions and debt service.

leased office properties. The purpose of the plan is to assist in guiding portfolio decisions to deliver increased operational efficiencies and savings long term over the status quo.

Council should be advised that this report focuses on the corporate office portfolio only. The operational portfolio (municipal operations depots, transit, fire and emergency and recreation facilities) are subject to other planning initiatives and master plans. This report is being presented to advise and seek input from Council. At this stage no expenditures are being recommended. The development of the specific requirements will occur in 2009 with execution in 2010, all subject to a future business plan(s) and operating and capital expenditure approvals.

## **DISCUSSION**

### ***Methodology***

The methodology used in the review and assessment of HRM's corporate office accommodations included:

- < preparation of building condition reports for municipally owned office properties,
- < reviews of the current space utilization in the owned and leased office properties,
- < bench marking of accommodation standards with similar public and private sector users of real estate,
- < interviews with HRM and non-HRM personnel involved in accommodation decision-making, and,
- < financial modeling.

The Corporate Office Accommodation Summary Report prepared by Citigroup Properties Limited was completed in the fall of 2008. The following is an executive summary of the report. Complete copies of the Report can be made available to members of Council at their request.

### ***Summary of Findings and Key Considerations:***

- < City Hall should be in downtown Halifax; however, corporate business units have a range of flexibility with respect to location and proximity to City Hall.
- < Consolidation and/or clustering of business units in one location will improve operational efficiency.
- < Storefront operations and network planning offices are generally well distributed, improvement to individual premises and/or locations will be reviewed and managed at lease end dates and/or at renewal.
- < The EMO requirement will be increasing at the Eric Spicer Building over the next three to five years, consideration of occupancy pressures will be required over the medium and long

- term. Future business planning and budget capacity should be allocated to support this facility as an EMO center.
- < Long term ownership of space is more cost effective than leasing space; leasing should be used when space requirements are dictated more by market conditions, short term or servicing needs, or practical considerations such as access and cost of capital, timing, geographical limits, etc.
  - < HRM's office owned to leased ratio is sound with 75% owned and 25% leased.
  - < Standardized layouts and system furniture should be used in the planning of office design to maximize space efficiency and flexibility to accommodate changing job or project requirements at the lowest possible cost.
  - < Parking, staff services and public transit are important amenities.
  - < HRM's current space planning allocation of 200 square feet per employee<sup>2</sup> is a reasonable standard that is used by comparable public sector organizations.
  - < Use of more technological aids such as teleconferencing and video conferencing should be incorporated into future office designs.

### ***Corporate Business Unit Group***

The Corporate Business Units occupy most of the current office portfolio at Alderney Gate and Duke Tower/Scotia Square. The municipality currently leases 84,187 sq. ft. (25%) for its office space requirements, with the majority of the leased space at Duke Tower, while the balance of 265,398 sq. ft. (75%) is within owned property, primarily Alderney Gate. **A summary of the Municipality's current core office accommodation, owned and leased, is provided as Attachment B to this report.**

Alderney Gate is part of a group of interconnected properties or "campus of buildings" on the Dartmouth waterfront that are owned by HRM. These properties include Alderney Landing, the former Dartmouth City Hall building, Dartmouth Ferry Terminal building, and development parcels to the north.

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<sup>2</sup> Represents average gross square foot per employee inclusive on common areas, circulation, meeting and support uses.

< ***Financial Considerations***

For long term occupancy, the majority of HRM offices should be in owned versus leased space. While the ideal situation would be to have a municipal building in the central business district next to City Hall, the cost of constructing a new building makes this a challenging financial proposition given the current infrastructure demands on the Municipality's capital budget.

In addition, the 2005 acquisition of Alderney Gate at \$156 per square foot<sup>3</sup> (55-60% current replacement/new construction costs) supports the business case for considering some additional HRM occupancy at this location over leased space alternatives.

< ***Business Unit Clustering or Consolidation***

Alderney Gate currently accommodates the majority of the corporate business unit offices for Transportation and Public Works, Infrastructure and Asset Management and Community Development. In addition there are a number of third party tenants occupying space which could potentially be used by HRM business units:

Alderney Gate:

PNS-Alcohol and Gaming	13,533 sq. ft.
Veterans Affairs Canada	10,706 sq. ft.
Veterans Affairs Canada	16,622 sq. ft.
	40,861 sq. ft.

In addition, the Dartmouth Ferry Terminal and old Dartmouth City Hall have space which could be used by HRM business units when external leases expire.

Dartmouth Ferry Terminal:

Harbour Solutions	4,500 sq. ft.
Heritage Gas	8,500 sq. ft.
MacAskills Restaurant	6,400 sq. ft.
	19,400 sq. ft.

Old Dartmouth City Hall:

Halifax Regional School Board	25,852 sq. ft.
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The Halifax Regional School Board's plan includes possible relocation to an alternate site when space is secured of sufficient size to accommodate all their administrative offices (approximately 70,000 sq. ft.). Staff expect the Board will likely seek a lease renewal at the current location to bridge them

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<sup>3</sup> \$23,000,000/146,737 sq. ft.

through project development to occupancy of new accommodation. At the time of writing this report no time line for this initiative was available.

### ***Next Steps***

In order to meet the objective of defining the corporate accommodation requirement for post 2011, staff will be advancing the process to capture a market perspective with respect to leased accommodation opportunities post 2011. This will allow the appropriate analysis of options, cost, and benefits necessary to define a recommended leased footprint requirement and the overall benefit of any further consolidation in owned space.

Respecting the key considerations outlined above, staff will be proceeding as follows:

- < *Initiate an REI/RFP in early 2009 for HRM's Leased Office requirements within the Capital District, with a view to rationalizing its current leased footprint, provided it results in improved operational efficiencies, organizational/staff benefits, and long term savings.*
- < *Establish a project team under sponsorship of TPW and IAM*
- < *Establish Steering and Technical Committees, drawn from members of the Corporate Accommodation Committee (CAC).*
- < *Develop communication strategy, to be managed through the CAC as a primary vehicle for staff information and updates.*

Staff will return to Council with the outcomes of this process, and a portfolio recommendation for Council's consideration.

### **BUDGET IMPLICATIONS**

There are no budget implications associated with the recommendation. Staff will be bringing forward, through the upcoming 2010/11 and 2012/13 business planning/budget cycles, the specific resources and multi year expenditures required to support this initiative going forward.

### **FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN**

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

## ATTACHMENTS

Attachment A: Alderney Gate Performance Report “First Three Years of Ownership”

Attachment B: Current Summary of HRM Owned and Leased Core Office Accommodation

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.



Report Prepared & Approved by: \_\_\_\_\_

Peter Stickings, Manager Real Property, Transportation and Public Works

## Alderney Gate Purchase Business Case Update

### Cash Inflow

	Y/E Mar. 2006			Y/E Mar. 2007			Y/E Mar. 2008		
	Actual	Forecast	Variance	Actual	Forecast	Variance	Actual	Forecast	Variance
<b>Base Rents form Non-HRM Tenants</b>									
Opening Entry - Aug 6 - 31	36,829.32	0.00	36,829.32	0.00	0.00	0.00	0.00	0.00	0.00
101 Vacant - 3 months only -HRM	1,627.50	0.00	1,627.50	0.00	0.00	0.00	0.00	0.00	0.00
103 Sprint/Rogers Telecom	11,646.82	6,200.00	5,446.82	0.00	9,300.00	-9,300.00	0.00	9,500.00	-9,500.00
105 Gateway Cigar	8,546.95	12,000.00	-3,453.05	14,981.16	18,000.00	-3,018.84	15,746.06	18,000.00	-2,253.94
106 Biscuit Lips	10,581.69	12,100.00	-1,518.31	18,140.04	18,100.00	40.04	18,140.04	18,100.00	40.04
107 Dr. Zwicker	16,912.73	8,300.00	8,612.73	30,341.64	12,500.00	17,841.64	31,863.24	12,500.00	19,363.24
110 Lotto Booth	2,275.00	2,600.00	-325.00	3,900.00	3,900.00	0.00	3,900.00	3,900.00	0.00
301 Federal: Veteran's Affairs	133,208.12	150,300.00	-17,091.88	230,417.13	225,500.00	4,917.13	259,870.19	225,500.00	34,370.19
401 Federal: Veteran's Affairs	204,227.12	233,400.00	-29,172.88	357,861.89	350,100.00	7,761.89	387,983.61	350,100.00	37,883.61
500 Prov. Alcohol & Gaming	90,783.91	103,800.00	-13,016.09	155,629.56	155,600.00	29.56	155,629.56	155,600.00	29.56
501 Saltscapes	50,058.66	56,100.00	-6,041.34	87,552.00	84,200.00	3,352.00	83,543.97	84,200.00	-656.03
Vacancy Allowance	0.00	0.00	0.00	0.00	-900.00	900.00	0.00	-1,000.00	1,000.00
<b>Subtotal-Base Rents</b>	<b>566,697.82</b>	<b>584,800.00</b>	<b>-18,102.18</b>	<b>898,823.42</b>	<b>876,300.00</b>	<b>22,523.42</b>	<b>956,676.67</b>	<b>876,400.00</b>	<b>80,276.67</b>
<b>Parking Revenue</b>									
Monthly	73,831.60	58,100.00	15,731.60	123,833.61	87,100.00	36,733.61	121,954.91	88,800.00	33,154.91
Hourly	58,180.45	163,300.00	-105,119.55	109,925.27	245,000.00	-135,074.73	120,901.87	249,900.00	-128,998.13
Parking - Vacancy Allowance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Subtotal-Parking</b>	<b>132,012.05</b>	<b>221,400.00</b>	<b>-89,387.95</b>	<b>233,758.88</b>	<b>332,100.00</b>	<b>-98,341.12</b>	<b>242,856.78</b>	<b>338,700.00</b>	<b>-95,843.22</b>
<b>Recoverable (from Non-HRM Tenants)</b>									
Building Operating costs	90,078.20	57,600.00	32,478.20	100,034.23	132,300.00	-32,265.77	102,897.59	134,900.00	-32,002.41
Commerical Property Taxes	44,159.91	7,400.00	36,759.91	61,831.58	16,600.00	45,231.58	63,554.69	16,900.00	46,654.69
<b>Sub Total: Recoverable (from Non-HRM Tenants)</b>	<b>134,238.11</b>	<b>65,000.00</b>	<b>69,238.11</b>	<b>161,865.81</b>	<b>148,900.00</b>	<b>12,965.81</b>	<b>166,452.28</b>	<b>151,800.00</b>	<b>14,652.28</b>
<b>HRM Debenture (Nov 2005)</b>	<b>24,189,000.00</b>	<b>24,189,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Cash Flow</b>	<b>25,021,947.98</b>	<b>25,060,200.00</b>	<b>-38,252.02</b>	<b>1,294,448.11</b>	<b>1,357,300.00</b>	<b>-62,851.89</b>	<b>1,365,985.73</b>	<b>1,366,900.00</b>	<b>-914.27</b>
<b>Cash Outflows From HRM</b>									
Building Acquisition: 40 Alderney Drive	23,749,400.00	23,749,400.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Closing Costs	440,000.00	440,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Subtotal: Building Acquisitions</b>	<b>24,189,400.00</b>	<b>24,189,400.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Annual Operating Expenses</b>									
Building Operating Costs	782,292.63	791,200.00	-8,907.37	1,268,599.73	1,210,600.00	57,999.73	1,325,843.58	1,234,800.00	91,043.58
Insurance on Rental Revenue	0.00	10,000.00	-10,000.00	0.00	15,300.00	-15,300.00	0.00	15,600.00	-15,600.00
Commercial Property Taxes (non-HRM tenants)	145,039.22	102,800.00	42,239.22	202,845.58	154,200.00	48,645.58	241,394.09	157,300.00	84,094.09
Operating Expenses Contingency	0.00	90,400.00	-90,400.00	0.00	138,000.00	-138,000.00	0.00	140,800.00	-140,800.00
<b>Sub total Operating Expenses</b>	<b>927,331.85</b>	<b>994,400.00</b>	<b>-67,068.15</b>	<b>1,471,445.31</b>	<b>1,518,100.00</b>	<b>-46,654.69</b>	<b>1,567,237.67</b>	<b>1,548,500.00</b>	<b>18,737.67</b>
<b>Debt Repayment</b>									
Long term debt: Principal repayment	0.00	0.00	0.00	1,209,500.00	1,209,500.00	0.00	1,209,500.00	1,209,500.00	0.00
Long term debt: interest	0.00	0.00	0.00	936,400.00	936,400.00	0.00	912,600.00	912,600.00	0.00
Bridge Financing: Interest/Lost Interest Revenue	126,000.00	126,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub total Debt Repayment</b>	<b>126,000.00</b>	<b>126,000.00</b>	<b>0.00</b>	<b>2,145,900.00</b>	<b>2,145,900.00</b>	<b>0.00</b>	<b>2,122,100.00</b>	<b>2,122,100.00</b>	<b>0.00</b>
<b>Transfer to HRM Reserve</b>									
Recapitalization/Leasehold Reserve	344,400.00	344,400.00	0.00	351,300.00	351,300.00	0.00	358,300.00	358,300.00	0.00
Insurance Reserve (For Claims <\$100K)	300,000.00	300,000.00	0.00	15,300.00	15,300.00	0.00	15,600.00	15,600.00	0.00
<b>Subtotal Transfer to Reserve</b>	<b>644,400.00</b>	<b>644,400.00</b>	<b>0.00</b>	<b>366,600.00</b>	<b>366,600.00</b>	<b>0.00</b>	<b>373,900.00</b>	<b>373,900.00</b>	<b>0.00</b>
<b>Total Cash Outflow</b>	<b>25,887,131.85</b>	<b>25,954,200.00</b>	<b>-67,068.15</b>	<b>3,983,945.31</b>	<b>4,030,600.00</b>	<b>-46,654.69</b>	<b>4,063,237.67</b>	<b>4,044,500.00</b>	<b>18,737.67</b>
<b>Total Net Cost to HRM</b>	<b>-865,183.87</b>	<b>-894,000.00</b>	<b>28,816.13</b>	<b>-2,689,497.20</b>	<b>-2,673,300.00</b>	<b>-16,197.20</b>	<b>-2,697,251.94</b>	<b>-2,677,600.00</b>	<b>-19,651.94</b>



**Current Portfolio**

**ATTACHMENT B**

a. Owned Properties

Property	Gross Building Area	HRM Occupied	Non HRM Occupied "Potential Opportunity"	Potential Timing/Phasing
City Hall, 1841 Argyle Street	29,760 sf	29,760 sf	0	n/a
Halifax Ferry Terminal 5977 George Street	14,790 sf	14,490 sf	0	n/a
Dartmouth Ferry Terminal 88 Alderney Drive	36,830 sf	20,630 sf	16,200 sf	Phase I 2010
Alderney Gate 40-60 Alderney Drive	150,000 sf	100,652 sf	49,348 sf	Phase I Ald. 5 <sup>th</sup> Phase II Ald. 3 / 4 <sup>th</sup>
Former Dartmouth City Hall 90 Alderney Drive	25,852 sf	0 sf	25,852 sf	Phase II
Acadia School Municipal Building, 636 Sackville Drive	31,425 sf	31,425 sf	0	n/a
Eric Spicer Municipal Building 21 Mount Hope Avenue	77,750 sf	69,041 sf	8,709 sf	n/a
<b>Total</b>	<b>366,407 sf</b>	<b>265,398 sf</b>	<b>100,109 sf</b>	

b. Leased Properties

Property	Area Leased	HRM Occupant	Lease Expiry
Duke Tower	720 sf	Metro Transit Lunchroom	December 31, 2007
Duke Tower	5,730 sf	HRM-Customer Service	February 28, 2011
Duke Tower	4,599 sf	HRM-Print Shop (2 <sup>nd</sup> )	February 28, 2011
Duke Tower	694 sf	HRM-Print Shop (2 <sup>nd</sup> )	February 28, 2011
Duke Tower	2,111 sf	HRM-Cash Management (2 <sup>nd</sup> )	February 28, 2011
Duke Tower	1,479 sf	Storage – Loading Bay	February 28, 2011
Duke Tower	6,864 sf	HRM-Human Resources (3 <sup>rd</sup> )	February 28, 2011
Duke Tower	5,200 sf	HRM-Legal (3 <sup>rd</sup> )	February 28, 2011
Duke Tower	23,400 sf	HRM-Finance (3 <sup>rd</sup> )	February 28, 2011
Duke Tower	6,500 sf	HRM-I/S (3 <sup>rd</sup> )	February 28, 2011
Duke Tower	8,733 sf	HRM-BPIM/Marketing/Design (4 <sup>th</sup> )	February 28, 2011
Duke Tower	3,924 sf	HRM-Training Center(4 <sup>th</sup> )	February 28, 2011
Duke Tower	796 sf	HRM-Legal Storage(6 <sup>th</sup> )	February 28, 2011
Duke Tower	80 sf	HRM-Storage	February 28, 2011
Duke Tower Subtotal	<b>70,830sf</b>		
West End Mall, Mumford Road	13,357 sf	HRM Customer Service and Planning and Development	August 31, 2010
<b>Total</b>	<b>84,187 sf</b>		