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Item No. 3
Halifax Regional Council
October 27, 2009
Committee of the Whole
November 10, 2009

TO: Mayor Kelly and Members of Halifax Regional Council **November 17, 2009**

SUBMITTED BY:

A handwritten signature in cursive script, appearing to read "Dan English".

Dan English, Chief Administrative Officer

A handwritten signature in cursive script, appearing to read "Wayne Anstey".

Wayne Anstey, Deputy Chief Administrative Officer - Operations

DATE: **October 7, 2009**

SUBJECT: Property Matter RFP 09-070 Leased Office Accommodation

ORIGIN

This report originates with:

- ▶ Pending lease expiry and renewal considerations of the municipal offices at Duke Tower/Scotia Square in February 2011
- ▶ January 20, 2009, COW Report and subsequent project endorsement and RFP initiation by Council
- ▶ RFP 09-070 Leased Office Accommodation

RECOMMENDATION

It is recommended that Halifax Regional Council award RFP 09-070 Leased Office Accommodation to the recommended proponent, Crombie REIT, and authorize staff to enter into detailed space design and lease contract based on the unit values outlined in the report with funding as per the Budget Implications section of this report.

BACKGROUND

The Halifax Regional Municipality is committed to providing cost effective, high quality professional services to its residents. Inherent in this goal is the provision of appropriate and economical accommodations for its employees.

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. The purchase of Alderney Gate in 2005 and the lease expiry at Duke Tower in 2011 offers the Municipality a unique opportunity to consider increased operational efficiencies and long term savings over the status quo.

Council Direction

At its Committee of the Whole session on January 20, 2009, Council endorsed the project plan to advance the process to capture a market perspective with respect to leased accommodation opportunities and owned opportunities prior to its lease expiry at Duke Tower in 2011. Part of this process was the initiation of a RFP for HRM's Leased Office requirements with a view to rationalizing and potentially reducing the current lease costs/footprint, provided it supports sustaining the regional center, improves operational efficiencies and savings, organizational benefits, better utilization of owned space.

At a high level the plan has two phases generally described as follows:

Phase I

The lease renewal of a smaller footprint at Duke Tower and further consolidation of business units within "municipally owned space" at Alderney Gate and Dartmouth City Hall represents Phase I of the plan.

Phase II

Phase II of the plan would create a medium term opportunity to further consolidate the remaining Infrastructure and Asset Management and TPW management units, currently located at Eric Spicer, to the Alderney Gate Campus. This opportunity could be accommodated in the future by:

- ▶ relocation of Fire and Emergency Services from 3rd Floor Alderney to Eric Spicer. This option further builds on the Eric Spicer Municipal Building's focus as an Emergency Services cluster
- ▶ further utilization of both the Dartmouth Ferry Terminal and balance of the Dartmouth City Hall by Infrastructure and Asset Management.

This report deals specifically with Phase I award and implementation.

DISCUSSION

The terms of reference for the RFP included the following key principles:

- ▶ City Hall in downtown Halifax
- ▶ Importance of sustaining the regional center
- ▶ Improved business unit efficiencies and consolidation when and where possible
- ▶ Increased utilization of owned space when and where feasible
- ▶ Availability of transit, parking and staff amenities (link to employee retention, employer of choice)
- ▶ Value for money
- ▶ Operating savings long term

The RFP was issued for a reduced lease area of approximately 48,000 square feet of turnkey office space located within the Capital District for a term of ten years. The current leased area at Duke Tower is 68,000 square feet. The reduction in area is contingent on the successful transition of 20,000 square feet to owned space to 5th floor Alderney Gate, following the end of the Provincial lease term in March 2010, and the former Dartmouth City Hall following the end of the School Board lease term in late 2010.

RFP Submissions/Outcomes:

The Request for Proposal for leased space yielded two submissions. This is indicative of the limited number of large footprints available within the downtown. Most tenants with upcoming lease expirations with large space requirements are looking to the suburban market where the majority of office space has been built over the past few years.

The Submissions:

Proposals were received as follows:

Crombie REIT (Score 91/100) Recommended Proponent

Proposal Highlights

- ▶ Full renovation and re-occupancy of 3rd floor - Duke Tower, Halifax
- ▶ Landlord, at its expense, will replace or upgrade all base building work
- ▶ Landlord, at its expense, will provide \$1.7M allowance for tenant leasehold work
- ▶ Base rent year one is \$12.00 psf (\$12.98 psf average for the term)
- ▶ Net Present Value @6.5% of Base Rent stream \$4,514,330
- ▶ Operating and realty taxes are competitive
- ▶ Access/proximity to key employee amenities (parking, metro link, gym, food and personal services)
- ▶ Landlord to project manage tenant work and manage logistics or temporary relocations as required
- ▶ Supports Regional Center

First Mutual Properties Limited (Score 68/100)*Proposal Highlights*

- ▶ New building constructed at Pine Street, Dartmouth (behind Greenvale School)
- ▶ Landlord, at its expense, will provide \$1.7M allowance for tenant leasehold work
- ▶ Base rent \$13.00 psf for the term
- ▶ Net Present Value @6.5% of Base Rent stream \$4,568,178
- ▶ Operating and realty taxes are new build estimates only, staff expect them to be higher
- ▶ Limited or less access/proximity to key employee amenities (transit, food and personal services)
- ▶ Building is on the fringe of the Capital District, primarily a residential area, less support for Regional Center
- ▶ On-site parking, underground and surface spaces are available.

BUDGET IMPLICATIONS*Operating*

Operating funds are available for the existing lease cost appropriation from W202 6911 Facility Rental/Leasing under the approved 2009/2010 Operating Budget.

Finance has confirmed availability of funds.

Capital

The pending award will require some adjustments to the 2010/11 capital and operating plans to accommodate the project. The recommended award would result in the following high level budget implications:

Budget availability has been confirmed by Financial Services

Duke Tower Renewal - Landlord Funded (no net budget implications)

- ▶ Base building and tenant leasehold work, inclusive of design and project management, part of proposal resulting in no net budget implications
- ▶ Some incidental expenditures related to move management and contract administration would be expected
- ▶ Rent is stable

Alderney Gate 5/6th Floors - Reserve Funded (no net budget implications)

- ▶ Leasehold work, post vacancy by Alcohol and Gaming, to be reserve funded from Alderney Capital Reserve Q135. No net budget implications. The current projected uncommitted balance to March 31, 2010, in reserve Q135 is \$477,595.

Former Dartmouth City Hall (long term capital plan)

- ▶ Lease renewal and base building recapitalization are part of long term capital plan 2010/11 and future years

Applicable adjustments to the lease area following detailed design, final floor area and occupancy confirmation shall be to a maximum of 15 percent of the lease area.

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.

ALTERNATIVES

At Committee of the Whole in January 2009, and throughout the process, a number of alternatives or possibilities were identified. The table marked "Attachment A" to this report highlights a few, as well as some potential risks associated with each alternative.


ATTACHMENTS


- ▶ A- Alternatives Considered
- ▶ B- Lease Expenditure Table

If the report is released to the public, a copy can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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Financial Approval by: 
 Cathie O'Toole, CGA, Director of Finance 490-6308

Report Approved by: 
 Mike Labrecque, Director, TPW 490-4855

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 Phillip Townsend, Director, IAM 490-7166

ATTACHMENT A

Alternatives	Risks
WTCC	<p>Time line - the build time line for the new Nova Center and or availability of the existing WTCC does not align with the lease end date at Duke Tower.</p> <p>Cost - the economic rent to support a new downtown class A office complex would likely be 25% - 40% higher than the recommended proposal.</p> <p>Suitability of Space - the existing WTCC is purpose built convention space and even with extensive leaseholds the configuration may not lend itself ideally to office conversion.</p>
New Central Library	<p>Time line - the build time line for the new Central Library does not align with the lease end date at Duke Tower.</p> <p>Cost - the economic rent to support the capital expenditure for additional office footprint would likely be 25% - 30% higher than the recommended proposal.</p> <p>Suitability of Space - the build out of additional floor plate(s) at the new Central Library for municipal offices may not offer the best synergy, tenant mix or return on capital. Furthermore the pedestrian travel time to City Hall is considerably longer.</p>
Renew all existing space at Duke Tower (STATUS QUO)	<p>Cost - although feasible over the long term the financial planning to date has identified a benefit to long term ownership. Additional costs would also be incurred trying to renovate a fully occupied space.</p> <p>The indicative Net Present Value and Net Cash Flow savings resulting from the recommendation over a 15 year time line are \$558,000 to \$975,000 and \$1,046,000 to \$1,829,000 respectively.</p>
Expand the boundary to include suburban locations	<p>Location - office space could be sourced in the suburban market but such a move would be against the objective of the Regional Plan and policies to support the regional centre as the center for government, business and general office concentration.</p>

ATTACHMENT B

Year	Base Rent (BR) BR X sq.ft. X Net HST (R)	Operating & Taxes (OP) (Est)\ OP X sq.ft. X Net HST (R) (escalated 2%/annum)		
1	\$12.00 x 48,880 x 1.03429 = \$606,673	\$11.65 x 48,880 x 1.03429 = \$588,979		
2	\$12.00 x 48,880 x 1.03429 = \$606,673	\$11.88 x 48,880 x 1.03429 = \$600,606		
3	\$12.50 x 48,880 x 1.03429 = \$631,951	\$12.12 x 48,880 x 1.03429 = \$612,740		
4	\$12.50 x 48,880 x 1.03429 = \$631,951	\$12.36 x 48,880 x 1.03429 = \$624,873		
5	\$12.75 x 48,880 x 1.03429 = \$644,590	\$12.61 x 48,880 x 1.03429 = \$637,512		
6	\$13.00 x 48,880 x 1.03429 = \$657,229	\$12.86 x 48,880 x 1.03429 = \$650,151		
7	\$13.00 x 48,880 x 1.03429 = \$657,229	\$13.12 x 48,880 x 1.03429 = \$663,296		
8	\$14.00 x 48,880 x 1.03429 = \$707,785	\$13.38 x 48,880 x 1.03429 = \$676,441		
9	\$14.00 x 48,880 x 1.03429 = \$707,785	\$13.65 x 48,880 x 1.03429 = \$690,091		
10	\$14.00 x 48,880 x 1.03429 = \$707,785	\$13.92 x 48,880 x 1.03429 = \$703,741		
Total Rental Commitment (R)		\$6,559,651	Total Operating Cost Commitment (R)	\$6,448,430