**Agenda - Council – December 14, 2011**

**Report – Standing Policy Committee on Downtown Development, Heritage and Riverbank Management – December 5, 2011**

## REPORTS

**Item No. 2 Long Term Lease of Heritage Buildings – 457 Main Street – 395 Main Street**

STANDING COMMITTEE RECOMMENDATION:

On December 7, 2011, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Downtown Development, Heritage and Riverbank Management and submits the following to Council:

1. That a lease agreement for a 25 year term with 395 Main Ltd., for the lease of 66,194 rentable square feet in the Hamilton Building located at 395 Main Street, be approved in accordance with the terms and conditions as outlined in Schedule "A" and such other terms and conditions deemed necessary by the Director of Legal Services/City Solicitor to satisfy the intent of Council.

2. That a lease agreement for a 25 year term with 70226 Manitoba Ltd., for the lease of 69,343 rentable square feet in the Confederation Life Building at 457 Main Street, be approved in accordance with the terms and conditions as outlined in Schedule "B" and such other terms and conditions deemed necessary by the Director of Legal Services/City Solicitor to satisfy the intent of Council.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

**Report – Standing Policy Committee on Downtown Development, Heritage and Riverbank Management – December 5, 2011**

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On December 7, 2011, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Downtown Development, Heritage and Riverbank Management and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On December 5, 2011, the Standing Policy Committee on Downtown Development, Heritage and Riverbank Management concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

# ADMINISTRATIVE REPORT

**Title:** **PROPOSED LONG TERM LEASE OF HERITAGE BUILDINGS AT 457 MAIN STREET WITH 70226 MANITOBA LTD. and 395 MAIN STREET WITH 395 MAIN LTD.**

**Critical Path:** **Standing Policy Committee on Downtown Development, Heritage & Riverbank Management - Executive Policy Committee - Council**

## AUTHORIZATION

| Author | Department Head | CFO | CAO |
|---|---|---|---|
| J. Zabudney | B. Thorgrimson | M. Ruta | D. Joshi, COO |

## RECOMMENDATIONS

1. That a lease agreement for a 25 year term with 395 Main Ltd., for the lease of 66,194 rentable square feet in the Hamilton Building located at 395 Main Street, be approved in accordance with the terms and conditions as outlined in Schedule "A" (attached) and such other terms and conditions deemed necessary by the Director of Legal Services/City Solicitor to satisfy the intent of Council; and

2. That a lease agreement for a 25 year term with 70226 Manitoba Ltd., for the lease of 69,343 rentable square feet in the Confederation Life Building at 457 Main Street, be approved in accordance with the terms and conditions as outlined in Schedule "B"(attached) and such other terms and conditions deemed necessary by the Director of Legal Services/City Solicitor to satisfy the intent of Council; and

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

## REASON FOR THE REPORT

On March 24, 2004, Council established the Standing Policy Committee on Downtown Development. This Standing Policy Committee has jurisdiction over matters related to asset management, development control, land acquisition, land development and planning and land use in the area defined as Downtown.

On March 23, 2011, Council amended the name of the Standing Policy Committee on Downtown Development to the Standing Policy Committee on Downtown Development, Heritage and Riverbank Management.

Council approval is required on leases having a term of over 10 years or which have a gross value over $1,000,000.00 over the original term of the lease.

## IMPLICATIONS OF THE RECOMMENDATIONS

395 Main Street

- The proposed lease will support the City's Heritage Buildings Conservation strategies.
- The proposed rent is at market value and the financial terms of the proposed lease will provide an estimated savings of approximately $1.5 million to the City over the first 5 years of the term of the lease.
- Acceptance of the proposal and subsequent signing of the lease agreement commits the City to a long-term lease (25 years).
- Landlord to install new carpeting and paint every ten years, at no cost to the city.

457 Main Street

- The proposed lease will support the City's Heritage Buildings Conservation strategies.
- The proposed rent is at market value.
- Acceptance of the proposal and subsequent signing of the lease agreement commits the City to a long-term lease (25 years).
- Landlord to contribute 50% of the costs associated with Building Envelope and Lighting Upgrades over the first 10 years of the lease at an estimated cost savings to the City of $2.2 Million Dollars.
- Building Envelope & Lighting Upgrades will result in additional savings to the City, in operating costs

## HISTORY

**395 Main Street – Hamilton Building**

- On April 2, 1991 the Committee on Finance and Administration approved the lease of 66,194 square feet in the Hamilton Building at 395 Main Street, for a twenty year and five month term, expiring December 31, 2016. The Hamilton Building is one of very few buildings that has been designated a Grade I Historical Building. The initial base rent was $8.84 per square foot adjusted based on the Consumers Price Index (CPI), which is defined in the lease agreement as: "shall not be less than 4% nor greater than 8% annually." The lease provided the City an option to renew for four five-year terms at the current market rent.

  The base rent per square foot for the first 20 years was as follows:

  | | | |
  |---|---|---|
  | 1991 – 1996 | - | $ 8.84 |
  | 1997 – 2001 | - | $10.76 |
  | 2002 – 2006 | - | $13.09 |
  | 2006 – 2011 | - | $15.92 |

- On May 26, 2005, the City exercised the first option to extend the lease for an additional 5-year term, extending the lease from January 1, 2012 to December 31, 2016. The lease rate would be at the then current market rent payable for comparable premises.

- The landlord is prepared to offer the City a new lease at a rate of $14.95 per square foot, starting at the January 1, 2012 renewal term and extend that rate throughout a 25 year term, expiring December 31, 2036. The lease rate reflects a reduction of $ .97 per square foot from the rate in effect for 2011 and a reduction of $4.42 p.s.f. from the rate that would go into effect on January 1, 2012. This equates to a savings of approximately $1.5 million (i.e. $1,463,000) in the first 5 years of the term (based on the existing lease terms of 4% increase per annum 2006 – 2011, the new lease rate would be $19.37 p.s.f.). In addition, the landlord will replace carpeting and paint (every 10 years) throughout the term of the lease, at no cost to the City.

- Similar to the existing lease the City will be responsible for common area maintenance costs and a 5% annual management fee.

**457 Main Street – Confederation Life Building**

- On September 29, 1998, City Council approved the lease of the Confederation Life Building at 457 Main Street, for a term of 15 years, 10.5 months. The Confederation Life Building has been designated a Grade II – Historical Building. The lease commenced on March 1, 1999 and is set to expire on January 15, 2015. The current base rent is $11.47 per square foot.

- The Landlord is prepared to enter into a new lease term for 25 years at a base rent of $14.95 p.s.f. throughout the term, with no increase. In addition, during the first 10 years of the term, the landlord will contribute an estimated $2.2 Million towards 50% of the costs incurred for:

    1. Lighting Upgrade to energy efficient lighting - any rebates provided by third parties for energy efficiency upgrades shall be shared equally between landlord and tenant, and
    2. Building Envelope to provide environmental separation as defined under Part 5 of the Manitoba Building Code. The building envelope is to provide structural integrity, moisture control, temperature control and the control of air infiltration and exfiltration. This includes and is not limited to: the foundation control of the flow of air through floor structures, masonry, exterior cladding, insulation, vapor barrier, air barrier, moisture barrier, interior finish, roof, walls, doors, windows and HVAC System control adjustments.

- The Municipal Accommodations Division of Planning, Property and Development Department will undertake having a building envelope analysis completed upon approval of the new lease. This report will identify the plan for the 10 year building envelope upgrade and in turn identify the cost savings to the City.

- The Landlord will make twenty-six (26) energized parking stalls located to the south of the building available during the term of the new lease, at a monthly rental of $2,600.00 for the first year of the term. Three (3) stalls shall be exclusive (24/7), the landlord may rent out the remaining 23 stalls on evening and weekends, providing the client department receives 10 passes each month, throughout the term, for staff to utilize parking as required.

- Upon completion of the first year of the term, the parking rate will be at market rent. Should the landlord wish to construct a parkade, alternate stalls will be provided by the landlord, at the same hours and rates as outlined. These stalls will be within close proximity of 457 Main Street.

- Sharing the costs associated with the building envelope and lighting upgrade over the first 10 years of the lease would allow an evaluation of the existing building envelope condition and upgrading requirements, and allow time for budgeting of same by both parties, over the first 10 years of the term.

- Similar to the existing lease the City will be responsible for a 5% annual management fee.

**Comparable Heritage Buildings Lease Rates:**

The proposed lease rates for 395 Main Street and 457 Main Street reflect the current market rates excluding common area maintenance costs for comparable historic buildings as identified below:

| | |
|---|---|
| 191 Lombard Avenue | – Base Rent Per Square Foot - $18.95 Net |
| 35 King Street | – Base Rent Per Square Foot - $18.95 Net |
| 281 McDermott Avenue | - Base Rent Per Square Foot - $12.00 Net |
| 111 Lombard Avenue | - Base Rent Per Square Foot - $20.00 - $25.00 Net |
| | |
| 136 Market Avenue | – Gross Rent Per Square Foot $21.00 |
| 115 Bannatyne Avenue | – Gross Rent Per Square Foot $19.75 (base year 2011) |
| 213 Notre Dame Avenue | – Gross Rent Per Square Foot $19.75 (base year 2011) |

The City of Winnipeg has made the preservation and reuse of existing Heritage Buildings a priority. Working with the building owners to facilitate a long-term lease agreement in these facilities will be advantageous to the City as follows:

1. Lease rate will not increase over the next 25 years.

2. Cost savings of approximately 1.5 Million dollars over the first 5 years at 395 Main Street.

3. City maintains and enhances its position as a major contributor to preservation and occupancy of heritage buildings in downtown Winnipeg – meeting the objectives of Our Winnipeg;

4. Costs savings associated with remaining in these facilities, without incurring costs related to identifying alternate accommodations (135,537 square feet), relocation costs, tenant improvements, etc.

The Public Service recommends approval of the proposed long-term lease agreements at 395 Main Street and 457 Main Street, as negotiated.

**Financial Implications**

An analysis of the proposed lease agreements has determined that both represent “operating leases” as neither meet the criteria for capitalization included in PSAB PSG-2 “Leased Tangible Capital Assets” (note: PSG denotes “Public Sector Guideline”). Consequently, the related lease payments will be charged to operations as incurred (i.e. expensed on a straight-line basis over the term of the leases).

There are three criteria to consider in determining whether a lease arrangement should be classified as a “capital lease”. They are:

1. There is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the **lease term**. “Reasonable assurance” would be present when the terms of the lease include the transfer of ownership at the end of the lease term or when the lease provides for a **bargain purchase option** (BPO).
2. The lease term is of such a duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span (usually 75 percent or more of the economic life of the leased property).
3. The present value, at the beginning of the lease term, of the **minimum lease payments**, excluding executory costs (e.g. property taxes) is equal to substantially all (usually 90 percent or more) of the fair value of the leased property, at the **inception of the lease**.

If a lease agreement meets any one of the criteria, it must be classified as a capital lease with the leased asset and related long-term lease obligation (i.e. debt) recorded on the lessee's balance sheet.

| | | *395 Main St.* | *457 Main St.* |
|---|---|---|---|
| 1. | Negotiated lease agreement transfers ownership to the City or contains a bargain purchase option? | No | No |
| 2. | Estimated economic life of the leased asset | 40 years | 40 years |
| | Term of negotiated lease | 25 years | 25 years |
| | Lease term as a % of economic life | 62.5% | 62.5% |
| 3. | Present Value of the Minimum Lease Payments | $15,006,400 | $15,720,200 |
| | Estimated Fair Market Value of leased asset | $17,307,000 | $18,140,000 |
| | Present Value as a % of Estimated Fair Market Value | 86.7% | 86.7% |
| | Conclusion | Operating Lease | Operating Lease |

**Determination of Estimated Fair Market Value**

The estimated fair market value of both 395 & 457 Main Street was determined using the "income approach" to valuation. The lease payments as per the negotiated agreements represent 100% of the income attributable to each building, as the City is the sole tenant in both. Lease revenues for the owners of 395 Main Street and 457 Main Street will be $1,038,400/annum and $1,088,400/annum respectively.

To calculate the estimated fair market value of each building, the annual operating income must be divided by a capitalization rate or "cap rate". The cap rate can be defined as "the percentage number used to determine the current value of a property based on estimated future operating income". Based on discussions with property owners and other external sources, the Planning, Property and Development Department has determined the appropriate cap rate to be in the range of 5.75% to 6.0%.The cap rate used in the analysis above was 6.0%.

A sensitivity analysis regarding cap rates and the impact on the classification of each negotiated lease is included below.

| Cap Rates | | 5.0% | 5.5% | 6.0% | 6.5% | 7.0% |
|---|---|---|---|---|---|---|
| 395 Main St. | *$1,038,400 annual revenue / cap rate = FMV* | 20,768,000 | 18,880,000 | 17,307,000 | 15,975,000 | 14,834,000 |
| | *Present Value of Lease Revenue* | 15,006,400 | 15,006,400 | 15,006,400 | 15,006,400 | 15,006,400 |
| | *PV of Lease Revenue as % of FMV* | 72.3% | 79.5% | 86.7% | 93.9% | 101.2% |
| | *Classification of Lease* | *Operating* | *Operating* | *Operating* | *Capital* | *Capital* |
| 457 Main St. | *$1,088,400 annual revenue / cap rate = FMV* | 21,768,000 | 19,789,000 | 18,140,000 | 16,745,000 | 15,549,000 |
| | *Present Value of Lease Revenue* | 15,720,200 | 15,720,200 | 15,720,200 | 15,720,200 | 15,720,200 |
| | *PV of Lease Revenue as % of FMV* | 72.2% | 79.4% | 86.7% | 93.9% | 101.1% |
| | *Classification of Lease* | *Operating* | *Operating* | *Operating* | *Capital* | *Capital* |

Cost benefit analyses of leasing versus purchasing or leasing alternate locations are attached as Appendix 1 to 3. The analyses indicate that there is a financial advantage to renewing the leases at the current locations.

## FINANCIAL IMPACT

**Financial Impact Statement** **Date:** December 2, 2011

**Project Name:** **First Year of Program** **2012**

PROPOSED LONG TERM LEASE OF HERITAGE BUILDINGS AT 457 MAIN STREET WITH 70226 MANITOBA LTD. and 395 MAIN STREET WITH 395 MAIN LTD.

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Capital** | | | | | |
| Capital Expenditures Required | $ 430,000 | $ 430,000 | $ 430,000 | $ 430,000 | $ 430,000 |
| Less: Existing Budgeted Costs | 215,000 | 215,000 | 215,000 | 215,000 | 215,000 |
| Additional Capital Budget Required | $ 215,000 | $ 215,000 | $ 215,000 | $ 215,000 | $ 215,000 |
| **Funding Sources:** | | | | | |
| Debt - Internal | $ - | $ - | $ - | $ - | $ - |
| Debt - External | - | - | - | - | - |
| Grants (Enter Description Here) | - | - | - | - | - |
| Reserves, Equity, Surplus | - | - | - | - | - |
| Other - Landlord Contribution | 215,000 | 215,000 | 215,000 | 215,000 | 215,000 |
| Total Funding | $ 215,000 | $ 215,000 | $ 215,000 | $ 215,000 | $ 215,000 |
| Total Additional Capital Budget Required | $ 1,075,000 | | | | |
| Total Additional Debt Required | $ - | | | | |
| **Current Expenditures/Revenues** | | | | | |
| Direct Costs | $ 2,159,200 | $ 2,160,100 | $ 2,161,100 | $ 2,162,100 | $ 2,163,100 |
| Less: Incremental Revenue/Recovery | - | - | - | - | - |
| Net Cost/(Benefit) | $ 2,159,200 | $ 2,160,100 | $ 2,161,100 | $ 2,162,100 | $ 2,163,100 |
| Less: Existing Budget Amounts | 2,181,000 | 2,181,000 | 2,181,000 | 2,181,000 | 2,181,000 |
| Net Budget Adjustment Required | $ (21,800) | $ (20,900) | $ (19,900) | $ (18,900) | $ (17,900) |

**Additional Comments:** Direct costs beginning in 2012 consist of annual base lease payments of $1,039,0000 for 395 Main St. + $1,089,000 for 457 Main St., both inclusive of a 5% management fee. It also includes parking costs for 457 Main St. of $31,200 inflated by an assumed rate of 3%/annum. Existing budget amounts represent the applicable rate for 395 Main should the existing lease be renewed for a 5-year period (66,194 x $19.37/sq. ft. + 5% mgmt fee = ~ $1,346,000) + the rate for 457 Main (69,342.65 x $11.47/sq. ft. + 5% mgmt fee = ~ $835,000) in effect until the end of 2015 (assumed to be the same for 2016). Over the 5-year period reflected above, there will be a budget savings of approx. $1.5 million on 395 Main while there will be an incremental budget requirement of approx. $1.4 million for 457 Main, a net savings of $100,000. Capital expenditures for the building envelope at 457 Main St. estimated at $4.3 million over 10 years (i.e. $430,000/annum from 2012 to 2021) is to be shared on a 50/50 basis between the landlord and the City. It is assumed that 10% of expenditures will be incurred each year over the 10-year period.

"Original signed by"
Mike McGinn, CA
Manager of Finance

## CONSULTATION

**In preparing this report there was consultation with:**

Community Services Department

Assessment & Taxation Department

## SUBMITTED BY

| | |
|---|---|
| Department: | Planning, Property and Development |
| Division: | Real Estate |
| Prepared by: | Sandi Caputo, Leasing Officer |
| Date: | December 2, 2011 |
| File No. | 395 Main / 457 Main |

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## FACILITIES MASTER PLANNING: 395 & 457 MAIN - LEASE RENEWAL
## Evaluation of Accommodation Alternatives
## Comparative Financial Cost/Benefit Analysis Summary[1,2,3]
## As at December 1, 2011

| Net Present Value (NPV) | *Lease vs. Buy* | | *Lease Renewal vs. Alternate Accommodations* | |
|---|---|---|---|---|
| *Option* | 395/457 Main Renewal | 395/457 Main Purchase[5] | 395/457 Main Renewal | Surrogate Lease[6] |
| *25 Year Term @ 5.00%* | *1* | *2* | *1* | *3* |
| Renovation - Former 395 Main Occupants | $0 | $0 | $0 | $4,636,000 |
| Renovation - Former 457 Main Occupants | $0 | $0 | $0 | $5,355,000 |
| Relocation - Former 395 Main Occupants | $0 | $0 | $0 | $1,194,000 |
| Relocation - Former 457 Main Occupants | $0 | $0 | $0 | $996,000 |
| Purchase Price - 395 Main | $0 | $18,434,000 | $0 | $0 |
| Purchase Price - 457 Main | $0 | $19,280,000 | $0 | $0 |
| Base Rent - 395 Main | $15,006,000 | $0 | $15,006,000 | $17,099,000 |
| Base Rent - 457 Main | $15,720,000 | $0 | $15,720,000 | $15,904,000 |
| Operating Cost - 395 Main | $3,592,000 | $3,592,000 | $3,592,000 | $3,592,000 |
| Operating Cost - 457 Main | $5,300,000 | $5,300,000 | $5,300,000 | $5,300,000 |
| Operating Cost Recovery - 457 Main | ($530,000) | ($530,000) | ($530,000) | $0 |
| Operating Cost Recovery - Surrogate Lease | $0 | $0 | $0 | ($2,223,000) |
| TI Cost Landlord Contribution - 395 Main | ($855,000) | $0 | ($855,000) | $0 |
| Net Taxes - 395 Main | $1,340,000 | $0 | $1,340,000 | $1,340,000 |
| Net Taxes - 457 Main | $2,148,000 | $0 | $2,148,000 | $2,148,000 |
| Net Tax Cost Recovery - Surrogate Lease | $0 | $0 | $0 | ($872,000) |
| Lease Obligation TM Cost - 395 Main | $5,476,000 | $0 | $5,476,000 | $0 |
| Lease Obligation TM Cost - 457 Main | $5,626,000 | $0 | $5,626,000 | $0 |
| TM Cost Landlord Contribution - 457 Main | ($1,929,000) | $0 | ($1,929,000) | $0 |
| Life Cycle TM Cost - 395 Main | $0 | $9,552,000 | $0 | $0 |
| Life Cycle TM Cost - 457 Main | $0 | $9,668,000 | $0 | $0 |
| Financial Risk[4] | $0 | $4,805,000 | $0 | $3,045,000 |
| **Total NPV (Cost)/Benefit** | **$50,894,000** | **$70,101,000** | **$50,894,000** | **$57,514,000** |

**Note 1:** The "Notes to Accompany the Comparative Financial Cost/Benefit Analysis" are an integral part of this analysis.

**Note 2:** The purpose of the Comparative Financial Cost/Benefit Analysis is to estimate the net present value difference between the Alternatives presented. Readers' are cautioned that the information may not be appropriate for other purposes.

**Note 3**: Monetary estimates contained herein were determined using assumptions that reflect planned courses of action given the Public Service's judgment as to the most probable set of economic conditions, together with one or more hypotheses that are assumptions which are consistent with the purpose of the information but are not necessarily the most probable in the Public Service's judgment.

Given the uncertainties inherent in predicting future conditions and actions, readers' should be cautioned that actual results may vary from the information presented and the variation may be material in nature.

**Note 4:** Financial risk has been estimated based on potential quantifiable civic financial exposure to account for associated alternative uncertainty. Other risks presently not quantifiable associated with alternatives presented may exist. However, such risks cannot be reasonably estimated and, therefore, have not been included in this analysis.

**Note 5:** **P**urchase price is based on a market capitalization of 6.00%.

**Note 6:** Present value calculations are based on a discount rate of 5.00% .

**Note 7:** Surrogate lease rates (base rent) are estimated at $16.00 per square foot. Surrogate leases assume City responsibility for base rent and operating costs. It is assumed surrogate lessors retain responsibility for common area maintenance/technical maintenance costs.

## FACILITIES MASTER PLANNING: 395 MAIN - LEASE RENEWAL
## Evaluation of Accommodation Alternatives
## Comparative Financial Cost/Benefit Analysis Summary[1,2,3]
## As at December 1, 2011

| Net Present Value (NPV) | *Lease vs. Buy* | | *Lease Renewal vs. Alternate Accommodations* | |
|---|---|---|---|---|
| | 395 Main Renewal | 395 Main Purchase[5] | 395 Main Renewal | Surrogate Lease[6] |
| *Option* | *1* | *2* | *1* | *3* |
| ***25 Year Term @ 5.00%*** | | | | |
| Renovation - Former 395 Main Occupants | $0 | $0 | $0 | $4,636,000 |
| Renovation - Former 457 Main Occupants | $0 | $0 | $0 | $0 |
| Relocation - Former 395 Main Occupants | $0 | $0 | $0 | $1,194,000 |
| Relocation - Former 457 Main Occupants | $0 | $0 | $0 | $0 |
| Purchase Price - 395 Main | $0 | $17,746,000 | $0 | $0 |
| Purchase Price - 457 Main | $0 | $0 | $0 | $0 |
| Base Rent - 395 Main | $15,006,000 | $0 | $15,006,000 | $17,099,000 |
| Base Rent - 457 Main | $0 | $0 | $0 | $0 |
| Operating Cost - 395 Main | $3,592,000 | $3,592,000 | $3,592,000 | $3,592,000 |
| Operating Cost - 457 Main | $0 | $0 | $0 | $0 |
| Operating Cost Recovery - 457 Main | $0 | $0 | $0 | $0 |
| Operating Cost Recovery - Surrogate Lease | $0 | $0 | $0 | ($898,000) |
| TI Cost Landlord Contribution - 395 Main | ($855,000) | $0 | ($855,000) | $0 |
| Net Taxes - 395 Main | $1,340,000 | $0 | $1,340,000 | $1,340,000 |
| Net Taxes - 457 Main | $0 | $0 | $0 | $0 |
| Net Tax Cost Recovery - Surrogate Lease | $0 | $0 | $0 | ($335,000) |
| Lease Obligation TM Cost - 395 Main | $5,476,000 | $0 | $5,476,000 | $0 |
| Lease Obligation TM Cost - 457 Main | $0 | $0 | $0 | $0 |
| TM Cost Landlord Contribution - 457 Main | $0 | $0 | $0 | $0 |
| Life Cycle TM Cost - 395 Main | $0 | $9,552,000 | $0 | $0 |
| Life Cycle TM Cost - 457 Main | $0 | $0 | $0 | $0 |
| Financial Risk[4] | $0 | $2,388,000 | $0 | $1,458,000 |
| **Total NPV (Cost)/Benefit** | **$24,559,000** | **$33,278,000** | **$24,559,000** | **$28,086,000** |

**Note 1:** The "Notes to Accompany the Comparative Financial Cost/Benefit Analysis" are an integral part of this analysis.

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**Note 3**: Monetary estimates contained herein were determined using assumptions that reflect planned courses of action given the Public Service's judgment as to the most probable set of economic conditions, together with one or more hypotheses that are assumptions which are consistent with the purpose of the information but are not necessarily the most probable in the Public Service's judgment.

Given the uncertainties inherent in predicting future conditions and actions, readers' should be cautioned that actual results may vary from the information presented and the variation may be material in nature.

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**Note 5:** Purchase price is based on a market capitalization of 6.00%.

**Note 6:** Present value calculations are based on a discount rate of 5.00% .

**Note 7:** Surrogate lease rates (base rent) are estimated at $16.00 per square foot. Surrogate leases assume City responsibility for base rent and operating costs. It is assumed surrogate lessors retain responsibility for common area maintenance/technical maintenance costs.

# FACILITIES MASTER PLANNING: 457 MAIN - LEASE RENEWAL
## Evaluation of Accommodation Alternatives
## Comparative Financial Cost/Benefit Analysis Summary[1,2,3]
## As at December 1, 2011

| Net Present Value (NPV) | *Lease vs. Buy* | | *Lease Renewal vs. Alternate Accommodations* | |
|---|---|---|---|---|
| *Option* | 457 Main Renewal | 457 Main Purchase[5] | 457 Main Renewal | Surrogate Lease[6] |
| *25 Year Term @ 5.00%* | *1* | *2* | *1* | *3* |
| Renovation - Former 395 Main Occupants | $0 | $0 | $0 | $0 |
| Renovation - Former 457 Main Occupants | $0 | $0 | $0 | $5,355,000 |
| Relocation - Former 395 Main Occupants | $0 | $0 | $0 | $0 |
| Relocation - Former 457 Main Occupants | $0 | $0 | $0 | $996,000 |
| Purchase Price - 395 Main | $0 | $0 | $0 | $0 |
| Purchase Price - 457 Main | $0 | $18,590,000 | $0 | $0 |
| Base Rent - 395 Main | $0 | $0 | $0 | $0 |
| Base Rent - 457 Main | $15,720,000 | $0 | $15,720,000 | $15,904,000 |
| Operating Cost - 395 Main | $0 | $0 | $0 | $0 |
| Operating Cost - 457 Main | $4,032,000 | $4,032,000 | $4,032,000 | $4,032,000 |
| Operating Cost Recovery - 457 Main | ($403,000) | ($403,000) | ($403,000) | $0 |
| Operating Cost Recovery - Surrogate Lease | $0 | $0 | $0 | ($1,008,000) |
| TI Cost Landlord Contribution - 395 Main | $0 | $0 | $0 | $0 |
| Net Taxes - 395 Main | $0 | $0 | $0 | $0 |
| Net Taxes - 457 Main | $2,148,000 | $0 | $2,148,000 | $2,148,000 |
| Net Tax Cost Recovery - Surrogate Lease | $0 | $0 | $0 | ($537,000) |
| Lease Obligation TM Cost - 395 Main | $0 | $0 | $0 | $0 |
| Lease Obligation TM Cost - 457 Main | $8,167,000 | $0 | $8,167,000 | $0 |
| TM Cost Landlord Contribution - 457 Main | ($2,101,000) | $0 | ($2,101,000) | $0 |
| Life Cycle TM Cost - 395 Main | $0 | $0 | $0 | $0 |
| Life Cycle TM Cost - 457 Main | $0 | $12,442,000 | $0 | $0 |
| Financial Risk[4] | $0 | $3,110,000 | $0 | $1,588,000 |
| **Total NPV (Cost)/Benefit** | **$27,563,000** | **$37,771,000** | **$27,563,000** | **$28,478,000** |

**Note 1:** The "Notes to Accompany the Comparative Financial Cost/Benefit Analysis" are an integral part of this analysis.

**Note 2:** The purpose of the Comparative Financial Cost/Benefit Analysis is to estimate the net present value difference between the Alternatives presented. Readers' are cautioned that the information may not be appropriate for other purposes.

**Note 3**: Monetary estimates contained herein were determined using assumptions that reflect planned courses of action given the Public Service's judgment as to the most probable set of economic conditions, together with one or more hypotheses that are assumptions which are consistent with the purpose of the information but are not necessarily the most probable in the Public Service's judgment.

Given the uncertainties inherent in predicting future conditions and actions, readers' should be cautioned that actual results may vary from the information presented and the variation may be material in nature.

**Note 4:** Financial risk has been estimated based on potential quantifiable civic financial exposure to account for associated alternative uncertainty. Other risks presently not quantifiable associated with alternatives presented may exist. However, such risks cannot be reasonably estimated and, therefore, have not been included in this analysis.

**Note 5:** Purchase price is based on a market capitalization of 6.00%.

**Note 6:** Present value calculations are based on a discount rate of 5.00% .

**Note 7:** Surrogate lease rates (base rent) are estimated at $16.00 per square foot. Surrogate leases assume City responsibility for base rent and operating costs. It is assumed surrogate lessors retain responsibility for common area maintenance/technical maintenance costs.

**Schedule "A"**
**395 Main Street – Hamilton Building**

The terms and conditions of the proposed lease are as follows:

| | |
|---|---|
| Building Name: | Hamilton Building |
| Address: | 395 Main Street |
| Registered Owners: | 395 Main Ltd. |
| Rentable Square Feet: | 66,194 |
| Base Rent PSF: | $14.95 |
| Lease Expiry Date: | December 31, 2036 |
| Tenant Inducement: | Carpet replacement and paint every 10 years |

**Schedule "B"**
**457 Main Street – Confederation Life Building**

The terms and conditions of the proposed lease are as follows:

| | |
|---|---|
| Building Name: | Confederation Life Building |
| Address: | 457 Main Street |
| Registered Owners: | 70236 Manitoba Limited, c/o Shindico Inc. |
| Rentable Square Feet: | 69,342.65 |
| Base Rent PSF: | $14.95 |
| Lease Commencement: | January 1, 2012 |
| Lease Expiry Date: | December 31, 2036 |
| Tenant Inducement: | Contribute 50% costs for lighting & building envelope upgrades during the first 10 years of the lease |

Parking: Twenty-six (26) energized parking stalls located to the south of the building will be available during the term of the new lease, at a monthly rental of $2,600.00 for the first year of the term. Three (3) stalls shall be exclusive (24/7), the landlord may rent out the remaining 23 stalls on evening and weekends, providing the client department receives 10 passes each month, throughout the term, for staff to utilize parking as required. Upon completion of the first year of the term, the parking rate will be at market rent. Should the landlord wish to construct a parkade, alternate stalls will be provided by the landlord, at the same hours and rates as outlined. These stalls will be within close proximity of 457 Main Street.

Utilizing the Municipal Accommodations Division's VFA Report, the estimated cost for the upgrades is as follows:

| | |
|---|---|
| Exterior Wall | $924, 807.00 |
| Roof: Aged Built up to EPDM | $79,655.00 |
| Doors – Accessible | $48, 522.00 |
| Exterior Doors | $23,135.00 |
| Limestone Veneer | $144, 935.00 |
| Exterior Windows | $844, 589.00 |
| **Subtotal Bldg Envelope** | **$2,065,643.00** |
| Lighting Fixtures Reconditions & Re-lamp | $748, 065.00 |
| Emergency Light & Power Systems | $215,821.00 |
| Emergency Light System | $94, 383.00 |
| Emergency Light System | $74, 587.00 |
| Exterior Fixtures | $21,072.00 |
| Emergency Battery Pak | $41, 660.00 |
| **Subtotal Lighting Upgrades** | **$1,195.588.00** |
| **Subtotal** | **$3,261,231.00** |
| 20% Contingency | $652,246.20 |
| 12% Engineering | $391,347.72 |
| | **$4, 304,824.92** |
| 50% Landlord Contribution | **$2, 152,412.46** |

(this estimate does not replace the need of a Building Envelope analysis)