Deloitte.

Deloitte LLP
360 Main Street
Suite 2300
Winnipeg MB R3C 3Z3
Canada

Tel: 204-942-0051
www.deloitte.ca

March 29, 2018

City Council
The City of Winnipeg

**Subject: Management Letter with respect to Report of the Independent Fairness Commissioner's Report on Compliance –
Lease of 500-234 Donald Street dated March 29, 2018**

We are writing this letter to provide additional commentary with respect to our March 29, 2018 report titled *Report on Compliance – Lease of 500-234 Donald Street* (the "Report") issued in our capacity as Independent Fairness Commissioner ("IFC") for real estate transactions and management services undertaken by the City of Winnipeg's Planning, Property and Development Department ("PP&D").

The Report includes unaudited management responses to exceptions noted which are provided by management of PP&D ("Management"). In their response, Management has referenced certain documentation that has not, as at the date of this letter, been provided to Deloitte. We are highlighting these areas below.

Unaudited Management response to exceptions noted	Deloitte's additional comments
Alternative Location Options – File included an alternate option which offered the square footage suitable for relocation, however, alternate options reviewed did not meet space and geographical requirements. Market analysis based on (a) service delivery and (b) site/facility selection criteria always performed in advance of short listing alternatives. Comprehensive analysis of alternate location completed and presented to client.	An analysis of one alternate option was observed in the transaction file. However, we did not observe evidence of service delivery and site/facility selection criteria, market analysis, or consideration of any other alternative locations contained in the file.
10.01 Search of Alternate Properties - service delivery by client restricted due to geographical / locational requirement, general market availability in file. Market analysis based on (a) service delivery and (b) site/facility selection criteria always performed in advance of short listing alternatives. Comprehensive analysis of alternate location completed and presented to client.	An analysis of one alternate option was observed in the transaction file. However, we did not observe evidence of service delivery and site/facility selection criteria, market analysis, or consideration of any other alternative locations contained in the file.

Appraisal not completed - Market analysis completed prior to finalizing negotiations, appraisal not applicable in respect to comparative cost analysis based on existing market rates. Appraisal not warranted associated with factors/variables associated with this lease renewal. Specifically, preliminary analysis of assessed value as a surrogate for appraised value at the date of negotiations did not yield any information value for comparative lease decision making purposes given limited alternate candidate locations, and Lessor not willing to reduce, or further negotiate, lease rates given prevailing market demand, (which was a contributing factor in comprehensive analysis of alternate site). Further note, appraisal generally warranted prudent for leases of civic assets to third parties, (to establish market rates) but not advantageous when renewing leases of private property for civic purposes – comparison of alternate base rental rates more valuable analysis. Finally, given no Bargain Purchase Option (BPO) or Bargain Renewal Option (BRO), appraisal of limited value.	We did not observe evidence of a market analysis within the transaction file. In addition, we did not observe a preliminary analysis of assessed value.
No Comparative Analysis: Comparable rates were reviewed however, limited available space to meet the 11,000+ square footage space requirement. General market analysis based on (a) service delivery and (b) site/facility selection criteria always performed in advance of short listing alternatives.	We did not observe evidence of a market analysis or any further analysis of comparable lease rates within the transaction file.

Based on the above, the findings in our Report remain unchanged as at March 29, 2018.

Sincerely,

Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
March 29, 2018