**Agenda – Council – July 18, 2024**

**Report – Standing Policy Committee on Property and Development – July 4, 2024**

**Item No. 1 The Sale of City-owned Buildings to Non-Profit Tenants**

STANDING COMMITTEE RECOMMENDATION:

On July 9, 2024, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Property and Development and submitted the following to Council:

1. That the Public Service be directed to negotiate with existing non-profit tenants, as set out in Appendix A of the Leasing and Licensing of Property policy, who are interested in purchasing the building they lease from the City.

    A. That the Public Service be directed to provide a verbal report to the Standing Committee in 90 days on whether the properties would be declared surplus through circulation and subsequent negotiations.

2. That, subject to the approval of Recommendation 1, Section 3.2.A.ii. of the Declaration as Surplus and Sale of Property policy be waived and the Public Service be authorized to negotiate a Direct Sale with existing tenants who lease a building from the City.

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 Property and Development – July 4, 2024**

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 9, 2024, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Property and Development and submitted the matter to Council.

Susan Russell, President, and Jackie Wilkie, McGowan Russell Group, and Michelle Richard, M. Richard and Associates Ltd., submitted a communication with respect to the matter.

STANDING COMMITTEE RECOMMENDATION:

On July 4, 2024, the Standing Policy Committee on Property and Development concurred in the recommendation of the Winnipeg Public Service, with the following amendment:

- Add the following new Recommendation 1.A.:

  "1.A. That the Public Service be directed to provide a verbal report to the Standing Committee in 90 days on whether the properties would be declared surplus through circulation and subsequent negotiations."

and submitted the matter to the Executive Policy Committee and Council.

# ADMINISTRATIVE REPORT

**Title:** The Sale of City-owned Buildings to Non-Profit Tenants

**Critical Path:** Standing Policy Committee on Property and Development – Executive Policy Committee – Council

## AUTHORIZATION

| Author | Department Head | CFO | CAO |
|---|---|---|---|
| M. Pittet<br>B. Kelly | H. Borys<br>G. Patton | C. Kloepfer | M. Jack |

## EXECUTIVE SUMMARY

On March 20, 2020, Council directed the Public Service to report back with a plan to sell leased buildings. Since that time, the Public Service has initiated a Strategic Facility Master Plan (SFMP) and conducted tenant consultations through Probe Research.

On October 16, 2023, the Public Service asked 40 of the City's 86 non-profit tenants if they would purchase the City building they occupy. Roughly half the tenants were not contacted because they occupy a building that cannot be sold (e.g. community centre). Twenty-seven tenants responded to the inquiry and 12 indicated an interest in purchasing.

Should leased buildings be sold, there are a number of options to consider:

1. Sell the property to the tenant at below-market value.
2. Sell the property to the tenant at below-market value with a reversionary clause.
3. Enter into a long-term ground lease (i.e. City retains the land and the building is owned by the tenant) with the tenant at below-market value.
4. Sell the property to the tenant at market value.

Option 1 is a 'no strings attached' transaction, while Options 2 and 3 are very similar in that the property may return to the City. Option 4 is the least likely to obtain support from the tenants. Options 2 or 3 make sense where the property includes a large land area or is strategically placed but could saddle the City with a future burden (demolition or deferred maintenance). Option 1 is preferable where the City has no potential future need for the property. A sale obligation is required in any scenario to ensure the property remains in the hands of a non-profit for a period of time.

Most tenants indicated that a $1.00 sale price was necessary to complete the purchase. Appraised values of the 12 buildings are not available, but it is reasonable to assume a market value of approximately $5 to $10 million (order of magnitude). Should a property be sold at a fraction of its value (e.g. a percentage of the land-only value), it would show a modest return to taxpayers while still keeping the purchase price affordable.

The Public Service recommends that Council authorize negotiations to sell the buildings to the interested current non-profit tenants, at below-market value.

## RECOMMENDATIONS

1. That the Public Service be directed to negotiate with existing non-profit tenants, as set out in Appendix A of the *Leasing and Licensing of Property* policy, who are interested in purchasing the building they lease from the City.

2. That, subject to the approval of Recommendation 1, Section 3.2.A.ii. of the *Declaration as Surplus and Sale of Property* policy be waived and the Public Service be authorized to negotiate a Direct Sale with existing tenants who lease a building from the City.

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 20, 2020, Council directed the Public Service to report back within 180 days with a plan to rationalize City owned and/or leased building assets including:

i. Administrative buildings that the Public Service considers to be surplus to the needs of the City, with any sale proceeds from these buildings deposited into the Land Operating Reserve;

ii. Buildings leased to third parties that the Public Service considers to be surplus to the needs of the City (including a relocation plan for any nonprofit tenants), with a portion of any sale proceeds deposited into the Transformative Fund.

On May 26, 2022, the Public Service provided an interim update to Council on the Strategic Facilities Master Plan and will report back on the optimization of City-owned and/or third party leased assets.

## IMPLICATIONS OF THE RECOMMENDATIONS

In the event that a sale is recommended, the existing delegations of authority would govern the transaction. It is assumed that any sale will be for an amount that is less than 80 percent of market value and, as such, a report to the Standing Policy Committee on Property and Development will be required. Given this assumption, there are no financial implications associated with this report.

## HISTORY/DISCUSSION

On March 20, 2020, Council adopted the 2020 Capital Budget and Five-Year Capital Forecast allowing $450,000 approval for the Planning Property and Development (PP&D) Strategic Facility Master Plan (SFMP) project. An additional $250,000 was approved on December 16, 2020, when the 2021 Capital Budget and Five-Year Capital Forecast was adopted.

In July 2020, the Public Service formed a cross departmental internal working group supported by Colliers Project Leaders to oversee and assemble Request for Proposal (RFP) No. 826-2020 Professional Consulting Services for the SFMP.

On February 18, 2021, Ernst & Young LLP's Transaction Real Estate practice was awarded the contract for RFP No. 826-2020 Professional Consulting Services for the Strategic Facilities Master Plan as the successful bidder.

In June 2021, in conjunction with the review being conducted by Ernst & Young LLP, the Office of Public Engagement began working with the internal working group to better understand the experiences of non-profits who lease space in City-owned facilities, as well as their views on potential options for the future.

In conjunction with the Municipal Properties (City owned/third party occupied) anonymous online survey, RFP 711-2021, Professional Consulting Services for Non-Profit Tenancy Stakeholder Engagement was awarded to Probe Research Inc. on January 11, 2022. The purpose of the RFP was to gather in-depth information with current City-owned/third-party lease holders and City-owned/prospective third-party lease holders. The results of the three phases of engagement were completed and amalgamated in September 2023 to provide both qualitative and quantitative findings to inform further recommendations for the SFMP final report and the optimization of City-owned and/or third party leased assets, the main subject of this report.

On November 25, 2021, Council directed the Winnipeg Public Service to report back within 150 days with an interim report including current options for the rationalization of City owned and/or Leased Building Assets.

On April 5, 2022, an Interim Update- Rationalization of City owned and/or Leased Building Assets was presented to the Standing Policy Committee on Property and Development, Heritage and Downtown Development and on May 26, 2022, Council recommended the Public Service report back with a final recommendation for the SFMP which would include the optimization of City-owned and/or third party leased assets for Council consideration.

In advance of the completed SFMP, the Public Service has begun to consider rationalization of select City properties within the scope of the Council direction from March 20, 2020.

Contacted Tenants

On October 16, 2023, the Public Service asked 40 of the City's 86 non-profit tenants if they would purchase the City building they occupy. Roughly half the tenants were not contacted because they occupy a building that cannot be sold (e.g. community centre). Twenty-seven tenants responded to the inquiry and 12 indicated an interest in purchasing.

The following table indicates which tenants were contacted; the 12 tenants highlighted green are interested in purchasing:

| Address | Responded | Address | Responded |
|---|---|---|---|
| 1880 Alexander Ave | Y | 581 McPhillips St | N |
| 80 Allard Ave | N | 687 Minto St | Y |
| 659 Alverstone St | Y | 365 Murdoch Rd | Y |
| 75 Brazier St (Daycare) | N | 2050 Ness Ave | Y |
| 75 Brazier St (Resource) | Y | 535 Oakdale Dr | N |
| 2370 Burrows Ave | N | 900 Raleigh St | N |
| 80 Churchill Dr | Y | 4246 Ridgewood Ave | Y |
| 1100 College Ave | N | 5006 Roblin Blvd (Seniors) | Y |
| 1212 Dakota St | Y | 5006 Roblin Blvd (Historic) | Y |
| 255 de la Cathedrale Ave | Y | 759 Ross Ave | Y |
| 410 Desalaberry Ave | Y | 475 Rutland Ave | Y |
| 377 Dufferin Ave (Daycare) | Y | 669 St Matthews Ave | Y |
| 377 Dufferin Ave (Seniors) | Y | 811 St Paul | Y |
| 120 Eugenie St | N | 491 Salter St | Y |
| 466 Gertrude St | N | 370 Southport Blvd | Y |
| 22 Granite Way | Y | 545 Watt (Resource) | Y |
| 910 Maginot St | N | 900 Waverley St | Y |
| 56 Maple St | N | 328 Whittier Ave | Y |
| 875 McMeans Ave E (Daycare) | Y | 1960 William Ave W | N |
| 875 McMeans Ave E (Football) | Y | 1466 William Ave | N |

It is noted that none of the buildings included on the preceding list were circulated before contacting the tenants. If the report recommendations are approved, it is entirely possible that a civic objection may arise in response to a sale circulation. If valid objections are raised, negotiations will be terminated. If no objections are received, the Public Service will order an appraisal and begin to draft the basic terms for a sale. As there are numerous properties under consideration, it is expected to take several months before any sale approval is sought.

The City's cost to operate the 12 buildings is relatively small since most tenants pay their own costs; however, the most recent asset review indicates anticipated capital funding needs would average $2,000,000+/year over the next 10 years for the 12 buildings. This cost assumes all building components are replaced at the end of their life, which is not always the case. Tenants are responsible for capital improvements but often require funding assistance from the City.

Tenants Not Contacted

In the interest of full transparency, the following table indicates all tenants that were not contacted by the Public Service as part of this review. Two tenants on the list (locations 430 Langside and 31 McBeth) indicated their interest in purchasing the building they occupy as a result of a follow-up inquiry by Probe Research.

| Address | Address |
|---|---|
| 444 Adsum Dr | 2055 Ness Ave |
| 601 Aikins St | 282 Niverville Ave |
| 218 Antrim Rd | 3450 Pembina Hwy |
| 112 Ashland Ave | 346 Perth Ave |
| 50 Cass St | 3180 Portage Ave |
| 480 Chalmers Ave | 4540 Portage Ave |
| 1885 Chancellor Dr | 2777 Portage Ave |
| 360 Cockburn St | 25 Poseidon Bay |
| 577 Dalhousie Dr | 75 Poseidon Bay |
| 251 Donald St | 295 Pritchard Ave |
| 90 Frobisher Rd | 219 Provencher Blvd |
| 100 Frobisher Rd | 233 Provencher Blvd |
| 1430 Gibbs St | 141 Regent Ave W |
| 266 Graham Ave | 505 Ross Ave |
| 200 Isabel St | 836 St Joseph St |
| 510 King St | 598 St. Mary's Rd |
| 725 Kylemore Ave | 100 Sinclair St |
| 430 Langside St | 415 Stella Ave |
| 1057 Logan Ave | 1600 Summit Rd |
| 50 Mac St | 494 Tache St |
| 1637 Main St | 4403 Waverley St |
| 31 McBeth St | 110 Winona St |
| 140 Meade St | 185 Young St |

Tenant Analysis

The City's rental portfolio is in poor to very poor condition according to the *2018 State of the Instructure Report*. Selling assets would reduce the City's infrastructure deficit while ensuring that more funding can be allocated to the remaining buildings.

It should be noted that the sale of City buildings at less than market value would represent a potential financial loss to the City. Selling City buildings would also eliminate the option to repurpose land or buildings in the future.

Should leased buildings be sold, there are a number of options to consider:

1. Sell the property to the tenant at below-market value;
2. Sell the property to the tenant at below-market value with a reversionary clause;
3. Enter into a long-term ground lease (i.e. City retains the land and the building is owned by the tenant) with the tenant at below-market value;
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In advance of the completion of the SFMP, the decision to explore sales opportunities within the City as Lessor Facilities was undertaken for two reasons:

- The draft SFMP recommends periodic portfolio reviews to determine which assets remain necessary for civic functions (leading practice).
- The tenant engagement completed by Probe Research has better shaped the Public Service's understanding of the City's rental portfolio and tenant needs.

**Requested Changes**

At a Reports Briefing on May 21, 2024, an earlier draft of this administrative report was reviewed by members of the Executive Policy Committee and the following revisions were requested:

- Clarify that language in all four options to reflect the sale of the property instead of just the building (replace 'building' with 'property' in the list of options on pages 1 and 5).

## Financial Impact Statement Date: March 26, 2024

## Project Name:

## The Sale of City-owned Buildingsto Non-Profit Tenants

**COMMENTS:**

For the purposes of this analysis, it is assumed that any sale will be for an amount less than 80% of market value and, as such, a report to Standing Policy Committee on Property and Development will be required. Given this assumption, there are no direct financial implications associated with this report.

Mike McGinn Mar. 26, 2024
Mike McGinn, CPA, CA
Manager of Finance

## CONSULTATION

This Report has been prepared in consultation with:

N/A

## OURWINNIPEG POLICY ALIGNMENT

Goal: Economic Prosperity
3.16 Optimize Facility Access: Maximize the use of existing municipal assets to promote recreation, community development, and social interaction, while optimizing equitable access, infrastructure reinvestments, service delivery methods and resource management.

## WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

Strategic Opportunity #1, Corporate Leadership.
Direction 1.2: Understand and Integrate Business and Economic Implications of Climate Action into Decision-making Processes

## WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

The information and recommendations presented in this report align with and advance the Winnipeg Poverty Reduction Strategy (2021 – 2031) as follows:

They embody the Guiding Principles.
They align with the following Goals and Objectives:
Goal 6 - All City Services are Equitable, Inclusive and Accessible Related 10-year Objectives:

A. Residents have equitable access to City services.
C. Use of City's tools and resources are maximized to reduce systemic inequities

## SUBMITTED BY

Department: Planning, Property and Development
Division: Real Estate and Land Development
Prepared by: Gord Chappell, Administrator of Real Estate
Date: March 26, 2024