

CITY OF VANCOUVER

ADMINISTRATIVE REPORT

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TO: Standing Committee on City Services and Budgets

FROM: The Project Manager for the Southeast False Creek ("SEFC") Development in consultation with the Director of Financial Planning and Treasury

SUBJECT: Southeast False Creek Area 2A: Update on the Salt Building Restoration, and Re-use, including a Recommendation to Raise the Building

RECOMMENDATION

- A. *THAT Council authorize the Project Manager for SEFC Development to proceed with raising the Salt Building in SEFC Area 2A for the reasons detailed in this report and as shown in the plans attached as Appendix A.*
- B. *THAT Council authorize the City Manager to negotiate a sole source contract with the Salt Building Restoration Corporation (SBRC) for the raising and pile extension work at the Salt Building on terms and conditions satisfactory to the City Manager and the Director of Legal Services at a cost estimated to be \$2.25 million; and*

FURTHER THAT the City Manager be authorized to execute and deliver the legal documents on behalf of the City; and

FURTHER THAT no legal rights or obligations will be created or arise by Council's adoption of this Recommendation unless and until such legal documents are executed and delivered by the City Manager.

CITY MANAGER'S COMMENTS

The City Manager notes that the Salt Building does not have to be raised. All of the design work completed to date has been based on the expectation that the Salt Building would sit at its existing elevation. However, this report documents some significant concerns with this outcome. Without this work, the Salt Building will sit below the grade of the surrounding streets and buildings, increasing its maintenance costs and potentially jeopardizing its service

life. Additional expenditures on the foundation and main floor will be required to overcome these issues. Moreover, if the building remains at its current elevation, while it will remain on its heritage pile foundation, it will have a different relationship to the surrounding streets, losing the prominence of the elevated loading dock in the south, the at-grade relationship at the north end and the connectivity to the Plaza. Finally, the opportunity to daylight the piles will limit viewing of this primary heritage feature, one of the outcomes that continues to be favoured by the Heritage Commission.

On balance, the City Manager believes the trade-offs required in raising the building are acceptable and therefore supports the recommendation to raise the building. The City Manager therefore RECOMMENDS approval of A and B.

COUNCIL POLICY

Resolutions flowing from the following reports to Council have established the policies that guide the redevelopment of the City and Private Lands within the SEFC Official Development Plan ("ODP") area.

- **Southeast False Creek Policy Statement** - Adopted by Council on October 5, 1999 and amended on July 8, 2004;
- **South East False Creek Official Development Plan (SEFC ODP)** - Enacted on July 19, 2005 and amended on March 21, 2006;
- **CD-1 (454) Olympic Village** - Adopted by Council on September 14, 2006 and Enacted on April 17, 2007;
- **Southeast False Creek Financial Plan and Strategy** - Adopted by Council on March 1, 2005;
- **Southeast False Creek Green Building Strategy** - Adopted by Council on July 8, 2004;
- **Southeast False Creek Public Realm Plan** - Adopted by Council on July 20, 2006;
- **Neighbourhood Energy Utility** - Adopted by Council on March 2, 2006;
- **Energy Utility System By-Law** - Adopted by Council on November 15, 2007; and
- **2010 Winter Olympic and Paralympic Games** - On March 26, 2002, Council endorsed the Olympic venues proposed for the City of Vancouver in the Vancouver 2010 Bid, including the use of the City-owned lands in Southeast False Creek for the Athletes Village. Vancouver was subsequently named host city for the 2010 Winter Games on July 2, 2003.

City Council approval is required to sole source contracts and to award contracts in excess of \$300,000.

PURPOSE

The purpose of this report is to

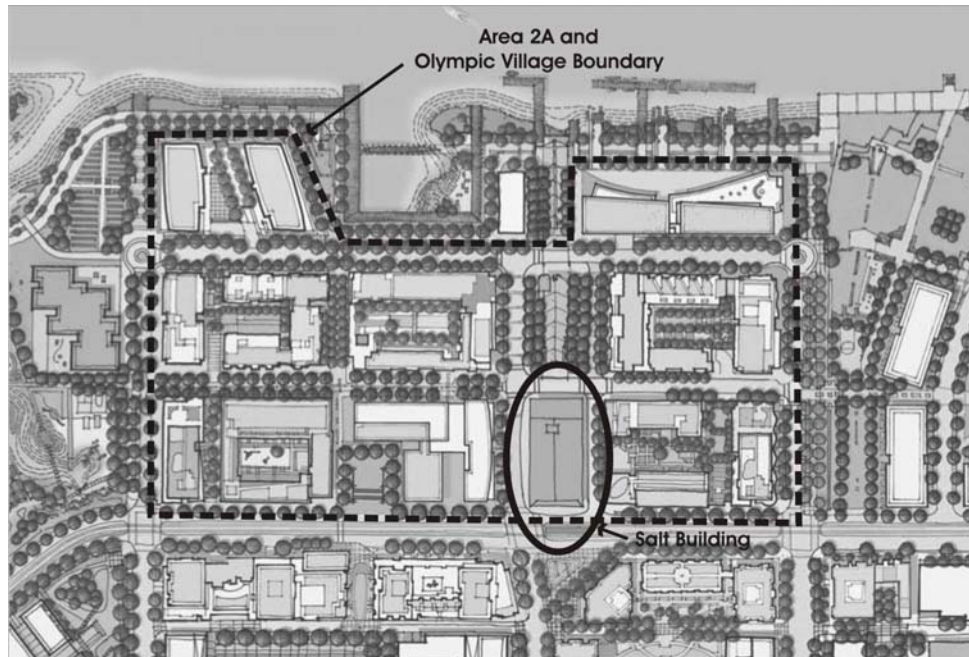
- update the public with respect to the RFP process for the Salt Building; and
- to seek Council authority to raise the building to re-establish its relationship with the surrounding public works infrastructure, including an assessment of both costs and benefits.

BACKGROUND

1. Current Status of the Salt Building

The Salt Building is the most significant landmark in the SEFC neighbourhood. The building is a “B” listed heritage building located at the heart of the new community at 1st Avenue and Manitoba Street.

Figure One: The Salt Building Location Relative to SEFC Area 2A and Olympic Village Boundary



The building is held as a Property Endowment Fund asset. The Salt Building was not included in the process to select the developer for SEFC Area 2A in order to undertake a separate RFP process tailored to the unique history and location of this building.

The Salt Building currently sits empty. The development plans for SEFC contemplate that the building would be restored for a mixture of retail uses which highlight and build on its heritage value and encourage public access.

Funding of \$2.0 million was identified in the Property Endowment Fund pro forma for SEFC as a contribution towards restoration of three heritage buildings on the site. Full restoration costs for the building were to be addressed as part of the RFP process for a post-2010 Olympic & Paralympic Winter Games tenant. The successful respondent to the RFP was to be responsible for restoration of the superstructure and connection to the necessary utilities and services, and to provide tenant improvements for ultimate uses that meet City objectives.

In order to facilitate the orderly construction of the streets and utilities in SEFC Area 2A, Council agreed that the PEF would fund the following work on the Salt Building in advance of issuance of the RFP:

- On November 16, 2006, Council approved the upgrade of the Salt Building foundation, including seismic strengthening. As part of this work, Ruskin Construction Ltd. ("Ruskin") constructed a retaining wall around the east, west and south sides of the building to the new and higher grade of the adjacent streets. This wall does not bear the weight of the building; it was essentially constructed to prevent the adjacent streets from encroaching on the pile foundation of the building.
- On November 13, 2007, Council approved additional funding to construct the basement foundation walls and floor slab at the north end of the building. Ruskin is currently mobilizing to complete this work before the adjacent streets are constructed in the spring of 2008.

In total, funding of \$2.32 million has been approved for these projects with funding provided from the Property Endowment Fund.

2. The Process for Selecting a Post Olympic Tenant

The Request of Expressions of Interest (the "REFI")

In March 2006, a public RFEI was issued to the development and retail community. Four responses to the RFEI were submitted:

- Acton Ostry Architects Inc;
- Ecotrust Canada with the Tsleil-Waututh Nation and Musqueam Band;
- Omicron Architecture Engineering Construction Ltd.; and
- Millennium Properties Ltd.

On June 27, 2006, Council agreed that all four respondents (the "Short-Listed Respondents") be invited to participate in the more formal RFP. Council also endorsed the Salt Building Restoration and Reuse Principles and a leasehold strategy for the Salt Building in which the City would maintain ownership of the building and the property on which it is located.

The RFP was issued on July 6, 2007 to three of the Short-Listed Respondents because Millennium Properties Ltd. had withdrawn prior to issuance of the RFP.

The RFP provided the Short-Listed Respondents with a history of the Salt Building, Council approved policy and Salt Building Restoration and Reuse Principles, information on the process for construction of SEFC Area 2A and the associated public works and utilities, and the anticipated construction timeline. The RFP also set the proposal requirements (the "Proposal Requirements") and terms of the Lease Agreement.

Among other things, the RFP required the successful Short-Listed Respondent to:

- assemble a team with experience in architecture, heritage preservation, engineering, sustainable building design, Certified Professional and project management at a minimum;
- enter into agreements with the City that lay out the terms and conditions under which the Salt Building is to be:
 - leased and used; and

- renovated and extended (the “Project”), substantially in the “Form of Lease Agreement”;
- fulfill the owner’s obligations and other requirements pursuant to the rezoning of the Salt Building’s property;
- obtain all necessary approvals and permits for the Project, including development, building and occupancy permits;
- restore the superstructure of the Salt Building:
 - in accordance with City’s policies and regulations;
 - in consultation with the SEFC Project Office;
 - in conformance with the foundation and basement work completed by (or on behalf of) the City, and the services provided by the City as part of the infrastructure works;
 - in accordance with the City’s *Building Bylaw*, including seismic upgrades; and
 - consistent with the standards and guidelines adopted by Parks Canada for historic sites;
- be responsible for all design and installation costs to connect the Salt Building to the City utilities, including the Neighbourhood Energy Utility;
- source financing for the Project and for the necessary tenant improvements;
- enter into a sublease agreement to give the City unrestricted use of the Salt Building and the property on which it is located for the Exclusive Use Period, including the ability to transfer those rights to VANOC; and
- enter into an inner-city benefits agreement.

The Request for Proposal Process

Consistent with the City’s objectives for the Salt Building, the RFP outlined the expectation that the restoration and reuse would enhance the SEFC neighbourhood character; integrate with the commercial and retail strategy for the area; provide public access through meaningful circulation routes within the building; and meet the sustainability objectives established for the area.

The RFP closed on November 23, 2007. Only one response was received, from the Acton Ostry Group doing business as the SBRC. The other Short-Listed Respondents submitted their formal notification to withdraw from the RFP process prior to the RFP’s closing time.

The Salt Building Restoration Corporation (“SBRC”) Proposal (the “Proposal”)

Citysphere Project Management Corp., Haebler Construction Properties Inc., Mark James Group (restaurant and hospitality) and Acton Ostry Architects have established the SBRC to complete the Project and lease the Salt Building. The project team also includes Glotman Simpson Consulting (structural), Cobalt Engineering (mechanical and electrical), Commonwealth Resource Management (heritage), Morrison Hershfield (building envelope), Gage Babcock & Associates (Certified Professional), ACM Environmental, ReCollective (sustainability), PWL Partnership (landscape architects), and Daniel Lyzun & Associates (acoustical).

Highlights of the SBRC Proposal include:

- meets all requirements of the RFP (with the exception of Project financing), related Council Policy and Salt Building Guiding Principles;

- a strong project management, design and construction team;
- a sustainability strategy to restore the building in line with Parks Canada guidelines to conserve where possible and to achieve LEED Gold equivalent;
- the heritage restoration will focus on preservation and rehabilitation while respecting the character-defining elements of the building as identified in the “Statement of Significance”;
- a comprehensive business proposal that includes:
 - a “Brew Pub and Restaurant” to be operated by the Mark James Group comprising approximately 7,000 square feet inside the building and approximately 1,400 square feet over the basement at the north end of the building as a covered, outdoor patio area; and
 - an “Artesian Bakery” (1,000 sq ft) and “Coffee House” (2,000 sq ft), with additional uses such as a newsstand and wine shop also being considered given the size of the space;
- commitment to deliver the building shell for use by VANOC for the Exclusive Use Period, with the tenant improvements completed following the Exclusive Use Period;
- a mezzanine and north extension considered for the future at SBRC’s sole cost and expense, depending on demand for additional space;
- dedication of approximately 30% of the building area to public access and uses throughout the building, including a proposal to provide educational and interpretive activities related to the building and the SEFC area.
- design work will contemplate: (1) opportunities to reveal the original piles; (2) maximizing the viewing opportunities of the roof truss system; and (3) limiting the door and window penetrations on the east and west building facades; and
- potential community benefits through partnerships with BladeRunners and Covenant House.

The RFP sought a proponent that would finance as well as complete the reconstruction of the building. However, it was expected that the financing would be capitalized in the lease, shifting the cost over the term of the lease to the City through reduced rent. The SBRC proposal is based on the City providing the financing for reconstruction thereby reducing the eventual cost to the City through lower interest costs.

Evaluation Results and Recommendation

A detailed analysis of the Proposal was completed by an Evaluation Committee comprised of senior staff from the SEFC Project Office, Finance and Real Estate, which drew the following conclusions about the SBRC Proposal:

- the SBRC draws together a strong design and construction team with the experience and expertise required to complete the restoration on time and meet VANOC’s requirements;
- the SBRC team has considerable experience with heritage restoration and adaptive reuse problems, and proposed modifications in keeping with the character defining elements in the Salt Building Statement of Significance; and
- the SBRC proposal balances the company’s commercial objectives and the City’s public objectives for the building and, combined with the experience and success of the Mark James Group, offers the potential of a dynamic, social gathering space which is appropriate for the heart of the SEFC neighbourhood.

- The SBRC proposal allocates approximately 30% of the building area to public access and includes an initiative to provide interpretive features highlighting the history of building and the area.

Following completion of the evaluation, staff sought approval from Council to enter into negotiations with SBRC for the restoration and the reuse of the Salt Building.

The Lease Agreement

The proposed lease has two primary components:

- an agreement that will see SBRC undertake the restoration of the Salt Building in the period leading up to the 2010 Games. The completed base building will be made available to VANOC during the Exclusive Use Period;
- an agreement that will see SBRC finance and complete tenant improvements for the approved uses following the Exclusive Use Period and then occupy the building for an initial 10 year term with two five year renewals.

The Salt Building is a Property Endowment Fund asset and has the expectation of a reasonable economic return flowing from its post 2010 Games uses. However, this expectation must take into consideration the other public objectives for this building (heritage values and significance in Area 2A) both in its restoration and ultimate mix of uses. To date, Council has approved funding from the Property Endowment Fund of \$2.3 million for foundation work. It is currently anticipated that, subject to final design, an additional \$6.2 million will be required to complete base building restoration, with funding from the Property Endowment Fund. Tenant improvements to facilitate the final uses will be funded by SBRC.

The business terms of the SBRC lease of the Salt Building have been negotiated with a view to ensuring that the PEF is entering into a lease that reflects the variety of expectations for the building. Lease terms extending a maximum of 20 years have been negotiated to be consistent with commercial leases for similar uses elsewhere in the City. These terms provide opportunities for the commercial operations to be successful as the SEFC ODP area develops but reserving the City's right to participate on a revenue sharing basis as the business develops.

On December 11, 2007 Council endorsed this recommendation and negotiations on an appropriate business arrangement are expected to be completed in the near future.

DISCUSSION

Proposal to Raise the Salt Building

The original plan for the Salt Building was to maintain the existing relationship between the building and the street allowing for the potential of retaining the visibility of the original pile foundation. However, as the infrastructure for Area 2A was designed, it was necessary to raise the grades of some areas to facilitate storm water drainage on the streets. Around the Salt Building, this increase in elevation exceeds one metre (3 to 4 feet).

In their proposal the SBRC raised concerns about this new relationship to grade for reasons articulated below.

At the time the foundation work was contemplated, the SEFC Project Office approached the Heritage Commission seeking support for a proposal to raise the Salt Building to re-establish the relationship with these higher grades. However, as the Heritage Commission did not support this initiative, the Salt Building was left in its original position and a retaining wall constructed around the building to the height of the future sidewalks. As a result, once the adjacent public infrastructure works are completed, the relationship between the Salt Building and the surrounding streets will be lost. In order to reestablish this relationship, the building will have to be raised between 37 and 45 inches (exact height yet to be determined). Conceptual illustrations of both the "leave" and "raise" options are included in the Appendix A.

On December 10, 2007, the SEFC Project Office again approached the Heritage Commission with these concerns. However, the Heritage Commission confirmed its position not to support raising the building. The following resolution was carried unanimously:

THAT, regarding the project at 85 West 1st Avenue (Salt Building) the Vancouver Heritage Commission (VHC) does not support the proposal to raise the building; and

FURTHER THAT the VHC does support maintaining a view down into the area occupied by the existing piles on the south side and that the piles be lit to increase their visibility.

Staff note that throughout the redevelopment of SEFC, the City has been very responsive to the recommendations of the Heritage Commission. Decisions from the identification, location and treatment of heritage resources on-site have been directed by their recommendations. This included the retention of the Salt Building and its existing pile foundation at a substantial cost. This last recommendation, however, is not supported by either the SEFC Project Team or the SBRC for the following reasons which are further articulated in Appendix A:

1. The recently constructed sidewalk and streets that surround the Salt Building have been designed higher than the original grades leaving the existing building partially buried along the north, east and west sides.
2. The relationship of the main floor of the building to Walter Hardwick Way is awkward. In particular, the north side, which will face Vancouver's premiere public plaza in the SEFC Village, will be sunken below grade and will not be easily accessible to those with disabilities.
3. The main floor level will look like a basement space below grade, inhibiting and compromising the quality of public, social and retail interaction planned. This will be critical to the success of any business or civic functions envisioned to take place within and around the Salt Building. The currently proposed uses of restaurant, brew pub, bakery and coffee house require a near-grade accessible relationship at the north side facing the SEFC Village public plaza.
4. The building's heritage piles and support structure below the main floor level will no longer be visible from any side of the building, as they have been throughout its history. Lifting the building will allow public views to the historic pile foundation.

5. Areas of the existing historic wood siding and timber structure at the perimeter of the building have begun to be buried through construction of the street and sidewalk retaining system that will surround the site. The buried timber elements will be exposed to water and insects, thereby making the building structure and envelope vulnerable to rot and damage. Raising the building would eliminate the buried condition and facilitate the restoration and future maintenance of the building structure and envelope.
6. The piled basement area located below the Salt Building has been designed to act as a sump to relieve water pressure on the surrounding City street and sidewalk retaining walls. SBRC has recently been advised that it is probable that the piled basement area may be filled with several inches of water at any given time and that the piled basement will remain a wet or damp space throughout the year. Raising the Salt Building will permit natural ventilation to take place in the piled basement space. Conversely, leaving the building at its present level may require the construction of ventilation wells in City sidewalks surrounding the building that may, in turn, require mechanical assistance to adequately ventilate the piled basement.
7. The City is constructing a new basement at the north end of the building for use by the building's commercial tenant. Headroom access to this new basement will be restricted and compromised and may not prove to be very useful for the purposes intended if the building is not raised.

In essence, either option reflects a compromise.

- If the building remains in its current position, it will sit on its existing foundation and retain its relationship with the original shoreline. However, the building will sit below grade, frustrating its maintenance, forcing remedial action to secure its lifespan and preventing the pile foundation from being viewed from outside. The cost associated with this option is estimated at \$1.82 million.
- If the building is raised, the existing pile foundation will be extended with a treatment consistent with the current heritage values, however, the building will regain its relationship to the new higher surrounding streets and infrastructure and will be sited to safeguard the integrity of the structure and allow for day-lighting of the pile foundation. The cost associated with this option is estimated at \$2.25 million.

Considering these concerns, staff recommend that the building be raised.

On December 11, 2007 Council authorized the SEFC Project Office to contract with SBRC to prepare the building to be raised, subject to a public decision by the end of January 2008. To maintain an already tight schedule for completion of the building restoration work in time for the Exclusive Use Period, materials and equipment to raise the building have been placed under the building.

Should Council determine that the building should not be lifted the restoration project will result in remedial costs that were not anticipated at the time the RFP was issued. These costs are currently estimated to be \$1.8 million compared to \$2.25 million for the "raise" option. Details of the required work are documented in Appendix A.

Strategies for Meeting the Completion Schedule

The SBRC has noted that the timing of the design, permitting and construction of the Salt Building is challenging. This compressed timeline will become more difficult based on the work anticipated in Appendix A. Therefore, the SBRC has suggested three approaches that may expedite the process, including:

- Director of Planning Approval for the Development Permit, i.e. no reference to the Urban Design Panel or Development Permit Board;
- Voluntary Seismic Upgrade Approval; and
- Use of the Certified Professional Process.

City staff will review these options for streamlining the City process. It is anticipated that the City's Development Services SEFC Area 2A team will also process the Salt Building applications.

FINANCIAL IMPLICATIONS

To date, the Property Endowment Fund has invested \$2.32 million to provide seismic stabilization to the Salt Building pile foundation and to construct a basement at the north end of the building. The cost to raise the building and extend the pile foundation is estimated at \$2.25 million. Finally, the PEF will invest an estimated \$6.2 million to restore the base building and shell prior to the Olympics. By the time SBRC begins construction of the tenant improvements in the Salt Building over \$10.0 million will have been invested to save this heritage building.

Although the initial intention had been for Property Endowment Fund to recover these costs through the proposed commercial lease this will be impossible at this level of investment. As a result, staff are recommending that costs beyond the commercial return be included in the SEFC public amenity package as a PEF contribution.

CONCLUSION

Following a comprehensive evaluation, the SBRC has been selected to restore and reuse the Salt Building. Staff are currently negotiating the necessary legal agreements, which are anticipated to be completed in February. In response to concerns identified by both staff and the SBRC, it is recommended that the Salt Building be raised from its current height to re-establish the existing relationship to the surrounding streets and to safeguard the integrity of the structure. Given the opposition of the Heritage Commission, Council's direction is sought in a public report.

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