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ADMINISTRATIVE REPORT

Report Date: June 7, 2012
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Meeting Date: July 10, 2012

TO: Vancouver City Council

FROM: General Manager, Real Estate and Facilities

SUBJECT: Roof Replacement - Buildings at 270 Terminal Avenue and
at 875-925 Terminal Avenue

RECOMMENDATION

- A. THAT Council approve the recommended capital expenditure for roof replacement for the City-owned building at 270 Terminal Avenue, legally described as Lot 19, Block A2, Plan VAP5703, District Lot 2037, NWLD; (as shown on Appendix A); in the amount of \$262,500 including HST and contingencies; source of funding to be the Property Endowment Fund (PEF), to be recovered from the rental income generated by this building.
- B. THAT Council approve the recommended capital expenditure for roof replacement for the City-owned building at 875-925 Terminal Avenue, legally described as Lot 5, except part in Plan 8304, Block E, District Lot 2037, Plan 8122, and Amended lot A (Explanatory Plan 5052) of Lot E, District Lot 2037, Plan 8304, and Lot D, District Lot 2037, Plan BCP802 (as shown on Appendix B); in the amount of \$1,710,800 including HST and contingencies; source of funding to be the Property Endowment Fund (PEF), to be recovered from the rental income generated by this building.
- C. THAT Council authorize the Director of Supply Chain Management (Chief Purchasing Official) to tender the proposed immediate roof replacement at 270 Terminal Avenue, and at 875-925 Terminal Avenue.

REPORT SUMMARY

The purpose of this report is to seek Council approval to replace the roofs at 270 Terminal Avenue, and 875-925 Terminal Avenue, in the amount of \$1,973,300, to be funded by the PEF, with cost recovery from the rental income generated by these buildings.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

The General Manager of Real Estate and Facilities Management has spending authority of up to \$500,000. The proposed PEF expenditure exceeds the value of \$500,000 which can be approved by the General Manager and is therefore submitted to Council for approval.

Issuance of Bid Calls and awarding of contracts must follow the City's Procurement Policy.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The General Manager of Real Estate and Facilities Management notes that PEF buildings are revenue generating City assets and major structural repairs are the responsibility of the City under the lease terms. The cost of roof replacement will be recovered from the rental income generated by these buildings. The proposed work has been independently estimated and bids for the work will be processed through normal procurement procedures.

The General Manager of Real Estate and Facilities Management RECOMMENDS approval of A, B, and C.

REPORT

Background/Context

The PEF owns a wide range of revenue producing properties held and managed by Real Estate Services. The buildings referenced in the report are located on strategic sites which have been discussed for redevelopment. As a result of the uncertain future and their redevelopment timing, past building maintenance has been targeted mainly at minor repairs in order to maintain an optimal holding income until redevelopment.

The buildings have now reached a stage where roof replacement is required. The City as landlord has the responsibility for structural repairs that includes the roofs of the building and their eventual replacement.

Strategic Analysis

The Director of Facilities Operations commissioned a roof assessment report from an independent roofing consultant who concluded that the roofs on both buildings require replacement, as they are beyond their economic life. The tenancies and the revenue generating potential will be jeopardized if roof replacements do not proceed.

270 Terminal Avenue

The building at 270 Terminal Avenue has stood since the 1920s with building additions in the 1940s. It was occupied by the founders of the Fontile Company who were the original owners of the building. Today, the building is tenanted to the Fontile Corporation Ltd. operating in its present form since the 1990s as a tile and interior fixtures company. In recent years, the building has experienced frequent building

envelope leaks and water ingress affecting the roof structure and window beam supports. As recently as March 2012, a structural engineer's updated condition assessment reconfirmed the roofing consultant's findings of progressive structural and interior deterioration leading to increasing risks and repair costs, and the loss of use for the Tenant if the roof replacement does not proceed.

The buildings along Main Street and Terminal Avenue in the East False Creek area support the City's objective around a Green Enterprise Zone. Roof replacement on this building would preserve the building over the long term for that purpose; and such action would align with current Council initiatives and priorities to provide for green businesses, social sustainability and economic benefits to achieve the Greenest City targets.

875-925 Terminal Avenue

The building at 875-925 Terminal Avenue was built in the 1950s with additions in the 1960s on a 1.69 acre site improved with a 50,000 square foot building, which had a complete roof replacement in 1987. The City purchased the property in 1991 with the mandate of encouraging and maintaining industry in the area. The building has been leased since the late 1990s to Vancouver Trolley Company, a bus company serving the local tourism industry, and to Butler Box Storage Inc., a records storage facility. In recent months, overdue maintenance is evident as an updated condition assessment evidenced further roof and window damage and rot attributable to building envelope leaks and water ingress. The building is also taking in water at the high mortar points and an elastomeric coating is suggested to prevent further deterioration.

With the roofs' condition now at a stage where there is no further potential to repair, or protect the building envelope from further deterioration, and to minimize liability, the Director of Facilities Operations recommends roof replacement on both buildings.

The City's quantity surveyor estimated the cost to replace the 7,500 square foot roof at 270 Terminal Avenue to be \$262,500 and the 48,880 square foot roof at 875-925 Terminal Avenue to be \$1,710,800. The total cost for both roofs is estimated to be \$1,973,300 inclusive of contingencies and HST.

Subject to Council approval, it is expected that work can begin as early as summer with weather conducive, the roof replacement project can be completed before the end of summer 2012.

Financial

The Director of Facilities Operations estimates the total cost of the recommended roof replacements at \$1,973,300. It is expected that income generated from these buildings is sufficient to offset the capital investment of the roof replacements. Funding for this work will be provided by the Property Endowment Fund, such expenditures to be recovered from the rental income generated by these PEF buildings.

The rental income from 270 Terminal Avenue is \$84,000 per year. Based on the estimated \$262,500 cost to replace the roof, it would require approximately 3 years and 2 months to offset the capital investment of the roof replacement.

Council on April 18, 2012 approved a 5 year lease plus a 5 year renewal option for Butler Box and Storage Inc. at 925 Terminal Avenue. It is expected that Vancouver Trolley Company Ltd situated at 875 Terminal Avenue will renew their lease on similar terms upon expiry of their lease next year. The projected rental income for the next five year period from the two tenancies at 875-925 Terminal Avenue totals \$397,120 in Year 1, \$421,276 in Year 2, \$453,952 in Year 3, and \$482,368 in Year 4, and \$510,784 in Year 5. Based on the estimated \$1,710,800 cost to replace the roof, it would require approximately 3 years and 11 months to offset the capital investment of the roof replacement.

As both roofs are beyond their economic life, replacement is the recommended best option. Based on the expected rental income, it would require under 4 years to recover the \$1,973,300 capital expenditure, and the new roofs would have an expected lifespan of 20 to 25 years, requiring minimal outlay for repairs during this period. Without fully functional roofing systems, the tenancies will be jeopardized, and the buildings would not be in the best condition to maximize their revenue generating potential for the long term.

CONCLUSION

In view of the complete deterioration of the roofing systems on these PEF buildings, roof replacement is recommended to minimize potential liability, support the continued revenue generating capabilities of the buildings, uphold the Landlord's covenants under its contractual lease commitments, and to safeguard the value of these revenue producing assets.

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