



IN CAMERA

## ADMINISTRATIVE REPORT

Report Date: June 9, 2017  
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Meeting Date: June 27, 2017

TO: Vancouver City Council  
FROM: General Manager of Real Estate and Facilities Management  
SUBJECT: Lease of Premises Located at 450 SW Marine Drive

### IN CAMERA RATIONALE

This report is recommended for consideration by Council on the In Camera agenda as it relates to Section 165.2(1) of the *Vancouver Charter*: (e) the acquisition, disposition or expropriation of land or improvements, if the Council considers that disclosure could reasonably be expected to harm the interests of the city.

### RECOMMENDATION

- A. THAT Council authorize the Director of Real Estate Services to negotiate and execute a lease (the "Lease") between Gateway Commercial Limited Partnership and 8440 Cambie Nominee Corp. (together, the "Landlord") and the City of Vancouver (the "Tenant") for the premises located on the 11<sup>th</sup> and 12<sup>th</sup> floors of 450 SW Marine Drive, Vancouver, BC, V5X 0C3, legally described as PID: 029-642-078, Air Space Parcel 1, Block 8, District Lot 311, Group 1, New Westminster District, Air Space Plan EPP52215, as shown in Appendix A (the "Premises") on the following general terms and conditions:

Term: Ten (10) years.

Option to Renew: Two (2) terms of five (5) years each.

Lease Area: Approximately 21,586 square feet on the 11<sup>th</sup> floor and approximately 5,537 square feet on the 12<sup>th</sup> floor.

Net Rent:	Years 1 - 5: s.17(1) per annum s.17(1) SF rental rate) plus GST.
	Years 6 - 10: s.17(1) per annum s.17(1) SF rental rate) plus GST.
Storage Space:	Approximately 1,377 square feet of storage area in the parkade.
Storage Rent:	s.17(1) per annum s.17(1) SF) plus GST for the term of the Lease.
Parking:	43 parking stalls at a market rate of s.17(1) per stall plus 21% Transit Levy.
Parking Rent:	s.17(1) per annum (Year 1), subject to market rate adjustments over the term of the Lease.
Operating Costs & Taxes:	s.17(1) square foot (estimated for 2017) per annum. Operating Costs include: repairs, maintenance, office security, supplies, janitorial and recycling, landscaping, and Landlord's insurance.
	<i>[Estimate of total occupancy costs in Year 1 = s.17(1) inclusive of Net Rent, Operating Costs &amp; Taxes, Parking and Storage.]</i>
Tenant Inducements:	
	Tenant Improvement Allowance: Landlord to provide a contribution to Tenant's Works in the amount of s.17(1) per square foot (s.17(1)).
	Fixturing Allowance: s.17(1) s.17(1) s.17(1) Tenant will be responsible for the costs of its separate utilities during the Fixturing Period.
Possession Date:	The later of thirty (30) days after Landlord delivers to the Tenant a copy of the Occupancy Permit for the Premises and November 1, 2017.
Fixturing Period:	30 days starting on the Possession Date.
Commencement Date:	The day next following the expiry of the Fixturing Period, as herein described.

Indemnity by  
Tenant:

To indemnify and hold harmless the Landlord from and against any claims, losses, actions, suits, damages, costs and charges ("Claims") arising out of or in connection with any injury or loss or damage to property arising from or caused by:

- (i) the Lease;
- (ii) any occurrence in, upon or at the Premises;
- (iii) occasioned by any fault, default, negligence, act or omission of the Tenant, the Tenant's personnel, or those for whom the Tenant is in law responsible; or
- (iv) breach of environmental provisions in the Lease.

Other Terms and  
Conditions:

Such other terms and conditions of the Lease are to be drawn to the satisfaction of the Directors of Legal and Real Estate Services, it being noted that no legal rights or obligations shall arise or be created until the lease document is fully executed by both parties.

Operating budget costs include Net Rent, Storage Rent & Parking Rent, Operating Costs and Taxes. For 2017, the Operating budget costs will be funded from within the approved 2017 City Operating Budget. For 2018 onwards, funding for this lease will be included in the 2018 Operating Budget and brought forward to Council for approval in December 2017.

B. THAT, subject to approval of Recommendation A, Council approve up to s.17(1) for Phase 1 - the Tenant's Works at the Premises, and Phase 2 - staff accommodation in the newly vacated space at City Hall campus (together, the "Total Project Cost"). The source of funds to be:

- (i) s.17(1) from the Capital Facilities Reserve on an interim basis, to be replaced by Civic Facilities debenture upon approval of a change in use of borrowing authority to be brought to Council through the quarterly capital budget process; and
- (ii) s.17(1) 0 reallocated from the multi-year capital project budget for Drivers Program Office Space.

Expenditures will be managed within the overall approved Annual Capital Expenditure Budget.

### REPORT SUMMARY

The report seeks Council approval for the Director of Real Estate Services to negotiate and execute a lease, between the Landlord and the Tenant, for the Premises at 450 SW Marine Drive for civic offices. With many recent emerging priorities, there is a need for additional office space with quick accessibility to the City Hall Precinct.

### ***COUNCIL AUTHORITY/PREVIOUS DECISIONS***

The Director of Real Estate Services, Associate Directors of Real Estate Services, or Supervisor of Property Negotiations can execute Licence Agreements, Month to Month Leases, Offers to Lease, and Leases (the "Commercial Lease"), where the City is either the lessor or lessee, or licensor or licensee, where the total rental or licensee fee value is less than \$750,000 and the term (including renewal options) is no more than ten (10) years.

Total rental value of the Lease exceeds \$750,000 and the total term (including renewal options) exceeds ten (10) years; therefore, the terms of the Lease are being submitted to Council for approval.

### ***CITY MANAGER'S/GENERAL MANAGER'S COMMENTS***

The General Manager of Real Estate and Facilities Management recommends approval of the foregoing.

### ***REPORT***

#### ***Background/Context***

The current City Hall Precinct office inventory includes the Main City Hall Building, the West Annex at W 10<sup>th</sup> Avenue and 450/456 West Broadway, in addition to leased office premises at 507 West Broadway ("Crossroads") and 525 West 10<sup>th</sup> Avenue ("BC Principals Building"). As programs, services and staff levels continue to grow, and with City Hall Precinct currently at full capacity, additional office space is needed to meet these civic expansion requirements.

To address primarily Engineering Services' departmental growth and accommodate multi-departmental major projects staff (i.e. Arbutus Corridor, NEFC/Viaducts Project) and growth in other areas, staff's immediate objective was to lease office space in the vicinity of City Hall Precinct to meet accommodation requirements until development of an expanded City Hall campus can be completed. After a thorough search of the immediate areas to City Hall Precinct, no suitable premises were found that matched Facility Planning and Development's criteria for City office space standards. Staff then identified a location within the Cambie corridor that matched civic criteria and Council objectives. This location is the Marine Gateway Development (see Appendix A) at Marine Drive and Cambie Street. The Premises are in close proximity to the Engineering facility at Manitoba Yards, with direct access to the City Hall Precinct via the Canada Line, and will provide the flexibility needed to deal with the City's office expansion needs over the next several years.

The Premises at Marine Gateway will accommodate approximately 160 staff, which is anticipated to be sufficient to meet Engineering's growth needs over the next ten years.

The newly vacated space at the City Hall campus will accommodate growth pressures in other departments such as REFM, Planning, and Permits and Licencing. This will be addressed in a second phase.

**Strategic Analysis**

Office space opportunities around the City Hall Precinct which match the City’s office space needs are limited, and the requirement to lease sufficient space to manage and meet expansion is a continuing challenge. Although not located within the City Hall Precinct, staff identified the Premises which meet the City’s standards, expectations and requirements while remaining quickly accessible to City Hall Precinct via the Canada Line. Negotiated rents for the Premises are in line with market comparables for similar transit-accessible office spaces.

The Premises are in a LEED Gold building located at a mixed-use transit oriented community known as Marine Gateway, a new development located at the south east corner of Marine Drive and Cambie Street, at the south end of the Cambie corridor in Vancouver and in close proximity to an existing Engineering Operations Facility (Manitoba Yards). The development is supported by shopping, services, banking, restaurants, cycling infrastructure and the Canada Line. Three other stations separate the Broadway-City Hall Station and the Marine Gateway Station, and the travel time by Canada Line is approximately ten minutes, in each direction. With its large office floor plate, Marine Gateway provides the best opportunity for business unit and work group consolidation, and enhanced space configuration for user needs. With several Engineering Services divisions (i.e. Water, Sewer and Solid Waste) proposed to relocate to Marine Gateway Premises, related business units would be co-located to efficiently deliver like-services to Vancouver. With the Engineering Services departments’ relocation, the Crossroads premises would allow for consolidation of Engineering’s satellite sites, enable consolidation for REFM, and facilitate needed space outside of Crossroads for other departments, such as Planning and Communications, which are experiencing significant space constraints across City campuses. Accordingly, this report seeks Council approval for the Director of Real Estate Services to negotiate and execute the Lease between the Landlord and the Tenant for the Premises to accommodate the relocation of several Engineering Services divisions.

Details of the Tenant’s Works and Tenant Improvements (collectively, the “Total Project Cost”) for the Premises are as follows:

<b>DESCRIPTION – TOTAL PROJECT COST</b>	
<b>TENANT’S WORKS – hard and soft cost (as completed by Landlord)</b>	s.17(1)
Les <sup>s.17(1)</sup> sq ft Tenant Improvement Allowance	
<b>TENANT IMPROVEMENTS (as completed by Tenant)</b>	
FF & E (Furniture, IT and moves and PM costs)	
Contingencies 10%	
<b>PHASE 1 MARINE GATEWAY PROJECT COST</b>	
Infill for vacated City Hall Campus space (Phase 2)	
<b>TOTAL PROJECT COST</b>	

Area: 27,123 square feet

Total Phase 1 Marine Gateway Project Cost per square foot: s.17(1) (after deduction of s.17(1) SF Tenant Improvement Allowance)

The relocation of staff into the vacated premises at City Hall campus (Phase 2) will incur costs for moving, IT/ computer relocations, and some minor reconfigurations. This cost is estimated to be within s.17(1).

The Total Project Cost is s.17(1) for Marine Gateway (Phase 1) plus s.17(1) to infill vacated City Hall Campus space (Phase 2), for a total of s.17(1).

### *Implications/Related Issues/Risk (if applicable)*

#### *Financial*

Operating: The Net Rent is s.17(1) 7 per annum s.17(1) SF for Years 1 to 5, plus an estimated s.17(1) per annum operating costs and taxes (s.17(1) /SF of Operating Cost and Taxes for Year 1). It is expected these operating costs will slightly increase each lease year, as billed by the Landlord. The Net Rent is s.17(1) per annum s.17(1) SF for Years 6 to 10, plus operating cost and taxes. The Total Parking Rent is s.17(1) per annum, subject to market rate increases. The Total Storage Area Rent is s.17(1) per annum s.17(1) SF throughout the Term.

Total "Operating Budget" costs include Net Rent, Storage Rent & Parking Rent, and Operating Costs and Taxes. The estimate of the total Operating Budget cost in Year 1 is anticipated to be s.17(1).

For 2017, the Operating Budget costs (estimated at approximately s.17(1)) will be funded from within the approved 2017 Operating Budget. For 2018 onwards, funding for this new lease will be included in the 2018 Operating Budget and brought forward to Council for approval in December 2017.

Capital: The Phase 1 Total Project Cost (Marine Gateway TI) is estimated at s.17(1), after deducting the Landlord's Contribution to Tenant's Works. The Landlord shall be responsible for a maximum of s.17(1) /SF (i.e., Tenant Improvement Allowance) in connection with the construction and completion of the Tenant's Works on behalf of the Tenant. The Landlord will provide written notice of expenses incurred to deliver the Tenant's Works (the "Actual Tenant's Work Costs") to the Tenant, and the Tenant is required to reimburse the Landlord for the amount of the Actual Tenant's Work Costs that is in excess of the Maximum Tenant's Work Costs within thirty (30) days of receipt of such notice. The Actual Tenant's Work Costs payable to the Landlord by the Tenant is estimated at s.17(1) base cost, plus contingency.

The Phase 2 Total Project Cost (City Hall Campus TI) is estimated to be up to s.17(1). This includes the costs to infill vacated City Hall Campus space (Phase 2), for a Total Project Cost of s.17(1).

The Total Project Cost is proposed to be funded as follows:

- (i) s.17(1) from the Capital Facilities Reserve on an interim basis; and
- (ii) s.17(1) reallocated from the multi-year capital project budget for Drivers Program Office Space.

Debenture funding is available for reallocation from several Engineering multi-year capital budgets; however, the Street and Street Lighting/Traffic Signals borrowing authority classes are not appropriate for these tenant improvements. A request to vary borrowing authority for these debenture funding sources to Civic Facilities will be brought to Council in an upcoming quarterly capital budget adjustment report. The funding for the Drivers Program Office Space is no longer required as Driver Services staff will also move into this newly leased space, eliminating the need to update their current office space.

Expenditures for both phases of this project will be managed within the overall approved Annual Capital Expenditure Budget.

### **CONCLUSION**

The 27,123 square feet of office space provided at the Premises, in close proximity to the Canada Line Station and with easy access to City Hall, presents a unique opportunity for departments to address immediate and long term office accommodation needs.

The Director of Real Estate Services is of the opinion that the rent negotiated is representative of current market rental value for the type, location, condition and age of the Premises, and supports the approval of Recommendations A and B.

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