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LEASE FOR VACANT SPACE IN THE TOWN OF NEWMARKET'S MUNICIPAL BUILDING

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, November 20, 2007, from the Commissioner of Corporate Services:

1. RECOMMENDATIONS

It is recommended that:

1. The Region enter into a three-year lease for vacant space in the Town of Newmarket's Municipal Building, located at 395 Mulock Drive, in Newmarket.

2. The Regional Chair and the Regional Clerk be authorized to sign the necessary Lease Agreement with the Town of Newmarket, subject to review by Legal Services.

3. The Commissioner of Corporate Services be authorized to sign a lease extension for a further one-year term with the Town of Newmarket, if required, for an additional one-year term, subject to review by Legal Services.

2. PURPOSE

This report recommends that the Region enter into a three-year lease for vacant space in the Town of Newmarket's Municipal Office, to accommodate Regional staff who are currently located in the Administrative Centre.

3. BACKGROUND

Property Services with the assistance of Mayhew & Associates consultants, conducted a Space Needs Assessment Study of the Administrative Centre. The goal of this study was to document the current state of staff accommodation at the Administrative Centre and to develop a master plan for its space needs up to the year 2011.

The Region's population has increased significantly over the past 30 years and is expected to reach 1.2 million by 2016. As a result of this increase in population, the requirement to provide Regional services continues to increase with a resulting increase in required staff numbers. This growth places extreme pressure on the Region to provide suitable accommodation for staff. In particular, the Administrative Centre which has reached a critical threshold.

The Space Needs Assessment has confirmed that:

- The Administrative Centre is at capacity for space accommodation.
- An additional 20,000 square feet of corporate space is required by December 2008.
- An additional 15,000 to 20,000 square feet of corporate space will be required by the year 2011.

In September 2005, the Regional Council adopted its first Strategic Accommodation Plan, which identified the Newmarket Consolidation as a priority. Final approval for this project will be sought in 2008. If approved, construction will not be completed for approximately three years. As such, there will be a need for interim space to accommodate growth during that period.

Property Services staff conducted a search in the Newmarket area for available office space and identified over 6,000 square feet of space which has been secured at the Gates of York. A further 11,000 square feet of vacant space has also been identified in the Newmarket Municipal Building. Property Services staff met with the Town staff to discuss this opportunity, and an agreement has been reached. The Town will charge a nominal rental fee in exchange for the Town having ownership of all the leaseholds that are constructed and paid for by the Region, at the end of the lease term. This space is also ideal as it is in close proximity to the Administrative Centre, is in the best interest of the taxpayers as it is the most cost effective solution, and the Town will not have to spend additional taxpayer's dollars to renovate the space once the Region vacates at the end of the term.

4. ANALYSIS AND OPTIONS

Newmarket Council endorsed this agreement on October 3, 2007 (Attachment1). The Region, at its own cost, will renovate the vacate space into predominately open concept generic offices. The Region will occupy this space in 2008, for three (3) years, with a one-year renewal option, when it is anticipates more permanent space will be available.

In consideration of the Region paying for the leaseholds, the Town has agreed to lease the space to the Region for a nominal annual rental fee for the entire lease term. Upon the Region vacating the space, the Town will assume ownership of all leasehold improvements, except furniture, which the Region may choose to either relocate or declare surplus and sell to the Town at an agreed price.

5. FINANCIAL IMPLICATIONS

The following chart outlines the projected cost of leasing this space.

Table 1
Operating Cost Analysis

Lease Year	Annual Operating and Maintenance Cost (approx.)
2008	$ 67,650.00
2009	$ 67,650.00
2010	$ 67,650.00
TOTAL	$ 202.950.00

The proposed total annual operating and maintenance costs based on approximately $6.15 per square foot (established using the Town's operating cost actuals), includes the cost of utilities, janitorial services, operating and maintenance costs, and winter and summer ground maintenance.

The costs for leasehold improvements for this space will be approximately $850,000.00, which includes the cost for furniture and consulting fees. This amount has been included in the proposed 2008 Corporate Services budget.

The average net rental cost for office space in Newmarket is $17.00 per square foot. Over a three year lease term this equates to $561,000. The Town has agreed to lease this vacant space to the Region for a nominal rental fee for the entire lease term. This provides the Region with a projected savings of $561,000. This cost avoidance is approximately equal to the cost of the leasehold improvements (excluding furniture), estimated to be $550,000. Therefore the cost of the leasehold improvements is paid for by the cost avoidance of base rent.

This lease agreement complies with the Region's policy relating to financing leases contained in the Capital Financing and Debt Policy, approved by Council in January 2006.

6. LOCAL MUNICIPAL IMPACT

This joint venture demonstrates how respective levels of government can effectively maximize a public asset for the benefit of the taxpayer.

7. CONCLUSION

Entering into a three-year lease with the Town will provide the Region with the most cost effective solution and flexibility, and will provide the Town with improved space to accommodate their future growth.

For more information on this report, contact Rosanna Mihalis, Lease and Property Coordinator, Property Services Branch.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause was included in the agenda for the November 29, 2007 Committee meeting.)