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LEASEHOLD IMPROVEMENTS – 11TH AND 12TH FLOORS 3601 HIGHWAY 7 EAST, MARKHAM

The Rapid Transit Public/Private Partnership Steering Committee recommends the adoption of the recommendations contained in the following report dated February 26, 2009, from the Commissioner of Corporate Services and the Vice-President, York Region Rapid Transit Corporation.

1. RECOMMENDATIONS

It is recommended that:

1. Council approve a one-time leasehold improvement for the leased space, based on the current standard of $82 per square foot, inclusive of a furniture allowance.

2. Council approve an expenditure of $6 per square foot for ancillary items, such as telephone equipment, appliances and moving costs.

2. PURPOSE

This report recommends that the allowance for leasehold improvements for the 11th and 12th floors at 3601 Highway 7 be increased from $60 per square foot to $82 per square foot, inclusive of furniture.

3. BACKGROUND

The York Region Rapid Transit Corporation, in partnership with York Consortium 2002 is collectively referred to herein as “the Rapid Transit Office”.

Council approved the relocation of the Rapid Transit Office to 3601 Highway 7 East in Markham

At the September 18, 2008 meeting, Council authorized leasing the 12th floor and all or part of the 11th floor for the Rapid Transit Office. The 12th floor is to be used for management and office staff, while the 11th floor is to be used for design and project management staff.

Council approved leasehold improvements for new office space

On September 18, 2008, Council adopted the staff recommendation to approve leasehold improvements of $60 per square foot, inclusive of furniture.

4. ANALYSIS AND OPTIONS

The 12th Floor has been leased and is ready to undergo construction for leasehold improvements

All necessary requirements have been completed to award construction and procure furniture for the 12th floor. However, construction and furniture bids have come in higher than the amount initially approved by Council on September 18, 2008. Feedback from the industry and Regional experience indicates that the initial estimate of $60 per square foot should have been exclusive of furniture, rather than inclusive of furniture.

The 11th Floor is being held until March 2009 by the developer pending Provincial Budget approval

As previously noted in this report, Council at it's meeting of September 18, 2008, authorized staff to enter into a lease for all or part of the 11th floor (being approximately 12,430 sq. ft.) at 3601 Highway 7. Although York Consortium 2002 has a number of work programs underway, it was considered prudent to wait until the Metrolinx request for $77 million in 2009/2010 for vivaNext in the Provincial budget was approved before entering into the final lease agreement for this space. The developer has agreed to hold the 11th floor for the Rapid Transit Office until the Provincial budget has been confirmed. At that point in time, staff would then commence the procurement process for leasehold improvements and furniture acquisition.

Market rates indicate that leasehold improvements of $60 per square foot, exclusive of furniture, are appropriate

Property Services solicited three bids for the construction of the project office on the 12th floor. The lowest bid approximated just over $53 per square foot. This cost did not include the cost of network wiring, security installation, appliances, and any other specific features, such as condensed filing or accordion doors to separate meeting spaces.

Similarly, three bids were solicited for office furniture for the 12th floor. The bid prices were very competitive and came in at roughly $23 per square foot. The furniture bids were for standard Regional office and cubicle furniture used throughout all Regional offices.

With a build-out of the 11th floor, it is anticipated that the cost per square foot for furniture might approximate $30 as a result of more staff being located on that floor. The higher cost of furniture per square foot on the 11th floor will be offset by an expected lower cost of construction cost per square foot for the 11th floor, as a result of an open office concept with fewer structures and a simpler floor layout.

It should be noted that the aforementioned costs are typical of costs experienced by the Region during the past year.

Leasehold improvements and furniture meet Regional and Ontario Disabilities Act standards

In 2003, the Rapid Transit Office was furnished with used furniture. Most of that furniture has now exceeded its life expectancy. Existing office cubicles do not meet ergonomic requirements, Regional standards, or provide adequate surface and storage space to meet staff needs.

By adopting Regional standards, the Rapid Transit Office will be equipped with well-designed and tested furniture, adapted to the needs of the different types of work being conducted in the office.

Buy-versus-Lease Option

Regional Council previously authorized staff to investigate and prepare a buy-versus-lease cost-benefit analysis of the office space, as the offices at 3601 Highway 7 are condominium units and are also available for sale. Realty Services staff hired GSI Real Estate & Planning Advisors Inc. to investigate and prepare an appraisal report and a lease-versus-buy analysis. The report and analysis completed by the consultant recommended that, due to the significant capital outlay required to purchase the condominium units and the extraordinary number of owners/tenants occupying the building, the Region not purchase these units.

Material Lease

As reported by the Regional Treasurer in September 2008, the lease for this space complies with the Region's Capital Financing and Debt Policy related to the financing of material leases.

5. FINANCIAL IMPLICATIONS

All Project Costs Will Be Fully Recoverable From the Province

The project office costs are recoverable through MoveOntario 2020. Initial leasehold improvements and furniture costs will be recovered from Quick Wins funding that has already been received as part of the costs to delivery the preliminary engineering program for vivaNext. Monthly lease and project office costs will be allocated to projects based on the relative amount of monthly activity, and will be recovered through the respective funding envelope for each project.

A summary of the cost build-up for leasehold improvements, furniture, and ancillary equipment/costs for the 11th and 12th floors is provided in Table 1 below. Where possible, actual quotations and bid prices were used. These costs have been extrapolated for the 11th floor on a per capita or per square foot basis, as applicable.

Table 1
Leasehold Improvements, Furniture and Other Costs

	12th Floor – 11,001 sq ft	11th Floor – 12,430 sq ft	Combined Floors – 23,431
Leasehold Improvements			
Permit, Architectural Fees, Construction, Voice/Data Lines, Network Installation, Security	**$699,000**	**$598,200**	**$1,297,200**
Cost per Square foot	*$64*	*$48*	*$55*
Furniture			
Office Furniture	**$253,000**	**$372,000**	**$625,000**
Cost per Square foot	*$23*	*$30*	*$27*
Other Ancillary Costs			
Telephone equipment (VOIP), Appliances, Office Move	**$61,664**	**$78,790**	**$140,454**
Cost per Square foot	*$6*	*$6*	*$6*

All costs associated with these leasehold improvements and furniture have been accommodated in the Rapid Transit 2009 capital budget.

6. LOCAL MUNICIPAL IMPACT

The cost of leasehold improvements will have a minimal impact on York Region taxpayers as project office costs are expected to be fully eligible for senior government funding.

7. CONCLUSION

On September 18, 2008, Council approved to expend $60 per square foot for leasehold improvements and furniture. Based on bids received, the estimate of $60 per square foot was underestimated. Staff recommend that the allowance for leasehold improvements and furniture be increased to $82 per square foot and that an additional allowance of $6 per square foot be approved for ancillary costs as identified in Table 1.

For more information on this report, please contact Barry Crowe, Director Property Services at Ext. 1684.

The Senior Management Group has reviewed this report.