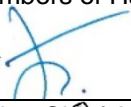


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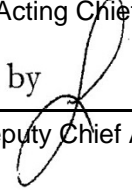
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Item No. 14.1.3
Halifax Regional Council
February 16, 2016

TO: Mayor Savage and Members of Halifax Regional Council

SUBMITTED BY: Original Signed by 

John Traves, Q.C., Acting Chief Administrative Officer

Original Signed by 

Mike Labrecque, Deputy Chief Administrative Officer

DATE: January 5, 2016

SUBJECT: Lease Agreement South End Community Day Care, 5594 Morris Street, Halifax

ORIGIN

October 20, 2015 – MOVED by Councillor Mason, seconded by Councillor Walker that Halifax Regional Council request a staff report regarding possible continuation of below market lease to South End Community Day Care.

LEGISLATIVE AUTHORITY

HRM Charter Section 61(5) c, the Municipality may lease property owned by the Municipality at market value.

HRM Charter Section 63(1), the Municipality may sell or lease property at a price less than market value to a non-profit organization that the Council considers to be carrying on an activity that is beneficial to the Municipality; and (2) A resolution to sell or lease property referred to in subsection (1) at less than market value shall be passed by at least a two thirds majority of the Council present and voting.

RECOMMENDATION

It is recommended that Halifax Regional Council direct staff to negotiate a Lease Agreement with the South End Community Day Care to transition the Tenant to market rent.

BACKGROUND

The Neighborhood Improvement Program II Core Committee was a citizen's committee formed in 1970 to create a development plan for the Old South End which would reflect the concerns of area residents. The committee worked closely with the City of Halifax and consisted of South End residents who surveyed and met with the community, consulted with various levels of government and developed a proposal regarding development in the area.

In May 1981, the Neighborhood Improvement Program (NIP) II Implementation (Social/Recreational Projects) had three major projects in the final year of the program which were:

1. Senior Citizen Centre (SCISC);
2. South End Community Day Care (SEDC); and
3. Improvements to the grounds of St. Mary's School on Morris Street.

The combined budget for the three projects was a total of \$423,500 and was cost shared accordingly:

Federal Contribution	\$196,750
Provincial Contribution	\$ 59,025
Municipal Contribution	\$147,725
<u>South End Community Day Care</u>	<u>\$ 20,000</u>
Total	\$423,500

SCISC and SEDC agreed to be sponsors for the facility proposed in the concept plan under the guidelines of the NIP II. SEDC contributed \$20,000 toward the capital costs of their portion of the facility which cost \$150K to build. This contribution is considered to be the tenant's investment or capital rent in the premises. The original lease agreement commenced on March 1, 1983 inclusive of two five-year renewals to February 1998. The \$20,000 contribution was a specific term of consideration of the March 1, 1983 agreement and subsequent renewal terms which subsequently expired in 1998.

In May 2015, staff met with the Executive Director of South End Community Day Care to begin lease discussions and to inform the SEDC that the lease rates would be at market value and that HST would be applied to the entire rent. In efforts to continue to move the file forward, an Offer Letter was sent in August with three options of how the transition to a market rent could be applied, in an attempt to give the group time to make the appropriate financial adjustments. The group advised us that they were going to discuss the terms and conditions amongst themselves and send HRM a counter-offer. On October 20, 2015, a Motion to Council was made requesting a staff report regarding the possible continuation of a below market lease to South End Community Day Care. The lease negotiations have ceased pending the staff report to Council.

DISCUSSION

The original term (March 1983 – February 1998) for the SEDC lease:

- Leased premises of 3,413 sq. ft.
- Initial five-year term (March 1, 1983 - February 29, 1988)
- Two five-year renewal options which ended on February 28, 1998
- Base Rent of \$2,100 per annum, payable in 12 equal monthly payments of \$175
- Tenant responsible to pay operating costs such as heat, power and cleaning for a total estimated monthly cost including base rent of \$850.
- Agreement was held over on the same terms and conditions until 2003

In 2003 a new lease agreement was entered into:

- Leased premises of 3,413 sq. ft.
- Five-year term (April 1, 2003 – March 31, 2008)
- Five-year renewal option – which was not exercised by the Tenant
- Tenant responsible to pay operating costs such as heat, power and cleaning
- Holding on a month-to-month basis
- Since 2008, the base rent has been adjusted at five (5) percent per annum and the tenant is currently paying \$596.42 per month, which is equivalent to \$7,157.04 annually or \$1.78 per square foot plus operating costs and applicable property tax.
- In 2011, SECDC accessed a provincial grant to assist with funding a 600 square foot expansion to which HRM provided approval. Prior to the expansion, SECDC was licensed for 72 daycare spaces; the expansion allowed SECDC to increase capacity to 81 spaces.
- SECDC's lease and rent was increased by \$1,200 per annum plus HST to reflect the increase in area to 4,013 sq. ft.

The rent is deposited into Capital Reserve Account Q112, a reserve account established under the initial agreement. Q112 does not have an approved Reserve Business Case; however, each year reserve funds are allocated for building repairs and maintenance. The projected March 31, 2016 net available balance is \$63,688 as at November 30, 2015.

The annual funds from Q112 have previously been sufficient to cover the building repair costs; however, in the 2015-2016 fiscal year, the costs have exceeded sixty thousand dollars. These repairs include the annual sprinkler inspection, general repairs, driveway repairs, catch basin repairs and capital replacement to the porch and the building sills. The estimated cost to complete the projected list of capital repairs required over the next five years is \$185,000; therefore, current rental revenue is insufficient to meet the capital repair costs and additional funds would be required.

Both 5594 and 5596 Morris Street continues to be occupied by the Spencer House Seniors Centre (SHSC) and the South End Community Day Care.

Spencer House Seniors Centre is a non-profit registered charity which provides services and programs to encourage seniors to live a healthy independent lifestyle which is within HRM's programming mandate. SHSC is almost exclusively government funded through grants.

SECDC is a registered non-profit society and their revenue is mainly generated through child care user fees. HRM does not have a jurisdictional mandate in child care, child development or private education. Any assistance to the latter is discretionary and requires the diversion of funds from other operations which are under HRM's mandate. Continuing to provide a less than market value lease to SECDC creates an inconsistency with other not-for-profit day care centers operating within an HRM owned and operated facility, such as Needham Preschool and Daycare. Therefore, the proposed base rents as outlined in Table 1 are recommended for the new lease agreement with South End Community Day Care. Needham Preschool and Daycare has been included in Table 1 for rent comparison purposes as their lease rates were transitioned to market value on April 1, 2014.

Table 1 – HRM Lease Comparison

Tenant	Spencer House Seniors Centre New accepted terms		South End Community Day Care Proposed		Needham Preschool & Daycare Current
Address	5596 Morris Street, Halifax		5594 Morris Street, Halifax		3372 Devonshire Avenue, Halifax
Premises	3,150 sq. ft.		4,013 sq. ft.		1,700 sq. ft.
Rent & operating cost PSF	Base Rent Annual Increases	Tenant operating costs*	Base Rent Annual Increases	Tenant operating costs*	Gross Rent Base Rent & Tenant proportion of operating cost
2015	\$1.19	\$7.86	\$1.78	\$7.92	\$14.00
2016	\$1.25	\$8.02	\$2.00	\$8.24	\$14.50
2017	\$1.25	\$8.18	\$3.25	\$8.40	\$15.00
2018	\$1.50	\$8.34	\$4.50	\$8.57	\$15.50
2019	\$1.75	\$8.51	\$6.50	\$8.74	\$16.00
2020	\$2.00	\$8.68	\$8.00	\$8.91	TBD
Total	\$10.68		\$16.91		\$16.00
Property Tax PSF	\$4.83		\$4.17		\$3.09
Gross Rent before Tax Exemption**	\$15.51		\$21.08		\$19.09
Current Property Tax Subsidy	Conversion from commercial to residential and 75% financial subsidy		Conversion from commercial to residential and 75% financial subsidy		Conversion from commercial to residential and 75% financial subsidy

*2% is the estimated annual increase in operating costs.

**Comparable Class 'C' rents – are averaging \$ 10.00-13.00 per square foot plus Additional Rent and Property Taxes of \$9.00-12.00. The subject would be considered moderately below a Class C building for comparative purposes. As a result the gross recommended rent before Tax Exemption of \$21.08 at year 5 of the term is considered representative of market. (Source BOMI and CBRE market reports)

FINANCIAL IMPLICATIONS

Negotiating a market rent lease with South End Community Day Care would increase the revenue contributions to the Capital Reserve Account Q112 – “5594-96 Morris St”. The increased Reserve contributions would assist, in part, in addressing the estimated \$185,000 capital repairs and therefore reduce the burden to other taxpayers.

COMMUNITY ENGAGEMENT

Community engagement was not completed as this is a response to a motion.

ENVIRONMENTAL IMPLICATIONS

There are no known environmental implications.

ALTERNATIVES

Regional Council could decide to lease property at a price less than market value to the South End Community Daycare if Council considers them to be carrying on an activity that is beneficial to the Municipality. It should be noted that a resolution to lease property at less than market value shall be passed by at least a two thirds majority of the Council present and voting.

This is not recommended as it is not consistent with rates approved for similar tenant activities in other HRM owned and operated facilities and the required \$185,000 in capital repairs to the building would have to be funded from other sources.

ATTACHMENTS

Attachment A – Office Building Classification Guide, Schedule A

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

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ATTACHMENT 'A'

Office Building Classification Guide

SCHEDULE A – Support Grid For Office Building Classification

	Class A	Class B	Class C
General Comment	Each building classification is relative to its own market, and criteria may vary from one market to another. In specific markets, Class A can subdivide into categories such as Prestige, AAA, AA and A. In some cities, a category called Class I (industrial buildings converted to office) is emerging and starting to compete with the more traditional office building classes.		
Classification Level	Higher Level	Mid Level	Lower Level
General Description	<p>The most prestigious buildings with the most amenities in the best locations. They generally are the most attractive buildings built with highest quality materials and construction methods. Due to their exceptional quality, Class A buildings are usually leased to reputable tenants at the highest rental rates in the market.</p> <p>High-rise building within prime central business district. Strong market presence.</p>	<p>Generally, they are slightly older buildings that still possess good management and quality tenants.</p>	<p>Older, less desirable architecture, limited infrastructure and obsolete technology define these buildings. They have higher than average vacancy rates for their market and leasing them can be a challenge.</p>
Age	<p>Recently built projects with the most advanced standards, and very well maintained older buildings renovated on a continuous basis with up-to-date security and comfort standards.</p>	<p>Recent construction projects with minimal required standards, and well maintained older buildings.</p>	<p>Older office buildings with minimal maintenance.</p>
Location and Access	<p>Generally located in the central business district (CBD) with strong identifiable location (well known business address) and convenient access (public transit facilities, etc.), offering striking views.</p>	<p>Can be located outside of the CBD or within the district of class A buildings. Their location is less identifiable.</p>	<p>Located on less desirable streets in older sections of the city.</p>
Construction and Architecture	<p>Distinctive and classic design, concrete and steel construction, landmark quality, superior exterior finishes for the curtain wall and superior interior quality finishes in main lobby and common areas, including elevators and washrooms. Well designed layout to accommodate one or several tenants on the same floor. Generally built by a reputable developer.</p>	<p>Generic architecture. Curtain wall is acceptable and in some cases the structure can be apparent. Interior finishes are of average quality. It is not uncommon for value-added investors to target these buildings with the intention of renovating them back into Class A buildings.</p>	<p>In need of extensive renovations, many times these buildings are targeted for re-development. The curtain walls, if any, and the mechanical, electrical and safety and security systems of Class C are generally dated and the quality of finish is often below average.</p>

Office Building Classification Guide

SCHEDULE A – Support Grid For Office Building Classification

	Class A	Class B	Class C
Property Management	Best management practices in the industry, managed by a recognized professional providing on-site services such as security, HVAC, air quality, maintenance, tenant work coordination, local tenant services representative, environmental management, etc.	Well maintained with minimal required standards. Not necessarily on-site staff.	Maintenance often overlooked and deficient.
Tenants	Attract premier, prestigious and financially healthy tenants.	Compete for a wide range of quality tenants.	These buildings compete for tenants seeking short-term leases for functional space at below average rental rates.
Leasing rates	The highest rental rates in a given office market.	Normally get average rents for their market area.	Offer lower rental rates and can be more difficult to lease.
Building Systems	State-of-the-art systems that meet industry standards. Automated mechanical, electrical and safety and security systems. High capacity back-up power system.	Adequate (but not state of the art) mechanical, electrical and safety and security systems. Low to medium capacity back-up power system.	Limited systems and obsolete technologies.
Elevators	Fast elevators in sufficient number for the number of floors and building population.	Generally have slower elevators with older technology.	Obsolete or inexistant elevators.
Security	Security 24/7 – controlled access system, camera monitored.	Security services can be on-site, but generally during business hours only.	May not have security services at all.
Environmental	Generally hold at least one recognized environmental certification (BOMA BEST level 3 or 4, LEED). Responsible sustainability practices in place.	Could have a basic certification such as BOMA BEST level 1 or 2.	Generally, no environmental certification.

SCHEDULE A – Support Grid For Office Building Classification

	Class A	Class B	Class C
Parking	Sufficient private and public parking to accommodate tenants and visitors including VIP, monthly reserved and monthly non-reserved sections, car wash and automated payment services. 24/7 access for building tenants with security controls in place. Bike stands and EV charging stations have become the norm in the A category. Very clean and secure environment.	Generally offer a limited quantity of interior and/or exterior parking spaces with a monthly non-reserved section. No public parking. Very basic installation.	May not have parking spaces.
Services	Professional and experienced manager providing a centralized tenant call service system including maximum response time, on-site staff (security, maintenance, mechanical, tenant coordination, administration), concierge services, tenant relationship program, regular tenant activities such as barbecues, holiday breakfasts, welcoming committee for new tenants, etc. Additional services - Conference centre, fitness centre, service oriented retail such as convenience store, cafeteria/food court restaurants, dry cleaning services, ATM and Wi-Fi.	Basic services much less sophisticated than in the class A category. Generally an off-site maintenance team.	Very limited services.