

Subject: 100 Constellation Drive – Option to Purchase

File Number: ACS2024-SI-HSI-0003

Report to Finance and Corporate Services Committee on 4 June 2024

and Council 12 June 2024

**Submitted on May 24, 2024 by Geraldine Wildman, Interim Director, Housing
Solutions and Investment Services**

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Ward: College (8)

Objet: 100, promenade Constellation – Option d’achat

Dossier: ACS2024-SI-HSI-0003

Rapport au Comité des finances et des services organisationnels

le 4 juin 2024

et au Conseil le 12 juin 2024

**Soumis le 24 mai 2024 par Geraldine Wildman, Directeur, Bureau des biens
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REPORT RECOMMENDATIONS

That Finance and Corporate Services Committee recommend that Council delegate authority to the Interim Director, Housing Solutions, and Investment Services Branch of the Strategic Initiatives Department to:

1. Exercise an option to purchase 100 Constellation Drive, a 6.88-hectare site (17 acres), which includes a 387,629 square foot building described in Document 1 as Parcels 1 and 2.
2. On February 28, 2026, the end of the Lease for the Option Lands, complete the purchase of the Option Lands, from Arnon Corporation, for the purchase price of \$10,000,000 plus additional costs equal to the unamortized balance of capital expenditures (if any) and applicable closing costs estimated at \$2,200,000.
3. Negotiate, finalize, execute and amend as needed such notices, documents, agreements and instruments as necessary regarding exercising the Option to Purchase and the Purchase of the Option Lands.

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et des services organisationnels recommande au Conseil municipal de déléguer les pouvoirs suivants au directeur par intérim, Solutions de logement et Investissements, de la Direction générale des initiatives stratégiques:

1. exercer une option d'acheter le 100, promenade Constellation, propriété de 6,88 hectares (17 acres), qui comprend un bâtiment de 387 629 pieds carrés décrit dans le document 1 en tant que parcelles 1 et 2;
2. procéder à l'achat des terrains inclus dans l'option d'achat le 28 février 2026, date de fin de la location de ces terrains, auprès d'Arnon Corporation, au prix de 10 000 000 \$ plus les frais supplémentaires équivalant au solde non amorti des dépenses en capital (le cas échéant) et des frais de clôture applicables estimés à 2 200 000 \$;
3. négocier, conclure, exécuter et modifier au besoin tous les avis, les documents, les ententes et les instruments nécessaires en vue d'exercer l'option d'achat et d'acheter les terrains inclus dans l'option d'achat.

BACKGROUND

The office complex at 100 Constellation Drive is a nine storey building comprising of

387,627 square feet on a 6.88 hectares (17 acre) site. Construction of the western half of the office facility was completed in 1997 while the eastern half was completed in 2000. The property is owned by Arnon Corporation (Arnon) and the complex was initially leased to Nortel Networks during the peak of its operations. By 2001-2002 Nortel was in major restructuring and downsizing and began vacating the premises at 100 Constellation Drive.

In July 2002, Council approved the Corporate Accommodation Master Plan: Administrative Space report (ACS2002-CRS-RPR-0061) with the goal of finding cost efficiencies and to initiate a plan to consolidate City staff accommodations and to reduce space no longer required due to amalgamation efficiencies. In May 2003, Council approved a significant update to the Corporate Accommodation Master Plan, (ACS2003-CRS-RPR-0040). As part of the update, it was recommended that the City assume the Nortel Networks lease for 100 Constellation Drive and consolidate municipal functions in a hub together with Ben Franklin Place at 101 Centrepont Drive.

In negotiating the lease assignment for 2002-03 with Arnon, staff obtained favourable amendments to the original Nortel lease contract. Terms and conditions were added that provided the City with an option to purchase all 6.88 hectares and the office complex at 100 Constellation Drive described as the "Option Lands". The notice period to inform Arnon of the City's intention to acquire the property starts on September 2, 2024 and closes on February 28, 2025. The purchase price is predetermined at \$10,000,000 plus the unamortized balance in the capital expenditures included in operating costs. The closing date for the acquisition will align with the end of the lease being February 28, 2026.

The recommendations in this report are to seek Council endorsement to: (1) proceed to exercise the option to purchase the Option Lands within the designated notification timeframe; (2) complete the transaction at the end of the City lease for the Option Lands; and (3) grant the delegate authority to the Interim Director, Housing Solutions and Investment Services Branch of the Strategic Initiatives Department the authority to finalize and execute all the necessary agreements to complete the acquisition as described herein.

DISCUSSION

The Option Lands, known today as the Mary Pitt Centre, is the largest administrative center in the City portfolio and integral to the City's accommodation strategy. Multiple City departments have staff located there as well as providing accommodations for the Provincial Courthouse, the Employment and Social Services Hub, and the Ottawa Public Health (OPH) Immunization Clinic. Several floors have recently been renovated

as part of the revised Workspace Strategy to reflect new working hybrid modalities. The Mary Pitt Center is a critical asset in the corporate portfolio, integral to the current and future staffing plans.

The City lease will terminate in approximately 19 months (February 28, 2026) with no option to renew. To extend occupancy beyond this date, Arnon would have to agree to enter negotiations with the City for a new lease. There is no guarantee that the City would be able to secure a lease. Not having a right to renew carries significant operational and financial risks as it would be disruptive and costly to relocate out of the Mary Pitt Center into alternate City facilities and private sector office accommodation.

The option to purchase the Mary Pitt Complex (Option Lands) represents a secure path forward to ensure uninterrupted occupancy and service delivery. The purchase price of \$10 million, negotiated in 2003, represents an acquisition at \$25.80 per square foot of building and includes 6.88 hectares (17 acres). The Option Lands are within the Centrepointe Town Centre (CTC), adjacent to a concentration of existing municipal facilities, and designated as Hub within the Outer Urban Transect in the City's Official Plan. Ownership of the Option Lands will provide added benefits to the City, which will be defined in the new Algonquin Station Secondary Plan, set to launch later this year.

The Option Lands were estimated by the City's Acquisitions and Valuation Unit to have a market value ranging from \$84 million to \$92 million in January 2019. An external appraisal was commissioned for this report effective May 9, 2024. The estimate of current market value determined by the external appraiser is \$84.4 million or \$218 per square feet of building area. The value of the Option Lands at \$84.4 million supports the business case to exercise the option and acquire the property for \$10 million plus the unamortized balance in the capital expenditures.

The purchase price is to include the unamortized balance in the capital expenditures included in operating costs. Throughout the term of the lease, the City has not amortized any capital expenditures, opting instead to reconcile unplanned operating costs annually at year-end. The City will continue addressing capital expenditures as they happen during the remainder of the lease. Staff have preliminarily confirmed with Arnon that there are no outstanding balances owing or anticipated. Thus, there are no estimated additional costs associated with capital expenditures thereby establishing a purchase price of \$10 million.

The closing costs on the acquisition will be based on the market value of the Option Lands as of February 2026 and not the contractual price of \$10 million. The City will have to attest to a market value of the Option Lands for the purposes of determining the Land Transfer Tax (LTT). The amount of taxes due on an acquisition of a property with

a market value in the range of \$90 million (2026) is estimated at \$2 million. To complete the transaction, staff recommend \$2.2 million to cover closing costs including LTT, professional fees and miscellaneous costs. Therefore, the anticipated financial benefit to the City by acquiring the Option Lands is estimated at \$72.2 million, being the difference in the Market Value (\$84.4 million) less the total acquisition costs (\$12.2 million).

Current annual gross rental cost (2023) for the Mary Pitt Complex is approximately \$6.3 million in base rent (\$16.25 per square feet), plus additional operating cost rent of \$3.2 million (\$8.25 per square feet.) excluding realty taxes and HST. The operating cost rent payment covers almost 100 per cent of the operating costs as per the lease contract. These costs will continue into the future when the City takes ownership and there will be minimal change in the Facilities Branch operating budget in the go forward.

Upon completing the acquisition of the Option Lands, the City would realize immediate annual savings in base rent payments. Consideration must be given to future capital expenditures for lifecycle repairs and replacement, in alignment with established lifecycle schedules for the facility. While most building repair and replacement costs were previously the City's responsibility within the annual operating costs, additional building components will now be part of the City's responsibility as the owner. A Building Condition Audit (BCA) was commissioned in 2022 by Asset Management Branch to determine the forecasted capital expenditures (CapEx) for the facility. The report detailed that the building is in generally good to fair condition. The forecasted short-term (one to three years) CapEx for the building are approximately \$2.9 million, with a projected long-term (four to 20 years) CapEx set at \$16.5 million.

Over the 20-year horizon the forecasted CapEx, in today's dollars, totals \$19.4 million (\$2.9 million + \$16.5 million). The anticipated future capital repair costs average just under \$1 million annually for the next 20 years. By purchasing the Option Lands the tenant base rent payment of \$6.3 million to Arnon is eliminated, however as the owner of the asset the City will incur additional forecasted capital expense. The City was previously accountable for many of the repair and replacement costs under the annual operating budget in accordance with the terms of the lease, however there is a slight increase in accountability for building components as the owner. An average annual operating budget savings, in current dollars, is estimated at \$5.3 million. This being the impact of transitioning from tenant, no longer paying \$6.3 million in rent, to owner now responsible for all capital expenses of \$1 million annually. Effective 2026 the City will update the BCA including all elements as the owner and adjust the \$1 million forecasted capital budget allowance as required.

SUMMARY

The City was able to take advantage of the decline in the suburban office market in 2000-03 and obtained an option to purchase the Option Lands (Mary Pitt Complex) at the end of a long-term lease on February 28, 2026. The window to give notice to the owner (Arnon) of the City's intent to purchase the Option Lands is from September 2, 2024 to February 28, 2025. The Recommendations of this report seek Council direction to serve notice of the City's intent to purchase and to complete the purchase on February 28, 2026. In doing so the City will:

- Secure continued occupancy of the Mary Pitt Complex, align with the Master Accommodation Strategy and retain continuous service delivery in a municipal hub;
- Receive a financial benefit of over \$72.2 million being the difference in the Market Value (\$84.4 million) less the Purchase Price and closing costs (\$12.2 million); and
- Obtain a budget saving of approximately \$5.3 million annually being the difference in base rent payment (\$6.3 million) less the ownership costs for annual capital expenditures (\$1 million); and
- Commence work on the Algonquin Station Secondary Plan, which will establish an appropriate land use plan for the area in accordance with the Official Plan (fall 2024).

Based on the foregoing, staff recommend (1) exercising the option to purchase as outlined in the Council approved Lease of the Option Lands and provide notice to Arnon at the earliest date possible; (2) complete the transaction on the prescribed closing date of February 28, 2026.

FINANCIAL IMPLICATIONS

There are no immediate financial implications from the report. The total acquisition cost of \$12.2 million will to be brought forward through the 2025 budget process funded from account 911413 which included \$10 million in the 2025 forecast for the purchase price. It has been determined by staff that there is no unamortized capital cost. Upon completing the acquisition the City will realize immediate annual saving of \$6.3 million (annual rent). There will be additional capital expenditures of approximately \$1 million yearly so the estimated annual saving will be \$5.3 million.

LEGAL IMPLICATIONS

There are no legal impediments to the adoption and implementation of the recommendations in this report.

COMMENTS BY THE WARD COUNCILLOR(S)

The Ward 8 Councillor, Laine Johnson, is aware of this report and is in support of the recommendation.

CONSULTATION

Internal consultation with the following Branches:

Facilities Services Branch - Accommodations Unit

Asset Management Branch

Realty Services Branch

Financial Services Branch

External Legal Services

ASSET MANAGEMENT IMPLICATIONS

The recommendations documented in this report are consistent with the City's Comprehensive Asset Management (CAM) Program objectives. The implementation of the Comprehensive Asset Management program enables the City to effectively manage existing and new infrastructure to maximize benefits, reduce risk, and provide safe and reliable levels of service to community users. This is done in a socially, culturally, environmentally, and economically conscious manner.

As discussed within the report, when the City commits to the acquisition of new assets, consideration must also be given to the City's commitment to fund future operations, maintenance, and renewal costs. It must also account for future depreciation when reviewing long-term financial sustainability. When reviewing the long-term impacts of asset acquisition, it is useful to consider the cumulative value and lifecycle costing of the acquired assets being taken on by the City. If approved for acquisition, the building at 100 Constellation would be added to the inventory of assets and financial forecasts included under the Government Services and Information Technology Asset Management Plan.

CLIMATE IMPLICATIONS

There is no new climate impact resulting from the acquisition of this facility as it is currently occupied by the City.

ENVIRONMENTAL IMPLICATIONS

The City's Environmental Remediation Unit (ERU) has completed environmental screening for the proposed acquisition of 100 Constellation Drive. Environmental screening included a review through the City's Historical Land Use Inventory (HLUI), review of proximity of the subject lands to known former landfills and/or risk management areas, review of ERU files and available aerial photography. Based on results of the environmental screening, ERU did not identify any specific environmental concerns or requirements that need to be addressed prior to the Corporate Real Estate Office moving ahead with acquisition of the Complex. A Phase I Environmental Site Assessment report is already available and did not identify any potential environmental concerns requiring further investigation.

RISK MANAGEMENT IMPLICATIONS

The risk to the City in not moving forward with exercising the option to purchase would require either a new lease or moving to a new facility. The current lease expires in 19 months and there is no contractual right to extend the term. A decision to renegotiate a new lease at 100 Constellation or to relocate to a new facility would need to be implemented immediately. This would result in major disruption to staff and services that currently exist within the building. There would be a considerable cost to relocate all staff and would greatly disrupt the current synergies that exist being in such close proximity to Ben Franklin Place and other nearby City facilities.

RURAL IMPLICATIONS

There are no Rural Implications associated with this report.

TERM OF COUNCIL PRIORITIES

There are no direct impacts to the 2023-2026 Terms of Council Priorities.

SUPPORTING DOCUMENTATION

Document 1 – Option Lands – Parcel One and Two

DISPOSITION

Following approval by Council, Legal Services, and Realty Services Branch staff will implement the recommendations in this report.

Document 1 - Option Lands - Parcel One and Two

