

CITY OF HAMILTON

**CITY MANAGER
and**

**CORPORATE SERVICES DEPARTMENT
and**

**PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
Development and Real Estate Division**

Report to: Mayor and Members Committee of the Whole	Submitted by: Glen Peace City Manager Joseph L. Rinaldo General Manager Lee Ann Coveyduck General Manager
Date: April 21, 2005 File: 2005-027	Prepared by: Tim McCabe Ext. 4258 Mike Watson Ext. 7045

**SUBJECT: Lease - 28-50 James Street North, 5-21 and 33-35 King William Street,
Hamilton - LIUNA Local 837 Lister Limited Partnership
(PD05095/FCS05052/CM05018) (City Wide)**

RECOMMENDATION:

- (a) That the City of Hamilton enter into a lease with LIUNA Local 837 Lister Limited Partnership for the property known as 28-50 James Street North, 5-21 and 33-35 King William Street (final address yet to be determined), Hamilton, subject to the following terms; all as set out in Report PD05095/FCS05052/CM05018:
- (i) **Term:** Fifteen (15) year term commencing September 1, 2007, subject to the building and tenant improvement renovations being completed in a good workmanlike manner, terminating August 31, 2022.
 - (ii) **Property:** 28-50 James Street North, 5-21 and 33-35 King William Street (final address yet to be determined), Hamilton, second, third and part of the fourth floors, having an area of 60,000 square feet (minimum of

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20,000 sq.ft. per floor), to be verified and adjusted in accordance with B.O.M.A. 1996 measurement standard.

- (iii) **Rental Rate:** Commencing September 1, 2007 to August 31, 2012, \$22.50 per square foot (Net) \$1,350,000 per annum, \$112,500 per month plus G.S.T.; commencing September 1, 2012 to August 31, 2017, \$23.50 per square foot (Net) \$1,410,000 per annum, \$117,500 per month plus G.S.T.; commencing September 1, 2017 to August 31, 2022, \$26 per square foot (Net) \$1,560,000 per annum, \$130,000 per month plus G.S.T. All rent and additional operating costs are to be charged to Account #791402-55358.
- (iv) **Operating Costs:** The City is responsible for its share of the actual operating cost estimated to start at \$14 per square foot for 2007 (\$70,000 per month) or an estimated \$9 per square foot subject to recommendation (v).
- (v) That the Legal Services Division be authorized to prepare a By-law, under Section 110 of the Municipal Act, to propose that this leased area become a City Capital Facility, whereby the City would be exempt from paying Realty Taxes at this location. Upon passing the By-law and the space becoming exempt from paying realty taxes, the Landlord will reduce the City's rent by the amount of realty taxes that would have been paid.
- (vi) **Special Conditions:**
 - (1) The City will not be required to demolish the existing tenant improvements at the termination of the lease term.
 - (2) The Landlord has agreed to pay for the cost of retaining the City of Hamilton approved architectural and engineering consultants at a specified amount of \$3.80 P.S.F. These costs are to be paid by the Landlord on demand as the cost is incurred.
 - (3) The Landlord has agreed to renovate the building and site in accordance with the conditions and specifications contained in Schedule "B" attached to Report PD05095/FCS05052/CM05018. Said specifications and conditions will form part of the final lease agreement.
 - (4) Throughout the term or any extension thereof, the Landlord shall provide the Tenant with fifty (50) underground parking spaces on the subject site at no cost to the Tenant. This includes the cost of all applicable taxes.

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- (5) The lease will be prepared by the Landlord in accordance with the terms and conditions contained in the Offer to Lease and will be signed subject to the tenant's solicitor being completely satisfied with the terms contained in the lease. The Offer to Lease is conditional upon the Landlord and the Tenant entering into a signed Lease Agreement on or before May 31, 2005, failing which the Offer to Lease shall be become null and void.
- (6) The City of Hamilton recognizes that development of the Lister Block property is vital to the rejuvenation of the downtown core. The Landlord will use its best efforts to maintain the architectural detail of the existing building.
- (7) The City of Hamilton recognizes that its lease may lead to further development of the Lister Block property.
- (8) The Landlord will be required to comply with the Heritage Act requirements for a heritage permit in respect of the designated historic Lister Block building. As a requirement of obtaining a heritage permit, the Landlord must complete a heritage impact assessment, to be peer reviewed by the City; submit construction drawings and heritage rehabilitation plans describing the method of façade restoration. All these requirements are to be undertaken by a qualified heritage restoration professional. If it is the intent of the Landlord to dismantle any heritage building or part thereof and rebuild the façade then a heritage permit is also required.
- (9) That prior to entering into any agreements regarding Item (9) and the matters which are the subject of this report shall, as usual, remain subject to the obligations at law of the development to comply with the by-laws and/or obtain all applicable municipal/provincial approvals, and the resolution of City Council pertaining to this proposed lease does not limit the City's statutory discretion regarding same.
- (10) The Landlord will provide the Tenant with a capital cost allowance of \$25 P.S.F. to be applied to the project costs at the discretion of the Tenant for the Tenant Scope of Work listed below. Any unassigned portion of these funds remaining at the completion of the Tenant's work is to be applied to the rent costs.

Tenant's Scope of Work:

- New interior partitions, doors and hardware as per the Tenant's final design plan.
- New lighting enhancements in non core/base building areas.
- Plumbing for lunchroom/coffee service areas.

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- All interior tenant finishes, flooring, walls and millwork.
- User electrical, cabling and communications (voice/data).
- Mechanical distribution to suit the Tenant's interior partition plan and our use.
- Leased space security at Tenant's entrance locations and internal motion detectors.

Project Approval Process:

The Tenant and the Tenant's project consultants will review and approve all the following actions prior to the Landlord proceeding to issue instructions on behalf of the Tenant. Any decisions or directions made without the Tenant's written approval will be the cost of the Landlord:

- Specification Issuance
 - Tender Issuance and Review for Construction Services and Work
 - Review of Costs Prior to Acceptance
 - Approval Process Authorization
 - Cost Management and Review
 - Tenant's Site Project Management
- (b) That the Mayor, General Manager, Finance and Corporate Services and City Clerk be authorized and directed to execute the Lease in a form satisfactory to the Corporate Counsel.
- (c) That Item G on the Outstanding Business List of the Planning and Economic Development Committee respecting Lister Block be removed.

Glen Peace
City Manager

Lee Ann Coveyduck
General Manager
Planning and Economic
Development Department

Joseph L. Rinaldo
General Manager
Finance and Corporate Services

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EXECUTIVE SUMMARY:

This report provides staff direction to enter into a lease with the owner of 28-50 James Street North, 5-21 and 33-35 King William Street (Liuna Local 837 Lister Limited Partnership). By entering into a lease with the owners, this will provide the incentive they need to commence restoration and/or redevelopment of the Lister Block property, an essential component to the City's Downtown revitalization plans. The decision as to which civic department is relocated to the Lister Block project has not been determined at this time. Although there is no question of the need for the 60,000 sq ft of leased space for the City's accommodation requirements over the next 15 years, decisions are still to be made regarding which Departments and functions will be accommodated in the Main Street City Hall following repairs/renovations. This accommodation strategy will be finalized in early 2006.

BACKGROUND:

The current Lister Building was erected in 1924, after the original Lister Chambers was damaged irreparably from fire. Built in the Classic Renaissance style, The Lister Block once housed merchants and offices and served as a vital piece of architecture in the downtown core. In 1995, City Council voted in favour of a designation under the Ontario Heritage Act. The Labourers International Union of North America (LIUNA) has owned the historic Lister Block site since 1999. Photographs of the existing building are included in Schedule "A".

LIUNA advised the City of Hamilton that it plans to proceed to redevelop the Lister building to create 120,000 square feet of office space with the potential of then proceeding to the construction of a separate office tower to be located on the northeast portion of the site. LIUNA has requested that the City of Hamilton commit to 60,000 square feet of office space, in order to secure finance viability for the project commencement. Negotiations have been underway with senior staff over the past several months with the recommendations in this report reflecting the terms now agreed upon.

ANALYSIS OF ALTERNATIVES:

If this lease report is not adopted the developer (LIUNA) would be forced to reconsider redevelopment of the Lister Block at this time. This may also have an impact on attracting potential tenants to the second office tower proposed for the site. The following data provides a cursory realty tax estimate for the Lister building only on this project going ahead.

Municipal Tax Implications

Current 2004 Taxes	Estimated 2007 Taxes*
Municipal portion - \$23,030	Municipal portion - \$190,000 to \$222,000
Education portion - \$14,690	Education Portion - \$122,000 to \$142,000
Total 2004 Taxes - \$37,720	Total Taxes - \$312,000 to \$364,000

* Does include impact of Municipal Capital Facility

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Once detailed plans are received more accurate tax assessments can be calculated. This assumes the City's leased space is deemed to be a Municipal Capital Facility and is eligible for tax exemption as per recommendation (a) (v) of Report PD05095/FCS05052/CM05018.

From a strategic perspective, the Lister Block is considered a keystone property anchoring the corner of James and King William Streets and is an essential component to the City's Downtown revitalization plans. The redevelopment of the site will animate the streets and sidewalks adjacent to the site and will create a positive built form which will encourage further reinvestment on adjacent streets. The potential to preserve or replicate the façade along King William will be consistent with Council's intention that King William becomes a Specialty Commercial Street as provided for in the Downtown Secondary Plan. In addition, the recent experience with downtown housing projects is that many new owners already work downtown. As people are already familiar with downtown as their place of work, they are more amenable to considering moving their residence downtown for various reasons. The creation of jobs such as is contemplated by this project may lead to further sales in the various housing units currently being created or shortly to be created in the downtown under the City's incentive programs.

Although the recommended lease rates appear higher than other current leases in Downtown office buildings, there are little real comparative rates since the Lister proposal is for a new office building. With a new building and today's construction costs, particularly with a renovation/restoration or replication approach being so much more costly, higher rents will reflect these costs.

It should be made clear to Council that, although every attempt will be made by the owner to restore or conserve the significant heritage features of the existing building and a heritage permit for the designated building is required, the proposed and recommended City lease does not make it mandatory that the existing building be preserved. If it is determined that it is not economically viable or structurally possible or practical to restore, the owner has indicated that the project would proceed as a "replication" approach using new building materials.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial:

The financial impacts, as per the terms of the proposal, as identified within the recommendations in Report PD05095/FCS05052/CM05018, are presented in the following table.

As per the recommendations, the estimated annualized financial impact of the proposal in 2008, exclusive of one-time benefits, is approximately \$1.86M (\$1.350M net lease expense, \$0.510M operating expense/revenue), assuming property tax exemption as set out in Recommendation (a) (v). The proposal involves the relocation of staff that would otherwise have to be accommodated in an alternative location(s). Based on an

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estimate of the cost for alternative current accommodations, the incremental 2008 financial impact of the Lister Lease is estimated at \$0.7M.

The development of additional Class A office space may also aid the perception of the business community, and potential investors, with respect to the downtown core. While this development may lead to spin-off economic development in the downtown core, which would consequently benefit the City financially in the form of increased property taxation, staff has not made an effort in this report to estimate the value of the potential benefits.

At the end of the fifteen (15) year lease, the total net lease (rent) expenses total approximately \$21.6 million. The proposal is inclusive of benefits and avoided costs, including the estimated costs of demolition, architectural and engineering costs, parking benefits and a cost allowance, totalling \$3.3 million over the proposed 15-year term. This analysis assumes that the leased location will be exempt from property taxation as a result of being deemed a Municipal Capital Facility.

It should be noted that these costs are not incremental and may be slightly offset by any accommodations budget existing for the Department(s) which moves to the leased site. Staff are still reviewing options to mitigate this cost for the City.

LISTER LEASE ANALYSIS
(\$000's)

Expenses/(Revenues)

	Rent Expenses	Operating Expenses	Total Lease Expenses	Lister Lease Benefits/Avoided Costs	Total Annual Net Expenses
	A	B	C=A+B	D	E=C+D
Sept-Dec 2007	450	180	630	(1,000)	(370)
2008	1,350	570	1,920	(560)	1,360
2009	1,350	600	1,950	(560)	1,390
2010	1,350	620	1,970	(70)	1,900
2011	1,350	660	2,010	(70)	1,940
2012	1,370	690	2,060	(80)	1,980
2013	1,410	720	2,130	(80)	2,050
2014	1,410	760	2,170	(80)	2,090
2015	1,410	800	2,210	(90)	2,120
2016	1,410	830	2,240	(90)	2,150
2017	1,460	880	2,340	(100)	2,240
2018	1,560	920	2,480	(110)	2,370
2019	1,560	970	2,530	(110)	2,420
2020	1,560	1,020	2,580	(120)	2,460
2021	1,560	1,070	2,630	(120)	2,510
Jan-Aug 2022	1,040	750	1,790	(90)	1,700
Total 15 Years	21,600	12,040	33,640	(3,330)	30,310

Assumptions

- Inflationary increase in operating costs of 5% annually
- Excludes property tax expense
- Parking space benefit increased 5% annually

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Staffing:

There are no staffing implications.

Legal:

The proposed lease agreement will be prepared subject to the approval of the Legal Services Division.

POLICIES AFFECTING PROPOSAL:

Effective January 1, 1995, the Municipal Act was amended by Bill 163, requiring municipalities to enact a By-law to establish procedures for the sale of real property owned by a municipality. Subsequently, the former City of Hamilton adopted and enacted the Real Property Sale Procedural By-law 95-049. This By-law, and in accordance with Item 21 of Report 01-029 of the Committee of the Whole approved by City Council on September 18, 2001, approving the Consolidation of Routine Real Estate Matters, requires that Council, by By-law or resolution, may enter into lease agreements that are based at or above fair market rent for lease and the fair market rent shall be determined by appraisal (in-house, outside, verbal or written). This lease with Liuna Local 837 Lister Limited Partnership falls within the guidelines set by the City's Real Property Sale Procedural By-law and the proposed lease reflects justifiable market rents related to accommodation within a new office building

City Council, in approving the Consolidation of Routine Real Estate Matters, authorized the delegation of authority to approve the acquisition, disposition or lease as follows: to the General Manager or designate for a lease value not exceeding \$60,000 annual rental; to the City Manager or designate for a lease value not exceeding \$150,000 annual rental.

Since the amount contained in the aforementioned recommendations are in excess of these limits, we are required to seek City Council approval for the adoption of this report.

CONSULTATION WITH RELEVANT DEPARTMENTS/AGENCIES:

- City Manager and Corporate Management Team

CITY STRATEGIC COMMITMENT:

The approval of the recommendations herein endorses many of the principles and policies of the City's Vision 2020 as well as the City's Strategic goal of a "City of Growth and Opportunity".

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The redevelopment and adaptive re-use of the Lister Block is considered to relate directly to the goals of a sustainable community envisioned by Vision 2020 and the City's focus of Downtown revitalization as part of its economic development clusters.

:MCJW
Attachs. (2)