CONSOLIDATION PROJECT IN MONCTON

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TO:	Infrastructure Committee	
MEETING:	July 10, 2013	
FROM:	Maryse Bertrand, Ad. E. Vice-President Real Estate Services, Legal Services and General Counsel	Louis Lalande Executive Vice-President French Services
DECISION SOUGHT:	Approval of the consolidation project in Moncton, including the sale of the existing facility and the signature of a long-term lease for a reduced facility	
NEXT STEPS:		
DATE:	July 2, 2013	

A1. CONTEXT

- Moncton is the main regional multimedia production centre of Radio-Canada Acadie operations, covering all four Atlantic provinces;
- It currently houses approx. 150 FTEs in radio, television and Web production for both Radio-Canada and CBC;
- The 53.3k ft^2 owned building dates back to 1955 and is a former school house; and
- The transformation of Radio-Canada's workflows and methods is currently hampered by both the existing space configuration and the equipment obsolescence.

A1. CONTEXT

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Opportunity

- French Services (FS) and Real Estate Services (RES) are proposing to sell the existing building in Moncton to move to a better located, leased facility because:
  - Existing premises are not adapted to our modern multimedia production operations and are not conducive to a collaborative work environment;
  - Existing technical infrastructure now requires major investment to migrate to HD;
  - Existing maintenance deficit and Facility Condition Index (FCI) exceed and respectively, indicating that the building will require major investment in the near term; and
  - Revised functional and technical program requires only 21.5k ft^2 instead of the current 53.3k ft^2, a space reduction of nearly 60%.

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A1. CONTEXT

Opportunity

- FS and RES have surveyed a preferred perimeter(1) and identified a building that can better suit CBC/Radio-Canada functional and technical requirements:
  - The premises are in a commercial area and were previously occupied by a national retailer ("Zellers");
  - The site is ideally located in the downtown area on Main Street and also overviewing the expressway downtown ramp, providing both public accessibility and visibility; and
  - At this stage, we have received the Term Sheet from the Broker and we have provided our standard Offer to lease to the Lessor. Negotiations are currently underway regarding CBC/Radio-Canada's base fit-out requirements.

(1) See Appendix B2 for details.

A2. KEY DECISION ELEMENTS

Approvals

- FS and RES are seeking:
  - An authorization to execute a long-term lease within the parameters defined herein; and
  - An authorization to sell the existing facility.

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A2. KEY DECISION ELEMENTS

Key Financial Parameters(1)

- Estimated sale proceeds of existing facility
- Proposed lease costs not to exceed
  - Base rent ′rsf
  - Additional rent: operating expenses (including taxes)(2) ′rsf
  - **Total** **′rsf**
- Proposed project costs not to exceed
  - Real Estate Services
  - Technical/Equipment costs(3)

(1) See Appendix B3 and (3) Appendix B4 for details.
(2) As per Real Estate Services estimates for 2014

A2. KEY DECISION ELEMENTS

Key Terms

- 10-year lease with one 5-year option
- Project start date: Summer 2013
- Project delivery date: December 2015

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A3. KEY BENEFITS, IMPACTS & RISKS

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s.21(1)(c)
s.21(1)(d)

Key Benefits

- The project supports both CBC/Radio-Canada and RES strategies as they relate respectively to regional presence, innovative and creative work environment, FS transformation and cost-effectiveness:
  - Investment in CBC/Radio-Canada's regional presence with a centrally located, more visible facility;
  - Modernization of an important regional station and its equipment, meeting latest production standards (e.g. HD, automated control room);
  - 29% reduction of FS and RES operating costs (;
  - Real estate footprint reduction (32k ft^2 total) and application of best practices in space design of work environment (150 ft^2/workstation);
  - Ownership and maintenance risks transferred to Landlord; and
  - Value maximization from our real estate portfolio.

A3. KEY BENEFITS, IMPACTS & RISKS

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Key Impact

A3. KEY BENEFITS, IMPACTS & RISKS

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Key Risks

	Mitigation factors
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	Mitigation factors

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A3. KEY BENEFITS, IMPACTS & RISKS

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Key Risks

	Mitigation factors
	Mitigation factors
	Mitigation factors

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A3. KEY BENEFITS, IMPACTS & RISKS

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Key Risks

Mitigation factors

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A4. OTHER OPTIONS CONSIDERED

Station Retrofit

Pros

- Opportunity to upgrade building and media technology infrastructure

Cons

- Higher total cost of occupancy
- Inefficiencies associated with considerable surplus space
- Transformation of work methods more difficult
- No media integration and unresolved functional issues
- Inconveniences related to temporary move and construction
- Higher retained risk related to building maintenance deficit
- Unresolved lack of public visibility

A5. SUCCESS MEASURES

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Governance and Execution

- Execution within scope: 51.3k rsf reduced to a maximum of 21.5k rsf and fitted out to FS functional requirements;
- Execution within schedule: December 31, 2015;
- Execution within budget: and
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A6. RESOLUTION

That the Infrastructure Committee recommend to the Board of Directors that the Vice-President, Real Estate Services, Legal Services and General Counsel, together with the Vice-President and Chief Financial Officer, or their delegates be authorized to:

- negotiate and execute a lease transaction with Loblaw Properties Limited c/o Arcturus Realty Corporation for premises of approximately 21,545 rentable square feet to be leased by CBC/Radio-Canada (the "Corporation") in a building located at 165 Main Street, in the city of Moncton, in the province of New Brunswick (the "Property") on the terms and conditions substantially similar to those described in the materials provided to the Board of Directors at the meeting (the "Lease");
- negotiate and enter into all necessary procurement agreements with suppliers in order to realise and to pay for any base building and fit out works within the Property (the "Works") on the terms and conditions substantially similar to those described in the materials provided to the Board of Directors at the meeting; and
- take any action, do all things, execute under the corporate seal of the Corporation or otherwise such instruments and documents and deliver all instruments, documents and materials as are necessary or desirable to give effect to the Lease, the agreements related to the Works and the foregoing resolutions.

B. APPENDICES

1. Definitions (3 pages)
   - Maintenance Deficit
   - Facility Condition Index (FCI)
2. Survey of Potential Sites (1 page)
3. Financial Summary (1 page)
4. Technical/Equipment Costs (1 page)
5. Moncton Real Estate Market (2 pages)
6. Real Estate Master Plan (2 pages)

B1. DEFINITIONS

Maintenance Deficit

- A **maintenance deficit** is defined as:

  "The total dollar amount of required major maintenance repairs and replacements identified by a comprehensive facilities audit of buildings, fixed equipment and infrastructure."(1)

(1) Plant Management, page 484, published by the Association of Physical Plants Administrators (APPA)

B1. DEFINITIONS

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Maintenance Deficit

- At CBC/Radio-Canada, the evaluation of the maintenance deficit for the real estate portfolio as a whole and for individual properties is effected by Real Estate Services (RES) on the basis of:
  - Annual Building Condition Reports
  - A comprehensive CBC/Radio-Canada asset management database

B1. DEFINITIONS

Facility Condition Index (FCI)

$$\textbf{FCI} = \frac{\text{Current Amount of Corrective Maintenance Deficit}}{\text{Current Building Replacement Value}}$$

- Categorization – varies with users but consistent with Public Works & Government Services Canada:
  - 0% to 5% Excellent
  - 5% to 10% Average (RES target is between 10% to 20%)
  - 10% to 30% Poor
  - Greater than 30% Critical

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B2. SURVEY OF POTENTIAL SITES (1)

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Site location with Google Maps, 2013

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MONCTON CONSOLIDATION PROJECT

SUMMARY OF FINANCIAL MODEL - 2013/14 to 2028/29

(in thousands of dollars)

	Status Quo (incl. Necessary replacement of equipment in current building	Move to lease location
Project Costs - 2013/14 to 2016/17		
Description	Stay in the current facility on 250 University Avenue, Moncton (Replacement of Equipment)	Sell the current facility and move to a leased location to use 21,545 sq.ft.
Rentable square footage	*53 315*	*21 545*

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B4. TECHNICAL/EQUIPMENT COSTS

Technical/Equipment Cost of for Moncton

Amount	Description	Note

B5. MONCTON REAL ESTATE MARKET

Cushman & Wakefield, Outlook 2013

The Changing Landscape of Canada's Commercial Real Estate Market

A Cushman & Wakefield Research Publication

2012

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MONCTON: SLOW GROWTH

Moncton has long been nicknamed the "Hub City" because of its central location in the Maritimes and proximity to U.S. markets, which has made it a gateway railway and transportation centre. In addition to transportation and logistics, other office demand drivers include education, healthcare, information technology, financial, legal, insurance and retail businesses. The city's strategic location and diversified economy ensure steady growth. As the only fully bilingual area outside of Quebec, Moncton has also become an attractive location for call centres and other global businesses. At the Université de Moncton, a new open-air stadium now hosts world track-and-field competitions and one CFL game per year – another selling point for this growing city.

OVERVIEW

Activity in Moncton's office market remains brisk, marked by a growing number of small-to-average-sized tenants that are exploring occupancy options such as flex industrial space or converting former residential assets into office space or sharing space with other tenants to achieve new efficiencies. Office rent has remained steady at $13 to $14 psf. Moncton's overall vacancy rate is 6.4%, with class A at 5.3%.

The opening of the new justice building had a significant impact on the market in 2012, as it initially attracted tenants from Assumption Place and left scattered vacancy in other downtown-core buildings. However, the market quietly normalized and the Blue Cross Centre, Assumption Place and Commerce Place are all back to expected or higher occupancy levels. Overall, modest absorption in 2012 reflected positive growth.

The most significant project on the drafting table is a new municipal asset, the Metro Centre, which, if it goes forward, may house a revitalized Highfield Square Mall, a new rink and convention centre, acting as a major attraction to the downtown core. As well, the former CN head office, owned by Crombie REIT, was taken off the market in order to complete a massive revitalization program to convert it into a class A office building.

FORECAST

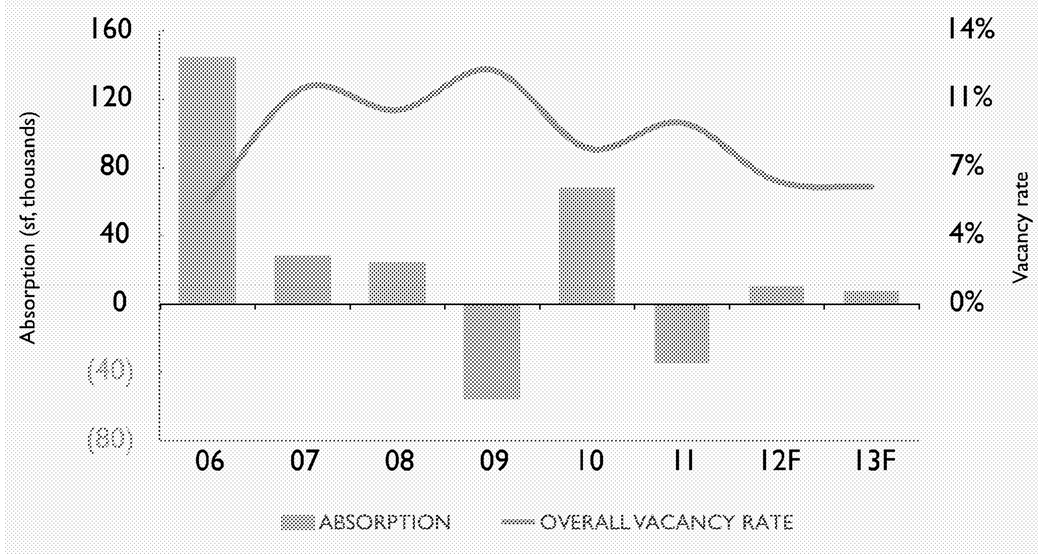
Moncton's office market will remain neutral or see some slow growth in 2013. Rental rates are expected to remain flat through to 2014, as they have for more than three years. The flight to quality will continue and footprints will become increasingly compressed as businesses pursue more efficient collaborative workspace strategies that increase density and reduce costs.

MARKETS AT A GLANCE

OFFICE

CENTRAL AREA	
Inventory:	
Q3 2012:	2.7 million sf
Q4 2013:	2.7 million sf
Vacancy Rate Outlook:	
Q3 2012:	6.4%
Q4 2013:	6.0%
Rental Rate Outlook:	➡

CENTRAL AREA



B6. REAL ESTATE MASTER PLAN

- Following the adoption of the Real Estate Strategic Plan in 2011, RES has developed a Master Plan to:
  - ***Reduce*** real estate footprint;
  - Align ownership with business risk strategy (***move away from real estate***); and
  - Deal with existing issues (functional and maintenance deficits) in the most economical way (***total cost of ownership*** approach).
- RES is applying governing principles going forward that:
  - Promote ***cost efficiency*** and ***collaborative work environment;***
  - Ensure optimal ***accessibility*** to communities and employees;
  - Support CBC/Radio-Canada's visibility, image and strategic plan (***2015: Everyone, Every way***); and
  - Ensure an appropriate real estate, financial and operational ***risk transfer.***

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B6. REAL ESTATE MASTER PLAN SUMMARY CHART OF PROJECTS(1)

LEGEND

- Target Value
- Optimal Value
- FCI – 0% – 30%
- FCI – 0% – 50%
- Network Centres
- Regional Centres
- Smaller Centres
- Local Service Extension
- Project planned or in progress
- (1) Saguenay owned not leased

(1) Real Estate Services, updated May 2013