RELOCATION OF THE CALGARY STATION

TO:	Infrastructure Committee/Board of Directors
MEETING:	November 24, 2015
FROM:	Steven Guiton, Executive Vice-President, Media Technology and Infrastructure Services
DECISION SOUGHT:	Authorize the relocation of the Calgary station, including the sale of the owned property and the signing of a long-term lease for a right-sized facility.
NEXT STEPS:	Finalize negotiation with Landlord of selected facility and award contracts for fit out work. In the longer term, obtain approval from Treasury Board for the sale of the Calgary property.
DATE:	November 6, 2015

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A1. CONTEXT

- The Calgary station is situated in a two-storey building owned by CBC/Radio-Canada on the banks of the Bow River, just north of the Calgary downtown core.
- The building was built in 1958, with additions made in 1976 and 1983.
- The building totals approximately 62,300 rentable square feet (RSF). Space requirements for our Calgary station total 17,000 RSF, or approximately 25% of what we currently own.
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- This property has been identified by Real Estate Services (RES) as an asset to be sold.

A1. CONTEXT

- Real Estate Services (RES) and English Services (ES) are proposing to:
  - Sell the current building in Calgary because:
    - Existing facility is almost 4 times larger than required
    - Existing premises are not adapted to our modern multimedia production operations and are not conducive to a collaborative work environment
  - Move to the selected right-sized leased facility because:
    - Floor plate allows newsroom consolidation
    - Moving offers an opportunity to modernize technical infrastructure
    - Location provides high visibility and good branding potential
    - Views are unobstructed for off-air transmission purposes
    - Site is well serviced by public transportation
    - Site provides adequate parking facilities

A1. CONTEXT

- Therefore, the proposed transaction consists of the following:
  - Signature of a long-term lease (10 years + one x 5-year option) with Veteran's Way Limited Partnership (the Landlord) for a facility totalling approximately 16,834 RSF located at 1000 Veteran's Place NW in Calgary.
  - Sale of the current property, the proceeds of which will contribute to offset the costs of relocation.

A1. CONTEXT

- The transaction is in line with:
  - Corporation's strategic plan *A space for us all*
    - Maintain local presence
    - Real estate footprint reduction
    - Modernization and reduction of technological infrastructure
    - Cost-effectiveness
  - Real Estate Strategic Plan
    - Cost reduction
    - Stimulating work environment
    - Risk transfer
    - Proceeds maximization
  - Media Strategy
    - Newsroom consolidation

A2. KEY DECISION ELEMENTS

Key Financial Parameters: Sale of Building and Project Costs

- Estimated proceeds from sale of existing facility
- Estimated project costs
  - Real estate services
  - Technical/equipment costs

Total

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A2. KEY DECISION ELEMENTS

Key Financial Parameters: Proposed Lease

- Ground floor (14,234 RSF)
  - Base rent — Year 1 to 3
    Year 4 to 7
    Year 8 to 10
  - Additional rent (indexed yearly) — Real estate taxes
    Operational expenses(1)
- 2nd floor for server room (1,100 RSF)
  - Base rent — Year 1 to 10
  - Additional rent (indexed yearly) — Real estate taxes
    Operational expenses(1)
- Underground floor for storage (1,500 RSF)
  - Gross rent only — Year 1 to 10

(1)

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A3. KEY BENEFITS, IMPACTS & RISKS

Key Benefits

- Reduces real estate footprint by 45,466 RSF (a reduction of 73% in Calgary)
- Modernizes an aging regional station and its technical infrastructure, meeting latest production standards and enabling the Corporation's digital-first strategy
- Applies some of the best practices in space design, providing a stimulating workplace environment to staff
- Transfers real estate risks to a Landlord
- Avoids risks associated with asset maintenance deficit

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A3. KEY BENEFITS, IMPACTS & RISKS

Key Impacts

- Move of operations
- Construction work
- Modernization of technical infrastructure
- Total project cost of

A3. KEY BENEFITS, IMPACTS & RISKS

Key Risks

Reputation	Mitigation factors
▪ Reputational risk of poorly handled process	▪ Strict adherence to procurement rules ▪ Successful project experiences with similar-size stations (Rimouski, Halifax, Moncton)

A3. KEY BENEFITS, IMPACTS & RISKS

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Key Risks

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A3. KEY BENEFITS, IMPACTS & RISKS

Key Risks

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A3. KEY BENEFITS, IMPACTS & RISKS

Key Risks

A3. KEY BENEFITS, IMPACTS & RISKS

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Key Risks

A4. OTHER OPTIONS CONSIDERED

Status Quo

Pros

- None

Cons

- No media integration and unresolved functional issues
- Inefficiencies associated with considerable surplus space
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- Higher total cost of occupancy
- No proceeds from sale of building
- Retaining real estate risk (tenant risk, asset risk and market risk)
- Contrary to real estate strategy

A4. OTHER OPTIONS CONSIDERED

Building Sale and Leaseback of Right-Sized Facility

Pros

- Elimination of maintenance deficit and implementation of efficient workplace solution
- Optimization of existing site
- Consolidation and modernization of media operations

Cons

- Required investment is 15% higher than it is for moving to new leased premises because existing building constraint does not allow to occupy less than 22,147 RSF compared to a reduced 16,834 RSF
- Operation disruption during construction and demolition phases challenges feasibility
- Construction work required by new tenants would most likely impact or disrupt CBC/Radio-Canada's operations

A5. SUCCESS MEASURES

Governance and Execution

- Approval of the sale of the property is granted by the Treasury Board in future years
- Approval of the Board of Directors for the signature of the long term lease
- Execution within scope: 62.3K RSF reduced to approximately 17K RSF, fitted out to meet all functional requirements
- Execution within schedule: early 2017 (delivery of new premises)(1)
- Execution within budget:

(1) See Appendix B – Project Schedule for additional details.
(2) See Appendix C – Financial Summary for additional details.

A6. RESOLUTION

That the Infrastructure Committee recommend to the Board of Directors that, in relation to a proposed lease agreement with Veteran's Way Project Ltd. in its capacity as the general partner for the Veteran's Way Limited Partnership (the "Landlord") for premises located at 1000 Veteran's Place NW in Calgary (the "Building"):

1. the lease agreement be approved on the terms and conditions substantially similar to those described in the materials provided at the meeting;
2. all necessary expenses and agreements (including in connection with payment of any brokerage services and any tenant's and fit out works within the Building) to give effect to this resolution be approved;
3. the President and CEO or the Executive Vice-President, Media Technology and Infrastructure Services, together with the Executive Vice-President and Chief Financial Officer, or their delegates, be authorized to execute all necessary agreements to give effect to this resolution.

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APPENDIX A –

APPENDIX B – PROJECT SCHEDULE

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- Project start date: December 2015
- Building substantial completion date: September 2016
- Technical installation delivery date: April 2017
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Calgary

SUMMARY OF FINANCIAL MODEL

(in thousands of dollars)

November 3, 2015

	Notes
Leased Premises (rentable area)	
Project Costs	
Project costs - RES	
Project costs - Technology	
Project Costs	
Cash Flows	
Project costs	
Proceed from sale of existing facility	1
Commissions & Legal Fees	
Tenant Incentive	2
Rental & Parking Income	
Base Rent	3
Operating costs, taxes, parking & churns	3
Future CAPEX - Technology	
Future CAPEX - Real Estate	
Cash Flows to 2032	
Net Present Values	
NPV Variance with Current Situation	
NPV Variance (%) with Current Situation	
Variance RE Operating Costs (RE Budget Impact on 15 yrs)	
Annual Operation Budget Impact	
Annual Operation Budget Impact (2020-2021)	
Variance RES Operating Costs with Current Situation (2020-2021)	
Stabilization Period with FCI Remediation over 5 years (unbudgeted costs)	
Stabilization Period - All Project Costs (Positive budget impact)	

Notes :

1) We will seek TB approval for the land and building sale in future years.