

REPORT

OFFICE OF THE CAO

To: Mayor W. Wright and Members of Council in Regular Session Date: March 3, 2014

From: Lisa Spitale, Chief Administrative Officer File: 05.1035.10

Subject: Sale of Office Tower, Anvil Centre

PURPOSE

To provide Council with information on the sale of the office tower, located above the Anvil Centre at 777 Columbia Street.

SUMMARY

The City has sold the office tower for \$36.5 million to 777 Columbia Street, a company jointly owned by well-known and respected businessman Mr. Joseph Segal and Mr. Suki Sekhon. 777 Columbia Street purchased the 137,000 sq ft Class A LEED Gold office tower as an air space parcel. The City retains ownership of the Anvil Centre and fee simple land, the three level underground parkade and the retail spaces. Office tenants will have access to the parkade by paying for monthly parking, set at market rates. All proceeds from the parking revenue will go to the City.

777 Columbia Street has purchased the office tower as a "shell". The City's total office tower budget is \$40 million, made up of \$30 million for the construction of the office tower shell and \$10 million for office tenant fit out and leasing/commission. With the sale of the office tower as a shell, the City will not require \$9.5 million for office tower fit out, as the Purchaser is now responsible for office tenant fit out. \$500,000 has been spent for leasing, marketing and commission in the sale of the office tower, with the City using the services of Cushman and Wakefield Limited. The proceeds from the sale of the office tower will pay for the construction of the office tower and a portion of the costs of the underground parkade.

The sale of the tower keeps the City whole on the project, ensuring no tax payers' dollars are spent on the construction of the office tower. It also achieves greater civic taxation revenues, confirms the City's strategic investment in the project and its ability to leverage Development Assistance Compensation (DAC) funding (gaming funding) to achieve the many economic development goals originally envisioned and set out for this project.

With the sale of the office tower and the construction of Anvil Centre nearing completion, the community can now realize the many benefits envisaged for this catalyst project, including:

- leveraging DAC funding to create a larger, more dynamic project that will increase the role of Anvil Centre as an "activity precinct", further adding to the momentum of the revitalization underway in Downtown New Westminster
- increased revenue from property taxes estimated at \$50 million over 50 years with the office tower fully-leased
- approximately 525 new Full Time Equivalent (FTE) positions in the Downtown once the office tower is fully-leased
- approximately 240 FTE spin-off positions locally
- new customers for existing and new retail in the Downtown
- using the proceeds of the office tower sale to partially fund new revenue-generating parking opportunities in the Downtown
- savings in operating cost efficiencies for common areas shared by Anvil Centre and the office tower
- the realization of the "transit hub" goal established when the Expo Line SkyTrain was built

ANALYSIS

On February 17, 2014, the City of New Westminster concluded an agreement for the sale of the office tower to 777 Columbia Street. 777 Columbia Street is a company jointly owned by well-known and respected businessman Mr. Joseph Segal and Mr. Suki Sekhon.

With a successful career spanning well over half a century, Mr. Joseph Segal is one of British Columbia's pre-eminent businessmen and philanthropists. He built a merchandising empire that included Zeller's and the Bay and, as president of Kingswood Capital, has made his mark in a variety of businesses including real estate investment and development, manufacturing, financing and television. In addition to his business and

philanthropic work, Mr. Segal is a Chancellor Emeritus of Simon Fraser University as well as a member of the Order of Canada and Order of British Columbia.

777 Columbia Street purchased the 137,000 sq ft Class A LEED Gold office tower as an air space parcel. The City retains ownership of the Anvil Centre and fee simple land, the three level underground parkade and the retail spaces. The office tenants will have access to the underground parking lot by paying for monthly parking, set at market rates. All proceeds from the parking revenue will go to the City.

Downtown Revitalization

The completion of the office tower is an important step in the revitalization of the Downtown and the City's commitment to creating a sustainable Downtown that balances residential and commercial growth. Perhaps equally as important, it also signals the market's renewed belief in the Downtown and the area's desirability as a location of choice for companies.

The City's economic development strategy and the Downtown Community Plan, both include priority goals around office development and the need to promote and construct new Class A office space in order to attract new office employers to the area. As a designated Regional City Centre in Metro Vancouver's Regional Growth Strategy, and the City's growth concentration area, Downtown is intended to accommodate high density transit-oriented office jobs clustered around SkyTrain stations. Employment is a strategic and integral component of a diversified economy in the Downtown.

In December 2010, G.P. Rollo & Associates (GPRA) was retained by the City of New Westminster to identify and quantify the various economic direct and spin-off benefits that could accrue from the office tower and Anvil Centre. The summary is as follows:

Employment Generating

- Office direct employment - 525 FTE positions.
- Restaurant/Retail employment - 25-33 FTE positions.
- Spin-off employment - 202-210 FTE.

Expenditures

- Retail expenditures by office and spin-off employees - Food & Beverage: \$2.0 million/year by 2017; Retail: \$1.2 million/year by 2017.
- Retail expenditure by conference delegates, including accommodation/ transportation - average daily expenditure of \$355 - \$398 for delegates, including costs of accommodation and transportation.

- Theatre patron expenditures, beyond cost of admission - estimated \$26 per attendee; between \$1.2 million and \$3.3 million per year.

The consultants stated that the Anvil Centre and office tower would likely increase the growing interest in the investment community to develop in the Downtown by adding to the momentum of revitalization that is occurring at the western end of Columbia Street.

As a catalyst project, it is anticipated to play a key role in accelerating further development of residential and commercial projects within the area.

Price of the Office Tower

The City has sold the office tower shell for \$36.5 million. This price is derived by components such as construction costs and the provision for cash in lieu from the zoning bylaw; namely:

- \$30 million for the share of the design costs and the construction cost of the office tower as a “shell”. The shell includes finished office lobby and washrooms, t-bar ceilings and lighting for the office areas and ductwork to main mechanical units. The office space as constructed will be ready for tenant improvements.
- Section 150.6 from the Zoning Bylaw states that the applicant provide the City with \$35,000 for each parking stall, based on the zoning ratio (1 stall/1,000 sq ft commercial at \$35,000 per stall). The parking contribution totals \$4.8 million.

The Budget

The City had proceeded with the construction of the office tower over the civic centre and allocated a total budget of \$94 million to construct the office tower, the civic centre and the underground parkade.

The total office tower budget is \$40 million, made up of \$30 million for the construction of the shell and \$10 million for office tenant fit out and leasing/commission. With the sale of the office tower as a shell, the City will not be requiring most of the \$10 million budget allocation, as the Purchaser is responsible for office tenant fit out. \$500,000 has been spent for leasing/commission and the marketing for the sale of the office tower.

With respect to the sale of the office tower, the Purchaser will provide the City \$36.5 million, in installments. A non-refundable deposit of \$5 million was provided when the Purchase and Sale Agreement was signed. At the time of closing, which is December 30, 2014, the \$5 million amount, together with an additional \$6.25 million will be paid to the City. At this point the City will have received \$11.25 million from the Purchaser. Within three years following the closing date, the Purchaser will provide the City with

the remaining \$25.25 million, with interest. The payment of this final amount and interest will be secured by registration of the vendor take-back mortgage.

In recognition of leasing risk to the Purchaser and the Purchaser assuming the operating and financing costs of vacant office space, the City will allow a property tax credit for a maximum of 2 years. The property tax credit will end once the office tower is 75% leased. The City will work with the Purchaser to promote the office tower and assist with their leasing efforts.

Budget Reallocation After Sale of Office Tower

The \$94 million Anvil Centre and Office Tower budget is shown in Table 1 and allocated as follows:

Table 1

Amount	Component
\$41.5 million	Civic Centre
\$30 million	Office Tower Construction – Shell
\$10 million	Office Tower FF & E (Fit Out, Leasing, Marketing and Commission)
\$12.5 million	Parkade

Table 2 shows the financing and the funding sources for the different components of the Anvil Centre and office tower.

Table 2

Amount	Funding Source	Component
\$43 million	from DAC	Civic Centre and portion of Parkade
\$30 million	from Reserves	Office Tower Construction – Shell
\$10 million	from Reserves	Office Tower FF & E (Fit Out, Leasing, Marketing, Commission)
\$11 million	from Debt	Parkade

Table 3 shows the budget and the financing of the project, adding the proceeds from the sale of the office tower for \$36.5 million.

Table 3

Amount	How the Components are Financed
\$41.5 million	Civic Centre* <ul style="list-style-type: none"> • \$41.5 million from DAC (over 5 years)
\$30 million	Office Tower Construction – Shell <ul style="list-style-type: none"> • \$30 million from the sale of Office Tower to replenish reserves and repay debt (over 3 years)
\$0.5 million	Office Tower Office Tower FF & E (Fit Out, Leasing, Marketing, Commission) <ul style="list-style-type: none"> • \$0.5 million used for leasing, marketing, commission in the sale of the office tower • \$9.5 million not required for office tower fit out
\$12.5 million	Parkade <ul style="list-style-type: none"> • \$6.0 million from sale of Office Tower (over 3 years) • \$1.5 million from DAC (over 5 years) • \$5.0 million from debt (paid off by parking income)

*The budget for the civic centre is a forecast as it is still under construction

As noted on Table 3, the proceeds from the sale of the office tower and DAC will be used to finance the majority of the project. \$5.0 million will be remaining on the parkade and will be financed through debt. Debt will be issued over a 20 year period. Examining the business case for the parkade, projected revenues will be approximately \$760,000 annually, based on revenues from office tenants and civic centre patrons. After taxes and operating costs, approximately \$338,000 will be projected as net revenues. Parking revenue will be sufficient to offset the annual debt servicing costs. The \$5 million debt will be paid off in 20 years.

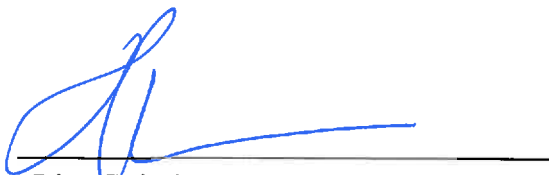
The Operation of the Anvil Centre

One of the City’s guiding principles has been that the taxation from the office tower, combined with revenues from the civic centre will help fund the annual operating costs of the Anvil Centre. When the civic centre is fully operational, annual operating

expenditures for the Anvil Centre are projected at \$2.3 million. When the office tower is fully leased, municipal property taxes to the City is to be \$650,000 annually. When the civic centre is fully operational, annual revenues in the Anvil Centre are projected at \$2.2 million. Property taxes and projected revenues will help off-set the annual operating expenditures of the Anvil Centre.

INTERDEPARTMENTAL LIAISON

The Anvil Centre and Office Tower is a high priority project. The Directors of Finance and IT, Parks, Culture and Recreation, Engineering Services, the Solicitor and the CAO are working on this project.



Lisa Spitale,
Chief Administrative Officer