

Optimizing the City-Wide Office Portfolio

Date: May 2, 2018

To: Executive Committee

From: Deputy City Manager, Internal Corporate Services

Wards: All

SUMMARY

The purpose of this report is to present strategic principles and directions to optimize the City-wide office portfolio over a multi-year period and phased approach. The plan will assist to address the modernization and transformation challenges highlighted in the City of Toronto Long Term Financial Plan to deliver on Council's directions. Leveraging a new City-wide real estate mandate approved by City Council in May 2017, City staff will establish a City-wide portfolio plan for all Agencies, Corporations and Divisions.

The City-wide office portfolio accommodates over 15,400 employees across 3 million square feet of office space, including 52 owned and leased locations. The office optimization plan aims to rationalize the portfolio, promote greater co-location opportunities and generate long-term cost savings of 10 to 15 percent. The plan will also focus on transforming the office environment for today's employee and business operations. This includes modernizing office spaces, providing flexible workplace solutions and enabling a connected workforce, generating improvements in employee experience and enabling effective public service delivery. Office modernization has been successfully tested with pilot projects in City buildings, providing measurable financial and operating benefits. Advancing the initiative across the City-wide portfolio will require a committed, up-front investment and a coordinated, multi-year plan. The optimization plan will identify City-owned buildings to be repurposed, third-party leases to be eliminated, opportunities to support mobility, and areas to improve collaboration and connectivity across the City-wide portfolio. Cost savings and revenues generated by the plan will justify and support future long-term investments in modernization.

Past reports on office modernization focused on office space standards and pilot projects. This report takes a City-wide approach to scale the modernization efforts across the entire office portfolio. Within the portfolio of 52 office locations, there are three asset types providing accommodation solutions, including Civic Centres, corporate office buildings and leased facilities. City staff estimate that the optimization

plan could save the City \$7 million - 10 million in annual operating costs (once fully implemented), by using space in more efficient, coordinated manner. Future costs will also be managed by accommodating growth needs within existing City space. City staff will report to Council with specific recommendations on City assets and policies, including an initial business case and a multi-year implementation plan, in Q1 2019. Opportunities will be quantified based on the City's ability to achieve co-location, reduce leases, densify owned space, improve space modernization and/or dispose of City-owned office facilities.

RECOMMENDATIONS

The Deputy City Manager, Internal Corporate Services, recommends that:

1. the Executive Committee request the Deputy City Manager, Internal Corporate Services, in consultation with the Director of Real Estate Services, the Interim Chief Financial Officer, the Transition Lead of CreateTO and the Chief Planner, City Planning to develop an Office Optimization Plan for the City-wide real estate portfolio, and to report back to City Council in the first quarter of 2019 with an initial business case and implementation plan that identifies:
 - a.) core office assets to be occupied by the City on a long-term basis for office purposes;
 - b.) non-core office assets to be monetized, disposed, developed or repurposed for alternative uses;
 - c.) an implementation plan for modernizing and operating the City's office portfolio, including projected costs, revenues, timelines, resources and requirements for execution, including flexible workplace opportunities for City staff.
2. the Executive Committee request the Deputy City Manager, Internal Corporate Services to consult and work collaboratively with all City Divisions, Agencies and Corporations, regarding the City's Office Optimization Plan and to realize opportunities and efficiencies for the City-wide benefit.

FINANCIAL IMPACT

The office optimization plan is estimated to save 10%-15% of current operating costs by collapsing leases and rationalizing office space across the City-wide office portfolio. Total annual operating costs for leased and owned facilities of City Divisions, Agencies and Corporations (excluding Toronto Hydro) is approximately \$70 million. Operating costs include annual utilities, custodial, maintenance and security for City-owned buildings, and gross annual lease costs for City leases. Target savings of 10 to 15 percent will save the City \$7 million to \$10 million per year.

Specific opportunities to generate cost savings or revenues will be identified in the business case to City Council in Q1 2019. Opportunities will be quantified based on the City's ability to achieve co-location, reduce leases, densify owned space and/or dispose of City-owned office facilities. The cost savings and/or revenues generated, along with relevant qualitative factors, will form the basis of the business case used to justify proceeding with the office optimization plan, including the upfront investment required to achieve the benefits. Future year upfront funding required to carry out the office optimization plan is currently unfunded. Requests to fund this plan will be referred to a future year Budget Process.

The City has completed three successful pilot projects in City-owned buildings, including Metro Hall second floor, Metro Hall fifteenth floor and North York Civic Centre first floor. The total cost of design, fit-up, construction and furniture for all three pilot projects was \$9.15 million. The resulting improvement in space efficiency allowed the City to collapse two leases and repatriate workstations into City-owned space, for a total savings of \$1 million annually. In addition to space savings and accommodation improvements, the pilot projects produced additional benefits, including healthier workplace environments for City employees (e.g. greater access to light, improved air quality, ergonomic furniture solutions), improved productivity & collaboration between divisions (e.g. improved technology to support job functions, collaborative spaces to enable interaction, and diverse space types to support evolving work modes), and higher employee satisfaction (e.g. improved sense of morale, greater commitment to work, higher awareness of others and their work streams). These benefits improve organizational effectiveness by enhancing City culture, performance and engagement.

Included in the 2018-2027 Council Approved Capital Budget and Plan for Facilities, Real Estate and Environment & Energy is an additional \$18.45 million to carry out additional pilot projects that are expected to yield similar benefits comparable to previous pilots completed. These projects will be completed throughout 2018-2019 and include various floors at Metro Hall, including floor four, five, six, eleven and eighteen.

The Acting Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting on July 7, 8 and 9, 2015, City Council adopted a report entitled "Office Modernization Program - Pilot Projects." The report recommended funding be allocated to initiate an Office Modernization Program (OMP) in City-owned office buildings, starting with 3 pilot projects:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM5.18>

At its meeting on December 1, 2016, Executive Committee adopted a motion regarding Flexible Work Arrangements / Alternative Work Arrangements for the Toronto Public Service. The recommendation requests the City Manager to report to the Executive Committee on the status of the implementation of mobility policies and flexible work arrangements through a pilot project within an appropriate City division to be determined by the City Manager:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX20.38>

At its meeting on May 24, 25 and 26, 2017, City Council adopted a new real estate service delivery model that centralizes all real estate activities on a City-wide basis, including all real estate strategy and portfolio planning. The office optimization plan will leverage the new City-wide mandate to establish a long-term strategy for all Divisions, Agencies and Corporations in scope of the review:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX25.9>

COMMENTS

Issue Background:

In May 2017, City Council approved a new real estate delivery model that centralizes real estate activities on a City-wide basis. CreateTO was established to conduct strategic planning of the City's real estate portfolio, in collaboration with Internal Corporate Services. The office optimization plan represents a City-wide opportunity, bringing together dispersed office plans from various City entities and applying common standards to portfolio planning and decision-making. Planning the portfolio as a whole allows for greater opportunities and efficiencies to be realized, while providing consistency to office space management. Through a study of office space and various pilot projects approved by City Council in 2015, it has been determined there are significant opportunities to improve the utility of the office portfolio while advancing broader organizational objectives, as outlined in this report.

Current Office Portfolio:

The City of Toronto currently has a number of facilities that provide office accommodation for employees. These buildings include Civic Centres, annexed offices adjacent to Civic Centres, corporate office buildings and leased office locations.

The City-Wide Office Portfolio, including Toronto Transit Commission (TTC), Toronto Community Housing Corporation (TCHC), Toronto Parking Authority (TPA) and all other major City Divisions, Agencies and Corporations (except Toronto Hydro), includes approximately 3 million square feet across 52 owned and leased locations. A portfolio summary is outlined in Table 1 (additional location details provided in Appendix A):

Table 1 - Summary of City of Toronto Office Portfolio*

Item	Owned	Leased	Total
Office Locations	22	30	52
Total Size (usable square feet)	2,550,000 sf	550,000 sf	3,100,000 sf
Percentage of Office Portfolio (size)	82%	18%	100%
Employees Accommodated	12,600	2,800	15,400
Efficiency Ratio (square feet/employee)	200	190	195 (average)
Annual Building Operating Costs ^[1]	\$50 million	\$20 million	\$70 million
Annual Building Capital Costs ^[2]	\$32 million	-	\$32 million

*Excludes Toronto Hydro location and "field offices" in service-based facilities (e.g. fire stations, libraries, community centres, etc.)

[1] includes custodial, utilities, maintenance and security for owned buildings; gross lease costs for leased buildings

[2] Includes building capital only (annual average of deferred maintenance plus 10-year planned SOGR), excluding fit-up capital

The figures in Table 1 excludes "field offices" in buildings where the dominant use is not administrative in nature. Field offices include minor office space that may be located in police stations, libraries, community centres, treatment plants or other non-office facility types.

Portfolio Benchmarking & Current Office Conditions

To analyze the City's office portfolio and benchmark to industry standards (including government and private sector organizations), the City retained a third party consultant, Gensler (international experts in workplace design), through an RFP process. The portfolio review determined there are significant opportunities to improve the efficiency of office space through modernization and transformation on a City-wide basis.

As shown in Table 1, the City currently occupies approximately 3 million square feet of usable office space that accommodates 15,400 employees, resulting in a ratio of approximately 195 square feet per employee, on average. The recommended standard by Gensler, supported by public and private sector benchmark analysis, is 140 square feet per employee. When comparing the current City-wide efficiency ratio (195 square feet per employee) to target standards (140 square feet per employee), there is an opportunity for 15% to 30% space savings across the entire portfolio (equivalent to 450,000 to 900,000 square feet of space). The cost savings associated with 450,000 - 900,000 square feet can be substantial and will be quantified based on the City's ability to reduce leases, densify owned space and/or dispose of office facilities. Potential efficiencies in City-owned buildings will vary on a case by case basis and is greatly impacted by building design. The unique floorplan of City Hall, for example, results in less opportunities for efficiencies than standard commercial office floorplates.

The Gensler review also determined that current office conditions are dated and not supportive of modern work cultures. Findings include outdated furniture, limited access to technology, lack of energy efficiency, insufficient meeting rooms, poor space conditions, lack of natural light, and dark, enclosed work spaces. Combined, these work settings limit teamwork, collaboration, engagement and connectivity, while adding unnecessary real estate costs. Gensler also identified a vacancy rate in the range of 1% to 5% through visual inspection of City office locations. Low vacancy rates can create pressure to lease when addressing ongoing accommodation needs. Space modernization creates efficiencies that allow the City to manage growth within its existing portfolio, without adding additional real estate holdings.

The benchmarking analysis also indicated that many public-sector organizations, including municipal, provincial and federal entities, have implemented office optimization plans. These institutions have seen various benefits to cost savings, employee attraction/retention, business productivity and performance, which provides additional support for the City's business case approach.

Focus Areas for Optimizing the City-Wide Office Portfolio

The office optimization plan will take a City-wide view of all owned and leased facilities, and aim to achieve a number of outcomes focused on modernizing the public service. These outcomes include:

- **Portfolio & Financial Performance:** Reducing costs, improving space efficiencies and unlocking land value.
- **Talent Attraction & Retention:** Meeting changing workforce needs and improving employee engagement and satisfaction.
- **Business Productivity:** Enabling performance and effective operations with modern tools, technology and diversity of space types.
- **Leadership & Culture:** Promoting trust, connectivity, collaboration and communication while reducing hierarchies and operating silos.

The optimization plan will identify, forecast and allocate office requirements on a City-wide basis. The plan will focus on three key areas to meet desired outcomes, including (1) leveraging modern workplace standards, (2) promoting flexible workplace solutions and (3) rationalizing the network of owned and leased locations on a City-wide basis.

1.) Modernized Workplace Standards

To achieve industry standards in workplace design, Gensler and City staff developed the Office Modernization Program (OMP) as a key initiative to plan, construct and maintain modern work environments. The program leverages global practices in

architectural design, ergonomics, workplace technology and employee engagement to transform workspaces. The result is more open and collaborative environments outfitted with up-to-date technology and environmental benefits that include access to natural light, improved air quality and ergonomic furniture. Modernized workspace enables employees to perform in a more flexible and high-performance manner, while reducing barriers to collaboration. A number of pilot projects were completed in City buildings with measurable benefits to cost savings, space efficiencies, engagement, environmental health, wellness, and productivity. For example, on average for the pilot projects completed, space efficiency improved by 22%, energy efficiency improved by 21% and employee satisfaction improved by 36%.

The office modernization program will be leveraged as a key tool to optimize the City-wide portfolio, while generating important organizational benefits related to business performance and culture.

2.) Flexible Workplace Solutions

Changes in workplace trends and technology have created a greater need for mobility. Employees are no longer fixed to a workspace and depend on connectivity to be productive in various work environments. The optimization plan will enable a mobile workforce, promoting greater choice as to where, how and when employees work. Flexible workplace solutions also contribute significantly to employee wellness, offering greater work-life balance opportunities and flexibility.

Flexible work arrangements enable employees to work throughout City buildings or at remote locations. The optimization plan will identify appropriate mobility tools (e.g. tablets, laptops, remote access, Wi-Fi, virtual meeting options), flexible workplace policies (e.g. telework) and physical spaces (e.g. sufficient touchdown spaces for visiting staff at City Hall) to accommodate variable work needs. Mobility and alternative accommodation solutions also allow for greater space saving opportunities through shared-seating arrangements, which can improve cost savings.

3.) Location Rationalization (Owned & Leased)

City staff will examine all 52 owned and leased locations in the City-wide office portfolio. Evaluation criteria will be used to determine which assets the City should retain for long-term investment and modernization, and which assets should be removed in favour of more suitable accommodation solutions. The evaluation criteria includes factors that are important for organizations to consider in location decision-making, such as affordability, service delivery, community presence, neighborhood appeal, and transit accessibility. Ultimately, the analysis will lead to recommendations for the most effective and affordable office network for the City overall, promoting greater co-location between City Divisions, Agencies and Corporations. The plan will identify leases to be collapsed and underutilized assets to be repurposed for other City building opportunities.

There is greater need for office locations to be located on transit lines and in locations where employees have multiple travel options to access their workplace (i.e. transit, walk, cycle, drive). Recognizing office space as a key driver to employee attraction and retention, the optimization plan will prioritize locations with high accessibility and ease of commute.

Portfolio Context & Opportunities

Past reports on Office Modernization were focused on office space standards and pilot projects. This report takes a City-wide approach to scale the modernization efforts across the entire office portfolio, identifying lands, buildings and leases to be removed in favour of core office locations, and directing capital investments accordingly. Within the portfolio of 52 office locations, there are three asset types providing accommodation solutions. These include Civic Centres, corporate office buildings and leased facilities, as summarized in table 2:

Table 2 - Summary of Office Portfolio by Type

Category	Size	Size - % of Portfolio	# of Staff
Civic Centres (owned)	1,000,000	32%	4,900
Corporate Office Buildings (owned)	1,550,000	50%	7,600
Office Leases (leased)	550,000	18%	2,900
Total	3,100,000	100%	15,400

*Excludes Toronto Hydro location and field offices

To optimize the portfolio of 52 locations, City staff will evaluate each location based on various criteria and determine which assets are core vs. non-core to the City's long-term needs. These criteria were applied to the Etobicoke Civic Centre Relocation analysis presented to City Council in 2016 and were developed using marketplace standards. The criteria include:

- **Location/Travel Time** (transit access, commute time, bike score, walk score).
- **Employee Experience** (neighborhood appeal, building modernization/potential).
- **Delivery of City Services** (public uses, community infrastructure, City services).
- **Building Performance** (building condition, occupant capacity, operating costs).
- **Value of Land/City Building Potential** (market value, alternative use analysis).

Based on relative scores and input from stakeholders, non-core assets will be identified and recommended for alternative uses or disposition, while core assets will be recommended for long-term modernization investments.

Civic Centres

Civic Centres are considered to be core, long-term City assets in the optimization plan and will generally be identified for large-scale modernization over various timeframes. Civic centres are centre-points for municipal government in local communities, providing important City services to residents, acting as venues for public engagement and supporting opportunities for community events and placemaking. Where appropriate, the plan may identify more aggressive investment requirements for Civic Centre facilities, such as the ongoing initiative to rebuild and relocate Etobicoke Civic Centre.

Corporate Office Buildings

There are some Corporate Office Buildings on underutilized lands, which will be evaluated in consultation with City Planning for City building opportunities or revenue generation (i.e. market value potential). Where possible, alternative uses will aim to support strategic City goals, such as affordable housing redevelopment, employment creation and fiscal performance. There are also significant capital cost savings that may be realized by eliminating office assets. Where buildings are recommended for disposal, a plan will be developed to relocate staff to more suitable, City-owned locations.

Office Leases

Many leases can be collapsed into City-owned space (over time) for long-term operating cost savings. TTC leases represent approximately 50% of the City-wide leased portfolio, and will be considered as part of a consolidated TTC accommodation solution. Other leases can be relocated into City-owned space, depending on location requirements and capacity of city owned facilities in the area. Generally, owned space is preferred to leasing because it provides a desired degree of control over costs (not subject to rent risks and renewal escalations), term (not subject to landlord decisions and competing interests) and use (ensures public access, delivery of City services and provides placemaking opportunities that meet broader community objectives). The lease portfolio currently costs approximately \$20 million per year in gross rents.

Capacity Assessment and Portfolio Outlook

As outlined in Appendix A, City-owned office buildings accommodate approximately 12,500 employees at 200 square feet per person. By applying modernized office standards of 140 square feet per person and adjusting for unique floor design, total capacity for owned office buildings is estimated at 16,000 employees (an increase of 3,500, or 30%). For context, this additional capacity is sufficient to accommodate all current office leases (2,861 staff and \$20 million per year in lease costs), or several owned office buildings. In addition to modernization, flexible workplace solutions can increase the capacity of all City owned facilities. For example, remote work one day a week can reduce space needs by a further 20%. Flexible workplace solutions and implementation plans will be identified as part of the optimization initiative. Creating capacity in City-owned buildings also allows the City to unlock the value of other real estate holdings, which can be used for other City building purposes. Potential

optimization scenarios are included in table 3, outlining how investments in modernization can accommodate a reduction in leases and asset holdings, plus produce enough capacity to accommodate future growth (as needed):

Table 3 - Potential Opportunity by Type

Category	Potential
Civic Centres (owned)	- Modernize: invest in Civic Centers. Efficiencies can generate additional capacity for up to 1,500 staff* across all Civic Centre locations
Corporate Office Buildings (owned)	- Modernize: invest in "core" corporate buildings. Efficiencies can create capacity for additional 1,500+ staff -Reduce: Identify 2-3 "non-core" buildings to be monetized, disposed, developed or repurposed for alternative uses (impacts estimated 1,000 staff to be relocated into other City buildings)
Office Leases (leased)	- Reduce: eliminate 50% of leased space (estimated 1500 staff) within 5 years and consolidate into City owned buildings

*Does not account for the potential of a new Etobicoke Civic Centre

Actual scenarios projected in Table 3 will be evaluated in the business case process. City staff and CreateTO will also explore financing arrangements and opportunities to support the Office Optimization Plan.

Notional Rent System - Driving Accountability for Space

City staff in Internal Corporate Services will establish a notional rent system for all City-owned office buildings by Q4 2018. A notional rent systems identifies the area occupied, costs and efficiency of use for all City Divisions, Agencies and Corporations occupying City-owned space. A notional rent system allows for greater accountability at a business unit level and presents a cultural change that will unlock space and greater potential in City buildings. It also improves awareness of occupancy costs and will help limit growth of the office portfolio in the future. Notional rent does not include charging Divisions for the use of space through the City's budgetary process. Instead, the system uses occupancy data to calculate space footprint, operating costs and efficiency of use (based on employee per square footage), which are benchmarked to industry standards and City averages on an annual basis. The results are shared among senior City staff and used as a tool to manage change and plan space needs across the organization.

Next Steps and Timelines

This report establishes an overall direction for planning the City-wide office portfolio. City staff will analyze the portfolio and accommodation options throughout 2018, while engaging key stakeholders. Results and recommendations from the office optimization analysis will be reported to City Council in Q1 2019, including projected costs, revenues/savings, required investments, implementation timelines and other requirements for execution. Table 4 outlines key phases and next steps in the initial business case process:

Table 4 - Initial Business Case Process & Options Analysis

Estimated Completion	Phase & Deliverables
Q2 2018	Stakeholder Engagement & Current State Assessment <ul style="list-style-type: none">- Consultations with Agencies, Divisions and Corporations- Detailed Building & Lease Analysis (City-Wide)
Q3 2018	Opportunity & Valuation Analysis <ul style="list-style-type: none">- Valuation Assessment (i.e. highest potential of each location)- Location Assessment (e.g. commute time, neighborhood appeal, etc.)- Optimization and Scenario Analysis
Q4 2018	Portfolio & Accommodation Plan <ul style="list-style-type: none">- City-Wide Accommodation Plan- Core Assets for Long-Term Investments/Modernization- Non-Core Assets to be Repurposed- Financial Analysis (total costs, revenues)
Q1 2019	Initial Business Case & Council Report <ul style="list-style-type: none">- Business Case (financial impact, strategic analysis, operational assessment, etc.)- Recommendations to City Council

The initial business case, if approved by City Council, will lead to further project and design development for the office portfolio, including a detailed funding and financing strategy and project delivery assessment. A full business case will be established and approved by City Council prior to executing an optimization plan.

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SIGNATURE

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ATTACHMENTS

Appendix A - City Wide Office Locations