



ModernTO: City-Wide Real Estate Strategy and Office Portfolio Optimization

Date: September 18, 2019
To: Board of Directors
From: Chief Executive Officer, CreateTO
Wards: All

SUMMARY

The purpose of this report is twofold:

- 1.) To receive feedback and endorsement on the strategic framework to optimize the city-wide real estate portfolio. CreateTO has developed a **City-wide Real Estate Portfolio Strategy (Appendix 1)** which is a foundational and overarching framework on how the City can optimize its portfolio, unlock value and deliver new efficiencies for municipal government.
- 2.) To apply this framework to the City's office portfolio, which involves launching an Office Optimization Plan ("ModernTO") as outlined in this report. The plan is expected to accelerate the City's transition to a modern work environment through a self-funded asset management strategy, while reducing the overall capital and operating costs by \$30 million per year across the City-wide office portfolio.

As a City board, CreateTO was established to provide oversight and direction for the City's real estate portfolio, develop lands for city purposes, and deliver real estate solutions to City divisions, agencies and corporations. To achieve this, advice provided by CreateTO must be consistent with the City's broader asset management policies, corporate objectives and strategic plans. The City-wide real estate strategy aims to make the best use of real estate within this context, applying strategic principles to maximize resources and achieve the City's service deliverables. Due to the size of the City's real estate portfolio, advice will be brought forward to the CreateTO Board and City Council over a multi-year period based on a review of 11 real estate asset types. Recommendations will outline opportunities to improve the City's real estate mix and City building outcomes, starting with the City's office portfolio.

The direct application of the City-wide Real Estate Strategy is the Office Optimization Plan, developed to address a large, outdated and inefficient office footprint. The proposed plan aims to reduce total office locations from 52 to 20 over a 5-year period

(2020-2025), while modernizing municipal work environments. This report recommends CreateTO and City staff initiate a detailed planning and engagement process to unlock lands and develop a new accommodation plan for City employees, with an execution plan requested for City Council and CreateTO Board approval in Q3 2020. The engagement process over the next 12 months will include extensive consultations with City divisions, agencies and corporations, local Councillors and impacted occupants to inform the implementation plan and City building directions for unlocked real estate.

RECOMMENDATIONS

The Chief Executive Officer recommends that the Board of Directors of CreateTO:

1. Request City Council adopt Appendix 1, "The City-wide Real Estate Portfolio Strategy", as the strategic framework to best utilize the City's real estate assets to drive better value and services for the municipality.
2. Request City Council to direct the Chief Financial Officer and Treasurer and the Executive Director of Financial Planning, in consultation with the Deputy City Manager, Corporate Services and CEO of CreateTO, to establish a consolidated list of City-wide real estate needs and financial commitments on an annual basis, including funded and unfunded City-wide real estate requirements for a 10-year period to inform long-term, strategic portfolio planning.
3. Request City Council to direct the Deputy City Manager, Corporate Services, in consultation with the CEO of CreateTO, to report through the 2021 budget process with an appropriate funding request to develop a City-wide data and information platform for all City real estate holdings to centrally manage the City's real estate information and integrate various real estate systems, to an extent required to measure the current utilization, cost and potential of each asset and to support the delivery industry standard asset management services.

Office Portfolio Optimization

4. Request City Council to adopt the following guidelines to facilitate the delivery of an efficient and modernized office portfolio:

a.) Identify the following assets as "primary office buildings" in need of long-term modernization investments to enable a more effective Toronto Public Service, serving as transit-oriented civic hubs for government administration:

- City Hall
- Metro Hall
- Scarborough Civic Centre
- North York Civic Centre
- Etobicoke Civic Centre

b.) Identify the following assets as underutilized and as opportunities to unlock value and address City needs and City building objectives, such as affordable housing, employment uses and community infrastructure:

- 277 Victoria Street (Appendix 3a)
- 33 Queen Street East (Appendix 3b)
- 610 Bay Street (Appendix 3c)
- 931 Yonge Street (Appendix 3d)
- 1900 Yonge Street (Appendix 3e)
- 75 Elizabeth Street (Appendix 3f)
- 95 The Esplanade - Ground Floor (Appendix 3g)
- 18 Dyas Road (Appendix 3h);

c.) Direct the Deputy City Manager, Corporate Services, in consultation with the CEO, CreateTO and the Chief Financial Officer and Treasurer, City of Toronto to report to the CreateTO Board and City Council in Q3 2020 with a detailed business case and an execution plan, including an assessment of costs, savings/revenues and a 5-year implementation and funding plan for completing Office Optimization in primary office buildings, including a master accommodation plan for staff and recommended directions and city building opportunities for properties identified in recommendation 4b, and that the development of such business cases be guided by the following principles:

i.) Consulting local Councillors, City Planning, local communities and impacted occupants regarding relocation requirements and appropriate mix of City outcomes for the properties identified as underutilized assets;

ii.) Develop recommendations to relocate office space occupants in underutilized assets to the "primary office buildings" or other suitable facilities, with the City acting as property manager, where appropriate, plus relocate occupants in office leases into City-owned space.

5. Request City Council to direct the Deputy City Manager, Corporate Service to include \$4.4 million in the 2020 CREM operating budget to be used over a 12 month period to establish a detailed implementation and funding plan, including funding for a multi-disciplinary project team, change management activities, and to conduct site due diligence and community consultations with respect to unlocked properties.

6. Request City Council to direct the Deputy City Manager, Corporate Services to procure a workplace consultant to determine location requirements for all impacted occupants via a master accommodation plan; determine appropriate mobility ratios for City operations; establish a project schedule, timelines and sequencing of moves over a 5-year period; and provide financial projections for recommended investments in physical spaces, technology, and change management activities.

FINANCIAL IMPACT

The Office Optimization Plan aims to unlock land value and generate savings from underutilized assets (individually described in Appendix 3) and office leases, with a target to reduce office locations from 52 to 20 over a 5 year period. Early financial projections include:

Item	Preliminary/Estimated Value
A.) Capital Value Generated	
<i>Estimated Value of Unlocked Land for City Building* (see Appendix 3)</i>	<i>+\$420 million*</i>
<i>Estimated Expenditures** (cost to modernize "primary office assets")</i>	<i>-\$250 million**</i>
<i>Net Value Generated*</i>	<i>=\$170 million*</i>
B.) Estimated Annual Savings	
<i>Lease Savings (estimated annual value of 25 leases)</i>	<i>+\$21 million</i>
<i>Operating and Capital Savings (from reduction of owned office space)</i>	<i>+\$9 million</i>
<i>Total Annual Savings (at program completion)</i>	<i>=\$30 million</i>

*Preliminary estimates only - "value of unlocked land" and "net value generated" do not reflect expected financial returns, as value may be allocated to a range of City building benefits, such as affordable housing, and is subject to a consultation process and additional due diligence activities

**Preliminary estimated cost to modernize 4 primary office buildings, subject to third-party consultant analysis and review. Cost excludes investments required for new Etobicoke Civic Center.

Estimated values are based on current market conditions and reasonable planning assumptions, which will be further refined through the business case process and stakeholder consultations. City building opportunities (on lands valued at approximately \$420 million) can only be unlocked with the investment of \$250 million in order to create alternative accommodation for displaced staff and operations. Unlocked assets may be used to support City priorities, such as affordable housing or community infrastructure.

Estimated savings of up to \$30 million per year represents 25%-30% savings on current annual costs for the office portfolio. Annual return on investment is estimated at 12% (once fully implemented), which is equivalent to a private sector return of 16% before taxes. More accurate cost savings and revenue projections will be provided in the detailed business case to City Council in Q3 2020. Total investment capital required excludes Etobicoke Civic Centre, which is subject to an alternative business case to relocate the current Etobicoke Civic Centre to a new transit oriented hub.

As noted in recommendation #5, funding of \$4.4 million over a 12 month period is requested to initiate the plan, including:

- \$0.80 million to establish a dedicated project implementation team, including resources from Facilities Management, Human Resources, Information & Technology and Strategic Communications, with support from CreateTO
- \$0.10 million to initiate change management and communication activities for staff, in support of transition to a modernized and mobile working environment.
- \$0.50 million for community stakeholder consultations related to unlocking properties identified in Appendix 3;

- \$3.00 million to conduct site due diligence activities related to unlocking properties identified in Appendix 3, including undertaking necessary environmental studies, market analysis, planning studies, architectural conceptual work and other relevant consultant activities, including heritage, preliminary traffic and servicing due diligence where applicable

This report requests the City to identify an appropriate funding source for the above noted amounts. CreateTO and Corporate Services will consult with the Chief Financial Officer, City of Toronto, to identify appropriate funding sources for the overall plan.

DECISION HISTORY

At its meeting on July 16, 2019, City Council adopted a staff report entitled "Office Optimization - Office Swing Space at Union Station" and endorsed the use of 92,000 square feet in the East Wing of Union Station as swing space to support the rationalization and modernization of office space on a City-wide basis:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX7.4>

At its meeting on May 14, 2018, Executive Committee adopted a staff report entitled "Optimizing the City-Wide Office Portfolio" and endorsed key directions to modernize and find efficiencies in the City-wide office portfolio:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX34.4>

At its meeting on May 24th, 2017, City Council directed the CEO, CreateTO, in collaboration with Deputy City Manager and affected City Divisions, Agencies and Corporations, to develop a City-wide real estate strategy for City Council approval in 2019:

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

COMMENTS

The City-wide Real Estate Strategy provides an overall framework to optimize the City's real estate portfolio over time, including over 8,000 properties and 105 million square feet of building area across eleven (11) real estate asset types (see Appendix A for portfolio details). The Office Optimization Plan is the City-wide Real Estate Strategy in action, focused on optimizing the first of the eleven asset types. It seeks to rationalize the City's office footprint, reduce overall costs, and modernize work environments for a changing workforce. Recommended investments will facilitate more efficient use of space, allowing the City to realize a number of benefits, including:

- Consolidate 750,000 square feet of office space (25% of the total office portfolio);
- Generate long-term savings of \$30 million per year;
- Unlock \$420 million in real estate value for City building priorities;
- Improve Civic Centre facilities in each City District;
- Modernize workspaces for over 15,000 City employees;
- Bring additional jobs to Scarborough and Etobicoke (approximately 1,200 each).

These benefits will be generated through a self-funded asset management strategy that makes better use of existing resources. Savings from reduced office leases and owned buildings will support a funding model for required investments, while providing for permanent long-term cost savings.

Governance Structure

Development of the City-Wide Real Estate Portfolio Strategy and the Office Optimization Plan has been guided by a number of City executives. The steering group ("City Building Committee") was comprised of (in alphabetical order):

- Chris Brillinger, former Executive Director, Social Development Finance & Administration
- Gregg Lintern, Chief Planner (Co-Chair)
- Brian Johnston, CEO, CreateTO
- David Jollimore, Director, Real Estate Transformation
- Josie Scioli, Deputy City Manager, Corporate Services (Chair)
- Mike Williams, General Manager, Economic Development & Culture

In addition to the steering committee, input was also received from various City leaders. Stakeholder consultations included Deputy City Manager's, Chief Financial Officer, and senior leaders from Financial Planning, Information & Technology, and People & Equity. Input was also received from a number of operating divisions at the City via the "Strategic Program Management Committee," which includes representatives from over fifteen (15) different City Divisions, Agencies and Corporations. The Strategic Program Management Committee is chaired by the Deputy City Manager, Corporate Services and co-chaired by the CEO of CreateTO.

City-Wide Real Estate Portfolio Strategy

Working closely with City stakeholders, CreateTO developed a City-wide Real Estate Portfolio Strategy (see Appendix 1) to optimize the City's portfolio and unlock value over a multi-year period. The strategy has four main principles:

- 1) Real estate is a corporate asset enabling individual City divisions, agencies or corporations.*
- 2) As a public sector organization, "value" is maximizing benefits to the city (which is not strictly viewed through a financial lens).*
- 3) Portfolio strategy is not static but an ongoing process of gathering intelligence on City objectives and aligning real estate holdings to meet those objectives.*
- 4) To manage a portfolio of this size the strategy focuses on 11 real estate asset types for optimization planning and efficiencies.*

Strategic objectives have been established to apply to each of the 11 asset types (see Appendix 1 - Table 4). Recommended changes to the City's portfolio mix will be brought

forward to the CreateTO Board and City Council over a multi-year period. To date, strategic planning principles have supported the development of key portfolio plans, including Housing Now and unlocking transit oriented development opportunities on City-owned property. CreateTO and City staff are currently evaluating additional portfolios including industrial, transit sites and parking facilities and will bring forward additional opportunities in 2020, once the appropriate level of analysis and consultations with impacted divisions are complete.

Affordable Housing

In order to achieve expected affordable housing targets from City-owned land, CreateTO and City staff will identify an inventory of property that are suitable to meet affordable housing objectives. A "housing lens" will be applied to the City-wide portfolio to identify sites suitable for housing development, including (1) appropriate planning context for residential uses (2) manageable operational and logistical barriers (3) suitable financial conditions for development feasibility, and (4) transit-oriented and mixed-use potential, where possible. Properties allocated to housing objectives will be subject to relevant authorities, including City Council and CreateTO Board approvals, where appropriate.

The City-wide real estate strategy will help identify new opportunities for affordable housing and other City needs. CreateTO, in partnership with the Housing Secretariat and City Planning, is currently delivering the City's Housing Now program, providing affordable rental units on City-owned, transit-oriented sites. In Q4 2019, City staff are scheduled to report and recommend to the Planning and Housing Committee a comprehensive housing strategy: HousingTO Action Plan 2020-2030. CreateTO will continue to work with the Housing Secretariat and City Planning to support additional housing objectives approved by Council in the housing plan.

Office Optimization Plan

Table 1 is a summary of the current City-wide office portfolio and proposed future state (once the Office Modernization Plan outlined in this report is fully implemented):

Table 1 - Summary of City-Wide Office Portfolio*

Item	Owned	Leased	Total (Current)	Total (Proposed)
Office Locations	22	30	52	20
Total Size (usable square feet)	2,550,000	550,000	3,100,000	2,350,000 sf ^[3]
Percentage of Portfolio (size)	82%	18%	100%	100%
Employees Accommodated	12,600	2,800	15,400	15,400
Efficiency Ratio (sq.ft/employee)	200	190	200 (avg)	150 (avg est.) ^[4]
Annual Operating Costs ^[1]	\$50 million	\$25 million	\$75 million	\$50 million
Annual Capital Costs ^[2]	\$35 million	-	\$35 million	\$30 million
Annual Total Cost	\$85 million	\$25 million	\$110 million	\$80 million
Total Cost per Square Foot	\$33/sq.ft	\$45/sq.ft	\$35/sq.ft	\$34/sq.ft
Total Annual Cost per Employee	\$6,700/year	\$8,900/year	\$7,100/year	\$5,200/year

*Excludes Toronto Hydro office 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 space - no property taxes

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

[3] Targeted reduction includes a range of leased and owned space, estimated at 750,000 square feet (25% of portfolio)

[4] 150 psf/employee represents estimate for entire office portfolio. Five modernized facilities identified in this report are targeted at 110 sf/employee, accounting for modern space design at 140 psf/workstation and 13:10 mobility ratio (person:workstation).

To analyze the City's current 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 portfolio efficiencies and office conditions. Findings included underutilized spaces, end-of-lifecycle furniture (which average 15 years lifespans), limited meeting room technology, lack of natural light and insufficient space variety to support employee work requirements (e.g. meeting rooms). The majority of office furniture is over 20 years old with design concepts dating from the 1980's and 1990's. Current workstations (i.e. traditional high walled cubicles) are also generally obsolete in the marketplace, creating challenges maintaining the status quo. Modern workspaces focus on open space concepts, unassigned workstations (i.e. choice of workspace), collaborative spaces, mobile technology, fewer dedicated offices, and flexible workplace policies that provide staff the ability to choose a work environment most suitable to the circumstances at hand.

Modernization Pilot Projects in City Office Space

As a pilot initiative, the City launched an Office Modernization Program in 2016 with eight (8) successful pilot projects completed to date. The pilot initiative has demonstrated measurable financial, operating and employee benefits, including:

- Improved Space Efficiency: *25% improvement (average 131 sq.ft/workstation)*
- Net New Capacity: *space for over 300 workstations created in City-owned buildings*
- Increased Employee Satisfaction: *65% increase (based on staff survey results)*
- Improved Environmental Benefits: *26% cost reduction (utility costs per employee)*
- Lease Savings: *\$2 million/year in rents (40,000 sq.ft of leased space eliminated)*

Considering the success of the completed pilot projects, City staff will continue to make modernization investments in 2019 and 2020 on a floor-by-floor basis, with a focus on City Hall and Metro Hall. The recommended Office Optimization Plan in this report will allow the initiative to be scaled across primary office assets in the portfolio, leading to greater modernization impacts, efficiencies and improved employee experience.

Comparable Organizations

Private and public sector organizations have been advancing office modernization models for well over a decade. Both the Federal and Ontario Government are undertaking workplace modernization programs intent on driving space efficiencies, modern furniture, new technology, cost savings and employee flexibility. The Province of Ontario intends to invest significant capital into their Macdonald Block Complex, which is an administrative hub of approximately 1.7 million square feet of government offices for 3,600 employees. The project includes extensive reconstruction of several office towers over an 8 year period, allowing for the consolidation of space. The cost of the project is currently estimated at \$1.536 billion. Efficiency targets, based on published provincial office space standards, include 160 square feet per workspace and a minimum sharing ratio of 1.3 staff persons per workstation. Various private sector organizations are also in the process of implementing or completing office modernization initiatives, including major Canadian banks, accounting firms and technology companies.

Portfolio Benchmarking

As shown in Table 1, the City currently occupies approximately 3.1 million square feet of usable office space that accommodates 15,400 employees, resulting in a ratio of approximately 200 square feet per workstation, on average. The recommended standard by Gensler (a third-party consultant hired by the City to advise on modern workplace design and practices), is 140 square feet per workstation, supported by public and private sector benchmarking. CreateTO and City staff estimate that the Office Optimization Plan can generate 25% space savings across the portfolio (750,000 square feet of space) by applying these new space standards and implementing workplace mobility practices.

In addition to efficient office space design at 140 square feet per workstation, other key efficiency measures include vacancy rate and workspace utilization. The Gensler

analysis identified a current vacancy rate of 1% to 5% in City buildings (i.e. almost all workstations are assigned to employees). However, a workspace utilization rate of 36% was also identified, which implies that assigned workstations and private offices are vacant 2/3 of the time. This observation is common across private sector and public sector portfolios with dedicated seating arrangements (Gensler identified an industry average desk utilization rate of 42%). This occurs because work is increasingly being completed in collaborative or remote settings, such as team work in breakout rooms, attending meetings at various site locations, or finding quiet space to concentrate and complete focused tasks. As a result, providing dedicated workstations for each employee generates space inefficiencies. To address this, a degree of shared workstations with a greater mix of space types is recommended to make better use of space and adapt to changing work patterns. Suitable mobility ratios (i.e. the degree of unassigned workstations) will be evaluated by a workplace consultant based on the unique functions across each City division, agency and corporation, with recommended mobility targets (by job function) provided in the Q3 2020 report to City Council. Some desk sharing arrangements have been initiated in City-owned space over the past three years, including job functions in Corporate Real Estate Management, Energy & Environment and Information Technology.

Major Components to Office Optimization

This report proposes an Office Optimization Plan to make the best use of office space, centered on a self-funding asset management strategy with four critical components:

(1) Invest in primary office facilities: Make long-term investments to modernize and revitalize four office hubs in line with industry standards (i.e., City Hall plus Metro Hall in the South; North York Civic Centre in the North; Scarborough Civic Centre in the East; Etobicoke Civic Centre in the West), increasing accommodation capacity by up to 5,800 staff through efficient office design and new mobility practices.

(2) Unlock or re-purpose underutilized assets: Unlock non-essential or underutilized assets (see Appendix 3) and repurpose unlocked lands towards other City needs, such as affordable housing. Savings and potential revenues from these properties, plus savings from collapsing office leases, will support a funding model to implement the Office Optimization Plan.

(3) Establish flexible workplace policies and tools: Implement two workplace flexibility practices, including (1) remote work policies and technologies for staff and (2) unassigned/shared workstation arrangements, where appropriate and supported by a workplace consultant analysis. Changes in workplace trends and technology allow employees greater choice as to where, how and when they work.

4) Consolidate office locations into primary office buildings: Staff in underutilized assets and office leases can be accommodated in primary office facilities, once additional capacity is created through modernization investments and new flexible workplace practices. Five (5) primary buildings can accommodate displaced staff from underutilized assets and office leases, shown in Table 2:

Table 2 - Summary of Current Office Portfolio and Recommended Actions

Category & Action	Size	Current # of Staff Accommodated	Future # of Staff Accommodated
City-Owned: Modernize 5 Civic Assets	1,450,000	7,600 ^[1]	11,530 - 13,400
City-Owned: Unlock Value (see Appendix 3)	300,000	1,630 ^[2]	0
Leased from Third Party: Collapse up to 25 of 30	550,000 ^[3]	2,800 ^[2]	500
City-Owned: Status Quo (see Appendix 2)	800,000	3,370	3,370
Total	3,100,000	15,400	15,400

[1] Estimated new capacity of up to 5,800 can be created by modernizing 5 Civic Assets (i.e. 7,600 current staff to 13,400 future staff). New capacity estimates consider building code evaluation, modern design (140/psf/workstation) and mobility ratio of 13:10 (persons:workstations)

[2] Staff from leased and "unlocked" facilities to be relocated to new capacity created by modernizing 5 Civic Assets

[3] Projections include collapsing up to 25 of 30 leases into primary buildings, estimated 450,000 square foot reduction of 550,000 total square feet of leased space

Key benefits of the overall plan include improved work environments for staff (e.g. wellness, flexibility), upgraded Civic Centres, improved talent attraction and retention, unlocked City assets for city building opportunities, long-term cost savings (\$30 million per year) and a more modern and efficient office portfolio.

Identifying Primary Office Assets:

To identify primary office assets, all office locations were evaluated based on several criteria. Primary office assets were identified based on transit access (staff and visitors), potential workstation capacity, neighbourhood appeal (e.g. local amenities), building conditions, cost effectiveness, complexity of relocation and concentration of City-owned office space in proximity.

Civic centres have large, existing workstation capacities and are integrated with other City services (e.g. community council, local services, public squares), which makes them more efficient and affordable office solutions for the City to manage versus constructing or leasing new space. They are transit-oriented with subway access in close proximity, and generally have walkable amenities. The Civic Centre model also provides appropriate distribution of administrative staff throughout City districts, maintaining a municipal presence in local communities. York Civic Centre and East York Civic Centre are not identified as primary office assets due to limited accommodation capacity and/or transit access in comparison to other Civic Centres. Instead, these assets are recognized as core community facilities with existing public uses and office footprints that are suitable at this time.

Investing in Primary Office Assets:

An investment of \$250 million is recommended to modernize office spaces and generate a range of benefits outlined in this report. The investment provides for modern interior space design that will address outdated conditions and generate space efficiencies in primary office buildings, increasing capacity by up to 5,800 staff. These efficiencies allow the City to reduce its office footprint in owned and leased facilities by

25% (estimated 750,000 square feet) and save \$30 million per year in capital and operating costs. New efficiencies allow impacted occupants to be relocated to primary office buildings, which will provide modern workplace conditions and transit-oriented accommodation for over 13,000 City employees. While the investment is focused on office spaces, Facilities Management will review planned base building work in each of the 5 primary office facilities and determine opportunities to integrate and accelerate broader building improvements. This includes planned capital improvements to base building systems, service counters and other building areas or public spaces.

Unlocking or Repurposing Assets:

This report recommends unlocking non-essential or underutilized assets to address other City priorities, including affordable housing. With a \$250 million investment in primary office assets, additional capacity will be created to accommodate staff from non-essential or underutilized assets, which include:

- 277 Victoria Street (Appendix 3a)
- 33 Queen Street East (Appendix 3b)
- 610 Bay Street (Appendix 3c)
- 931 Yonge Street (Appendix 3d)
- 1900 Yonge Street (Appendix 3e)
- 75 Elizabeth Street (Appendix 3f)
- 95 The Esplanade - Ground Floor (Appendix 3g)
- 18 Dyas Road (Appendix 3h)

Underutilized assets generally represent low occupancy, high value locations that were designed as independent office plans for City agencies or divisions in the past. The Office Optimization Plan will eliminate traditional silos in office space management to create a more coordinated, city-wide solution for office accommodation. This includes co-location between City divisions and agencies in common buildings, including TTC, TCHC, Toronto Parking Authority and Toronto Public Health. Many underutilized office locations are in need of investment with insufficient funding to maintain them in a state of good repair. Consolidating assets and directing limited investment dollars towards fewer, core properties allows for better resource management on a City-wide basis.

610 Bay Street (and adjacent 130 Elizabeth Street) are City-owned assets under the operational management of TTC. The facilities are currently leased-out for the delivery of inter-city, inter-regional and inter-national bus services, which are expected to relocate to Union Station in 2021. As a result, 610 Bay Street and 130 Elizabeth Street are considered to be underutilized City assets with higher use potential to deliver City building outcomes, while respecting the heritage components of the site.

Alternatives Explored:

CreateTO, in consultation with Corporate Services, explored alternative portfolio directions, including constructing a new office building for consolidation. Ultimately, analysis demonstrated that constructing a new office building would be more expensive, have longer timelines, bring greater implementation risks and result in less portfolio efficiencies by adding net new space. Instead, the City should better leverage existing office spaces in Civic Centres, which are long-term assets with significant office footprints already available.

Leasing solutions were also evaluated. The current leasing environment in Toronto is expensive and very limited in supply, with vacancy rates dropping to a record low of 2.5% in Q1 2019. It was determined that selling City assets to lease third party office space would be more expensive. Long-term costs would be higher than owning, the City would have less control over uses (e.g. counter services, community events, emergency response centres), and it would be challenging to replace the make-up of current office facilities (i.e. Civic Centres), which are integrated with other City uses (e.g. public squares).

Next Steps and Deliverables:

As a next step, City staff will procure a workplace consultant to develop an accommodation plan for City staff, outlining a path for consolidation with projected timing, costs and logistics. This plan requires the consultant to work with all impacted City divisions, agencies, and corporations to determine appropriate location requirements (where staff need to be), adjacency needs (who staff need to be next to), and mobility ratios (how flexible job functions can be performed away from a fixed workstation). CreateTO will also initiate a framework to unlock value from properties identified in this report (Appendix 3). The process will include consultations with City divisions, agencies and corporations, local Councillors, City Planning, local communities and impacted occupants. City staff will also focus on change management and business readiness to support the overall plan, including human resource polices, required technology and change management to help transition staff to a modern work environment.

City staff and CreateTO will report to City Council in Q3 2020 with a full implementation plan that includes a proposed master accommodation plan, a framework unlock value from real estate, an overall implementation plan for modernizing Civic Centres over a 5 year period, projected costs and revenues, and a self-funding roadmap. Next steps and timelines are identified in Table 3:

Table 3 - Business Case Process

Estimated Completion	Phase & Deliverables
Q3 2019- Q2 2020	Master Accommodation and Mobility Plan (Consultant Study) - Consultations with Agencies, Divisions and Corporations - Develop mobility, location and adjacency recommendations
Q3 2019- Q2 2020	Plan to Unlock Real Estate Value - Engagement with local Councillors, City Planning, local community and occupants - Framework to unlock lands for City needs, including affordable housing
Q3 2019- Q2 2020	Business Readiness Assessment - Evaluation of mobile policies, technologies and change management practices - Agency alignment with HR, I&T and key business areas for enablement
Q3 2019- Q3 2020	Complete Swing Space Fit-Up - Complete fit-up of Union Station East Wing to accommodate staff during renovations - Continue approved, floor-by-floor modernization projects (focus on City Hall)
Q3 2020	Business Case and Council Report - Detailed Business Case & Financial Plan (costs, revenues, resource requirements) - Plan for Unlocked Properties (e.g. surplus recommendations, city building, etc.) - Business and Policy requirements (e.g. HR, I&T) - Recommended execution plan (timing, phases, logistics)

The plan, once fully implemented, will serve to modernize municipal government while generating efficiencies and City building opportunities. This includes reducing the office footprint by 25%, reducing costs by \$30 million per year, modernizing workspaces to attract/retain talent and improve productivity, plus unlock real estate assets to support additional City priorities.

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SIGNATURE

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ATTACHMENTS

Appendix 1: City-Wide Real Estate Portfolio Strategy
Appendix 2: City-Wide Office Locations and Map (Owned and Leased)
Appendix 3: PS Sketches - Underutilized Real Estate Assets