



**City of Kingston
Report to Council
Report Number 19-090**

To: Mayor and Members of Council
From: Peter Huigenbos, Acting Commissioner, Community Services
Resource Staff: Same
Date of Meeting: May 21, 2019
Subject: Lease Renewal – 1425 Midland Avenue – Department of National Defence

Executive Summary:

The Department of National Defence (DND) has leased the building at 1425 Midland Avenue from the City since 2010. The original 5 year lease expired in 2015 and has continued since then on overhold, pending a review by DND of their future needs. DND has now asked the City to enter into a new 5 year lease effective April 1, 2019 with an option to renew for an additional 5 year term.

Both the City and DND commissioned an updated market rent analysis, and the parties have agreed on market rent amounts. Staff is recommending a new annual net rent amount of \$298,972.52 for years 1-5 in the new lease. This represents an approximate 35% increase over the current annual rent. The new lease includes an additional 8% increase for the second five year term, resulting in an annual net rent of \$323,596.35 for years 6-10.

Recommendation:

That Council authorize the Mayor and Clerk to execute a lease agreement for 1425 Midland Avenue with Her Majesty the Queen in Right of Canada as represented by the Minister of the Department of National Defence for a period of 5 years for an annual net rent of \$298,972.52 effective April 1, 2019 with the option to extend for a second five year term for an annual net rent of \$323,596.35 on terms and conditions as outlined in Report Number 19-090 and in a form satisfactory to the Director of Legal Services.

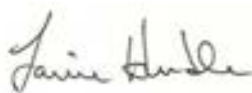
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Authorizing Signatures:



**Peter Huigenbos, Acting
Commissioner, Community
Services**



**Lanie Hurdle, Acting Chief
Administrative Officer**

Consultation with the following Members of the Corporate Management Team:

Gary Dyke, Commissioner, Corporate Enterprise Services



Jim Keech, President & CEO, Utilities Kingston

Not required

Desirée Kennedy, Chief Financial Officer & City Treasurer

Not required

Sheila Kidd, Commissioner, Transportation & Public Works

Not required

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Options/Discussion:

In 2010, the City entered into a 5 year lease with the Department of National Defense (DND) for the former Township of Kingston municipal offices at 1425 Midland Avenue. This lease was the result of direction given to staff from Council in 2009 as part of a series of recommendations related to staff accommodation. Council directed that the 1425 Midland Avenue property be added to the employment lands inventory, rezoned as required, and that it be sold or leased in accordance with the employment land policies and practices. Staff were subsequently approached by DND and in 2010 presented a report to Council to lease the premises to DND in compliance with the 2009 direction.

DND leases the entire premises, including the 21,791 square foot building, the parking lot and the surrounding lands. Improvements were made to the building at DND's cost to meet their specific requirements, as well as the installation of a security fence and gates. In 2013, DND added a modular building to the premises. The lease expired in October 2015 but has been continued in an overhold position pending an internal review by DND of their space accommodation requirements.

DND has a net lease in which it pays a base rent to the City plus all operating costs including utilities, insurance and maintenance. The City is responsible for capital improvements such as roofing and structural repairs. Property taxes will not be received for the property as the Assessment Act indicates that if a municipally owned building is occupied by a tenant that has its own tax exempt status, then the tax exemption continues. Examples include federal and provincial tenants, performing arts theatres, places of worship, etc... that occupy municipally-owned properties.

The initial rent in 2010 was established at prevailing market rents of \$10 per square foot. It is recommended that, in accordance with City policy, the new rent amount also be set at current market value. The City contracted Rogers & Trainor Commercial Realty to provide a market rent analysis for the renewal. DND is also obligated to undertake their own market study and provide a business case to obtain approval of the lease extension. The original lease was negotiated at a fixed base rent of \$217,910 in 2010 that has continued for 9 years without increase. The parties have agreed on a new market rent of \$13.72 per square foot, which equals \$298,972.52 annually for the next five years. This represents an increase that exceeds 35% and is at the high end of the range of the market rent value as determined by the City's and DND analyses. The lease also includes an additional 8% increase to \$14.85 per square foot in years 6-10 should DND exercise their option to renew for the additional 5 year term.

Existing Policy/By-Law:

The proposed lease was negotiated at fair market value in compliance with the City's Revenue Leasing and Licensing Policy.

Notice Provisions:

Not applicable

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Accessibility Considerations:

Not applicable

Financial Considerations:

As directed by Council in 2009, net rent revenues from this lease are allocated to future asset management costs of the building and to the Employment Lands Reserve.

Contacts:

Peter Huigenbos, Acting Commissioner, Community Services 613-546-4291 extension 3148

Other City of Kingston Staff Consulted:

Speros Kanellos, Director, Facilities Management & Construction Services

Exhibits Attached:

Not applicable