

To: COUNCIL

Meeting Date: 3/14/2023

Subject: Kin Canada Land Lease Agreement (1920 Rogers Drive)

Submitted By: Bryan Boodhoo, City Solicitor

Prepared By: Paul Kan, Manager of Realty Services

Report No.: 23-036-OCM

File No.: RS-02-23

Wards Affected: Ward 1

RECOMMENDATION(S):

THAT Report 23-036-OCM (Kin Canada Land Lease Agreement – 1920 Rogers Drive) be received;

AND THAT Council authorizes the terminating of the land lease agreement between the City and Kin Canada at 1920 Rogers Drive in Riverside Park;

AND THAT Council authorizes the City to take ownership of the building at 1920 Rogers Drive (the “Kin Canada Building”) as part of the land lease termination agreement;

AND THAT Council authorizes the City to enter into a lease agreement with Kin Canada for Kin Canada to occupy a portion of the Kin Canada Building at 1920 Rogers Drive in Riverside Park;

AND THAT a capital project be established for future capital works required to keep the building in a state of good repair;

AND THAT \$66,700 be added to the new capital project to fund capital works in 2023, to be funded from the Facility Capital Reserve Fund in the amount of \$30,000 and from the Capital Works Reserve Fund in the amount of \$36,700;

AND THAT \$56,000 be added to the 2023 operating budget to fund the maintenance and operations of the newly acquired asset for the remainder of 2023;

AND FURTHER THAT the Mayor and Clerk be authorized to execute all documentation required to implement and give effect to the adopted recommendations as set out in this report, subject to the satisfaction of the City Solicitor.

EXECUTIVE SUMMARY:

Purpose

On May 31, 2022, Council directed staff to negotiate agreements with Kin Canada to terminate Kin Canada's existing land lease agreement and for Kin Canada to lease back a portion of the existing building at the site. The agreements have been negotiated and signed by Kin Canada and are subject to Council approval. The purpose of this report is to seek authorization from Council to complete the agreements.

Key Findings

- Through a land lease agreement dated July 28th, 1978, Kin Canada constructed a building of approximately 15,000 sf at Riverside Park to occupy and operate as its national headquarters.
- In August 2022, Kin Canada held its Annual General Meeting where membership voted in favour of entering into agreements to terminate the land lease, surrender ownership of the building to the City, and lease back a portion of the building at the site.
- The key business terms for both agreements are outlined in the Analysis section of this report.
- Up to 10,000 square feet of space will be available for City purposes once the agreements are in effect.
- The City's Realty Services, Recreation & Culture Division, and the Corporate Space Utilization Committee are reviewing several opportunities and strategies to optimize use of the space.

Financial Implications

The existing land lease agreement is at nominal rent to Kin Canada and generates no rent revenue for the City. In the new proposed agreement with Kin Canada, Kin Canada will pay fair market rent to occupy and use a portion of the building. The remainder of the building will be freed up for other City opportunities including City use or leasing to third parties to generate additional rent revenue. The City, as the new owner of the building, will be responsible for the operations, maintenance, and capital repairs of the building. Kin Canada will contribute \$100,000 towards capital works.

How the currently unleased portion of the building will be utilized will determine whether there will be an operating budget surplus or deficit.

STRATEGIC ALIGNMENT:

- ☒ Strategic Action; or
- ☐ Core Service

Objective(s): INCLUSION - Deliver accessible, diverse and inclusive services, programs and infrastructure for all ages and abilities

Strategic Action: Lay the foundation for future community-building

Program: Not Applicable

Core Service: Not Applicable

The City taking ownership of the building and resetting the lease arrangement with Kin Canada, not only assists Kin Canada in developing a new business model that will enable it to support its clubs across Canada but will also create new opportunities for the City to deliver new services, programs, and infrastructure at Riverside Park.

BACKGROUND:

Kin Canada is a Canadian not-for-profit service organization founded in 1920 with approximately 400 service clubs across Canada under the Kinsmen, Kinettes, and Kin banners.

In July 1978, the City entered into a land lease agreement with Kin Canada whereby Kin Canada would construct and own a building on City lands at 1920 Rogers Road. Kin Canada would occupy, operate, and maintain the building at its own costs for its national headquarters.

In late 2021, Kin Canada reached out to the City to investigate whether the City would be agreeable to terminating the land lease, take ownership of the building, and potentially lease-back a portion of the building to Kin Canada.

A land lease termination agreement and a lease-back agreement have now been finalized and signed by Kin Canada subject to Council approval.

ANALYSIS:

Key Business Terms

Land Lease Termination Agreement

- Subject to Council approval.
- City takes ownership and responsibility for the building.
- Kin Canada to contribute \$100,000 as a termination fee for capital repair works as follows:
 - \$30,000 in March 2023
 - \$25,000 in March 2024
 - \$25,000 in March 2025
 - \$20,000 in March 2026

Lease-back Agreement

- Subject to Council approval.
- Kin Canada to lease 1,500 sf of office space at the building on the upper floor.
- The term of the lease is five years commencing on April 1st, 2023, and expiring on March 31st, 2028.
- Kin Canada will have the option to extend two additional terms of five years each however during the extended term either party may terminate the agreement with twelve months notice.
- Kin Canada will pay base rent of \$25,000 per year plus an additional \$7,500 per year for its share of operating and maintenance costs of the building.
- Kin Canada will be allowed to keep its signage and Canada mural on the exterior building walls.

Space Utilization Opportunities for the City

The lease-back agreement sets out that Kin Canada will occupy 1,500 square feet of space on the upper floor of the building at fair market rent. The middle and lower floors of approximately 5,000 square feet each will be available for City purposes. The bottom floor is currently occupied by the Portraits of Honour and discussions are underway to address their space requirements. The middle floor is currently vacant and available for

City purposes. Realty Services, the Recreation & Culture Division and the Corporate Space Utilization Committee are reviewing several opportunities including leasing space to third parties to generate rental revenue and offering space to various local user groups.

EXISTING POLICY / BY-LAW(S):

By-Law 74-95 sets out provisions, procedures, and guidelines with respect to authority and due diligence for property acquisitions.

FINANCIAL IMPACT:

Table A outlines the estimated annual operating budget impacts for four scenarios ranging from City use only to leasing out all space to generate revenue. How the building is used will determine whether there will be an operating budget surplus or deficit.

Table A - Operating Costs

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	City Use Only	One Floor Leased (Kin Canada)	Two Floors Leased	Three Floors Leased
Rent Revenue				
Base Rent	-	25,000	80,000	125,000
Additional Rent (Cost Recovery)	-	7,500	22,500	37,500
Total Rent Revenue	\$ -	\$ 32,500	\$ 102,500	\$ 162,500
Operating Expense Per Kin Canada				
Building Alarm	335	335	335	335
Building Cleaning	11,350	11,350	11,350	11,350
Elevator Service	6,350	6,350	6,350	6,350
Hydro	8,160	8,160	8,160	8,160
Gas	5,790	5,790	5,790	5,790
Water Treatment	1,275	1,275	1,275	1,275
Property Tax (estimate)	-	11,550	23,100	34,650
Contingency (Based on \$3 psf)	11,740	11,740	11,740	11,740
Capital Reserve Contribution	50,900	50,900	50,900	50,900
Total Operating Expense	\$ 95,900	\$ 107,450	\$ 119,000	\$ 130,550
Net Operating Impact	\$ (95,900)	\$ (74,950)	\$ (16,500)	\$ 31,950

Note: Table A outlines estimated operating budget impacts for four scenarios.

Capital Budget Impact

Table B outlines estimated capital works and associated costs based on a preliminary building site inspection undertaken by the City's Manager of Building Design and Construction. Note that the operating budget impacts outlined in Table A include annual capital reserve contributions of \$50,900 to help fund capital work requirements.

Table B - Capital Works Estimates

Capital Item	Condition	Year 1	Year3	Year 5
Fire Alarm System	Poor	52,000		
Designated Substance Report	Required	6,000		
Windows ³	Poor		88,000	
Main Doors	Fair			35,000
Washroom Fixtures	Fair			18,000
Washroom Ventilation System	Fair			15,000
Lower Section Roof	Fair			70,000
Skylights ⁴	Fair			110,000
Vinyl Tiles	Fair			25,000
Central Air Handling Unit	Fair			90,000
Total Five Year Capital Forecast¹		\$ 58,000	\$ 88,000	\$ 363,000
Total Five Year Capital Escalated²		\$ 66,700	\$ 111,600	\$ 488,300
Notes: 1) Forecasts are based on December 2021 values and are "D" class estimates. 2) Forecasts take into account inflation as estimated by City Finance. 3) Replacement windows will be energy efficient in accordance with LEED Gold certification standards. 4) City staff have determined that the removal of the skylights to mitigate risk of water leakage is possible however there may not be any cost savings due to the work required.				

Note: Table B outlines capital works estimates for the building.

PUBLIC VALUE:

Sustainability:

Working with Kin Canada to reset its lease obligations will help it achieve a sustainable business model and allow it to continue to provide services to local community members and organizations.

ADVISORY COMMITTEE INPUT:

Advisory Committees Consulted:

Future consultation with the Accessibility Advisory Committee will be undertaken with the goal of obtaining input from the committee in connection with accessibility requirements and recommendations for the building.

PUBLIC INPUT:

Posted publicly as part of the report process.

INTERNAL / EXTERNAL CONSULTATION:

No consultation with external stakeholders was undertaken.

CONCLUSION:

The termination of the existing land lease agreement with Kin Canada and the entering into a new lease agreement for it to occupy a portion of the building will assist Kin Canada in developing a new sustainable business model that will enable it to continue to offer support and services to the Cambridge community and communities across Canada. Benefits to the City include taking control and ownership of a building that is located on City lands and freeing up space that the City can use for its own operations or may potentially monetize by leasing out to third parties.

REPORT IMPACTS:

Agreement: **Yes**

By-law: **No**

Budget Amendment: **No**

Policy: **No**

APPROVALS:

This report has gone through the appropriate workflow and has been reviewed and or approved by the following as required:

Chief Financial Officer

City Solicitor

City Manager

ATTACHMENTS:

No attachments.