



Office Consolidation Strategy

Date: May 8, 2018
To: TTC Board
From: Chief Capital Officer

Reason for Confidential Information

This report is about a proposed or pending land acquisition or disposition of land for municipal or local board purposes.

Summary

This report is in response to the Board motion of November 23, 2015, requesting staff to report back with an accommodation strategy that includes an inventory of all existing TTC office locations and leases, a consolidation timeline, an overview of organizational office needs, and potential geographic locations for consolidated staff offices.

TTC staff office functions occupy approximately 400,000 square feet (SF) within 10 separate locations. The majority (80%) of the occupied office space is leased, as the current head office at 1900 Yonge Street (McBrien Building) is not large enough to accommodate all office functions. This report highlights the potential reduction in TTC's office portfolio through the implementation of the new City Office Modernization Standards as well as work carried out by City Real Estate Services (CRES) and CreateTO as part of the broader City's Office Rationalization Project.

This report describes the work completed by Cushman & Wakefield (CW) that evaluated TTC's existing office conditions and included a workplace effectiveness survey, focus group sessions, and executive interviews. As a result, CW's work provides a full picture of TTC's current workplace including:

- current office locations and configurations;
- employee head counts, roles and responsibilities;
- interdependencies amongst departments;
- travel patterns of employees for work purposes;
- employee commute times;
- occupancy scenarios; and
- cost of occupancy analysis.

This work will assist CreateTO in determining a new office location, that meets TTC's requirements, while fulfilling CreateTO's mandate for city building.

Recommendations

It is recommended that the Board:

1. Authorize staff to work with City and CreateTO staff to develop a detailed business case and implementation plan for the consolidation of TTC's staff offices, that meets TTC business needs, including consideration for satellite office space as required for business efficiency, and report back to the Board with the findings in Q1 2019.

Implementation Points

Staff will assist with CreateTO to develop a business case and implementation plan for the consolidation of TTC offices. The implementation plan will include the necessary steps and budgeting requirements for the successful consolidation of the TTC offices.

Financial Summary

The TTC pays annual lease payments as well as operating and maintenance costs for office occupancy that total approximately \$12.9 million of which \$5.5M is from the operating budget and \$7.4M from the capital budget. If consolidation into a City-owned facility occurs, then the leasing costs would ultimately be eliminated. Implementation of the City's new Office Modernization Program (OMP) standards will reduce the floor space by 15-34%, thereby reducing the capital and operating costs proportionately.

The McBrien Building requires significant improvements to bring it to a state of good repair and modern office standards. Accordingly, CW determined that the value of this asset can be optimized through redevelopment, given that there is limited remaining investment value in the existing building. CreateTO will identify the value of the McBrien Building property achievable through a sale/development process in the open market. The proceeds from the sale of this property could be used to offset the TTC's costs for a new head office. This has been considered in the options outlined below.

CreateTO has completed an independent pro forma of three options that include: stay and renovate; lease within a third party owned building; or ownership within a new City-owned facility. The 34 year net present value analysis of these options, listed in Table 1 below, represents the total cost of each option in 2017 dollars:

Table 1 - Net Present Value Options		
Consolidation Type	Description & Assumptions	Approx. 34 Year Net Present Value (2017 \$)
Stay and Renovate	<ul style="list-style-type: none"> • Retain 1900 Yonge Street, carry out deferred maintenance, and renovate to City OMP standard. • Terminate other leases at earliest possible date and consolidate employees into North York Centre in City OMP standard offices. • Requires swing space for employees during renovation. • Small future growth rate added to leased space at North York Centre. 	(\$344M)
Lease Existing Space - Third Party	<ul style="list-style-type: none"> • Consolidate employees from 1900 Yonge and all leased locations into North York Centre in City OMP standard offices. • Sell 1900 Yonge Street following consolidation. • Terminate other leases at earliest possible date. • Small future growth rate added to leased space. 	(\$340M)
New –City Owned Facility	<ul style="list-style-type: none"> • Consolidate employees from 1900 Yonge and all leased locations into a City owned facility at Downsview. • Continue to operate 1900 Yonge and leased locations for a 4 year development period. • Sell 1900 Yonge Street following consolidation. • Terminate other leases at earliest possible date. • Small future growth rate included within new building, leased out until required by TTC. 	(\$284M)

For evaluation purposes, North York Centre and Downsview locations were selected by CreateTO as representative locations capable of supporting the TTC's head office. As shown, a new purpose-built City-owned facility represents the lowest cost. CreateTO will continue to evaluate options for TTC office consolidation and projected financial impacts, in the context of the City-wide office strategy, and develop a recommended business case and implementation plan for Board consideration in 2019 with the assistance of Staff.

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

Equity/Accessibility Matters

The new offices will meet the requirements of the Accessibility for Ontarians with Disabilities Act (AODA).

Decision History

At its meeting of November 23, 2015, the Board directed Staff to accelerate plans for TTC's staff office consolidation and report back with an accommodation strategy that includes an inventory of all existing TTC office locations and leases, a consolidation timeline, an overview of organizational office needs, and potential sites for consolidated offices.

[https://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2015/December 16/Minutes/Minutes November 23%2C 2015.pdf](https://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2015/December%2016/Minutes/Minutes%20November%2023%2C%202015.pdf)

Issue Background

Current Office Configuration & Locations:

The TTC's staff office functions currently occupy approximately 400,000 SF within 10 separate locations spread across four geographic office nodes, as shown in Table 2 below. Presently the 1,900 employees within these offices equates to a workplace density (size of the occupied office space divided by the number of employees) of 211 SF per employee (includes common areas, meeting rooms, etc.). This analysis does not include the construction field offices or operating divisions located at Hillcrest. The office needs for the operating divisions are being examined as part of the Hillcrest Property Study and some of those office functions may also be relocated to the new head office. Hillcrest is the TTC's main operating location; therefore, the future TTC office must have proximity to this key location. As stated by CW, the geographic separation and dated design of the existing office space constrains communication, collaboration and productivity of the TTC.

Table 2 – Current Office Configuration			
Office Type	Office Node	Building	Size (SF) (rounded)
Leased	Yonge-Bloor	250 Bloor Street East	66,000
		365 Bloor Street East	3,600
	Davisville	1835 Yonge Street	30,000
		1910 Yonge Street	30,000
		1920 Yonge Street	26,000
	Yonge-Eglinton	2200 Yonge Street	6,000
	North York	5 Park Home Avenue	23,000
		5140 Yonge Street	50,000
		5160 Yonge Street	83,000
	Owned (1)	Davisville	1900 Yonge Street – McBrien Building
		Total	400,000
(1) Does not include Hillcrest or any other operating divisions			

Current Office Conditions:

The existing 10 office locations, as well as the offices within Hillcrest, were developed over a long period of time and as a result there is a lack of consistency and treatment. There has also been a lack of consistency in upkeep and finishes. Office space allocation is largely based on hierarchy rather than function and closed-in offices are generally located on the periphery of each building, which restricts natural light into interior spaces. In order to better understand the current office conditions and impacts on TTC employees, CW carried out a workplace effectiveness survey, focus group sessions, and executive interviews. The key findings of this work indicate that: TTC employees require better technology to be effective; employees are already highly mobile and require the tools and workspace to support this; and employees need workspace flexibility and the ability to make decisions on where and how to work based on the tasks at hand.

The outcome of CW's work shows that improvements to the TTC workplace will address many of these items. The current fragmented locations of TTC offices leads to loss of effectiveness given employee travel time between office locations. Additionally, CW noted that communication and collaboration between departments is hindered by the geographic separation. The full consolidation of the TTC's staff offices, including implementation of the City's OMP, should resolve these issues.

Comments

As noted above, the current TTC offices, including those located at Hillcrest, require modernization and an updated approach to allocation of space. Staff has been in consultation with CRES and CreateTO to understand how TTC's office portfolio and consolidation plans fit into the City's requirements.

Future Office Configuration:

The City's OMP, approved by City Council in 2015, is a key initiative for optimizing the City of Toronto's real estate portfolio. The City's OMP has been implemented in three locations as part of the City's pilot project. TTC will implement the OMP target range of 140-180 SF per person for any new office space. When applied to the TTC, this will equate to a reduction of 15-34% from the existing occupied area to approximately 266,000-342,000 SF. Space allocation within the OMP is based on function rather than rank and the offices are more flexible, allowing greater mobility for the employees. A number of the issues with TTC's current office configuration, as identified by CW, will be addressed once TTC consolidates the offices with the OMP. Furthermore, the implementation of the OMP within the office space at Hillcrest will maximize efficiencies of those offices and provide additional spaces to most effectively accommodate staff within TTC's long term assets.

McBrien Building:

The City is undertaking the Office Rationalization Project that is evaluating the City's office portfolio holdings which includes the TTC's McBrien Building. Each office location is evaluated against a set of criteria, which includes location analysis, accessibility, financial performance, opportunity cost of ownership, building condition, and capacity to accommodate staff. The analysis will result in recommendations for each of the City's office locations including the McBrien Building, which will be delivered to City Council in 2019.

Furthermore, the McBrien Building is located within the Davisville office node, which is a lower tier office market from that of Downtown, Mid-Town, or Yonge & Eglinton. The Davisville node does not attract the same type of office tenants as would higher tier locations.

Staff will assist City staff who will be evaluating scenarios whereby the TTC possibly vacates the McBrien Building and consolidates its staff offices into a location which: meets TTC needs; is recommended by the City; and maximizes the monetization potential of the McBrien Building. The potential of the McBrien Building and the relocation of staff will be fully evaluated in the business case to be recommended to the Board in 2019.

Potential Office Locations:

CW carried out an initial assessment of 42 potential general geographic locations across the city that would accommodate the size of office required by the TTC. These locations were then evaluated by CW, in consultation with staff, on weighted criteria, as included in Appendix 1. The objective of CW's evaluation was to provide the TTC with an idea of which geographic location would best meet TTC's requirements which would then inform the City as they complete their Office Rationalization Project. This analysis resulted in a shortlisting of 16 potential geographic locations across five office nodes within the City. The specific locations have been included in Confidential Attachment 1.

In addition to the evaluation by CW, staff has completed a secondary analysis of the work related travel patterns of employees. The findings of this assessment are that over one third of employees regularly travel to other TTC office locations for work. This travel pattern would be eliminated with the office consolidation. One third of employees also regularly travel to other TTC locations (Hillcrest, garages, warehouses, stations, etc.) for work. In addition, 87% of employees travel within all four quadrants of the city, meaning that a location with proximity to Line 1 and connectivity to other transit and major transportation corridors is the most suitable for TTC. Furthermore, 15% of employees travel to City Hall and/or Metro Hall regularly for work. This shows a need for a TTC office location with proximity to City Hall and Metro Hall. Alternatively, the provision of dedicated satellite office space for TTC employees within these facilities may be required, should the employee travel times to these facilities be increased due to the new location of the office.

The second part of the City's Office Rationalization Project is presently underway and is expected to provide recommendations for the future TTC office locations owned by the City. Staff will continue to assist CreateTO to determine the office location that best meets TTC's requirements, meets the needs of TTC employees, and is in fitting with the City's overall office portfolio. City staff anticipates reporting to City Council in Q2 2018 with a City-wide office rationalization and modernization plan. The proposed location and delivery strategy with a business case for TTC's office relocation will be reported to the Board in Q1 2019.

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Signature

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Attachments

Appendix 1 – Geographic Location Evaluation
Confidential Attachment 1

SP#03078-31-349

Appendix 1: Geographic Location Evaluation

Geographic Location Evaluation	
Scoring Criteria	Weighting (%)
Transit Convenience to Business Operations	25%
Access to TTC Transit/Rapid Transit	25%
Urban Environment	15%
Current Market Site Availability and Vitality	15%
Effective Use of City/TTC Assets	10%
Probable Commuting Time Impacts	10%