



TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health

DATE: 2013 October 3

STRATHROY OFFICE LEASE

Recommendation

It is recommended that the Finance & Facilities Committee make the recommendation to the Board of Health to direct staff to perform a market assessment review and to bring back options regarding the Strathroy office lease to the Committee prior to the end of 2013.

Key Points

- The Strathroy office lease will expire on June 30, 2014
- The current lease with CANBA Investments Ltd. has an option to renew for a further 5 year period at a cost of \$12 per square foot, compared with the current \$10.50 per square foot
- Further market assessment is required prior to exercising the renewal option.

Background

Early in 2003, the Health Unit moved its Strathroy office from the Strathroy Middlesex General Hospital to the current location at the Kenwick Mall. Until July 1, 2009, the Health Unit was a subtenant when the space was shared with the Government Access Information Network (GAIN) Centre operated under the auspices of Middlesex County. Since July 1, 2009 the Health Unit has been the sole occupant and lessee of the space. Shortly after signing the new 5-year lease, the Health Unit invested approximately \$50,000 in leasehold improvements to better utilize the increased office space. The leasehold improvements included:

- Installation of controlled access (required the modification of the reception area);
- New flooring in the hallways;
- Conversion of the large GAIN meeting room into three separate rooms, one for storing Public Health Nursing resources, another room for two Public Health Inspector workstations, and one for a smaller meeting room.

Current Lease Arrangement

Per [Appendix A](#), "Executive Summary of Current Lease Terms", the current lease with CANBA Investments Ltd. expires June 30, 2014. If exercised prior to end of 2013, the Health Unit has the option to renew for a further 5 year term at a cost of \$12 per square foot.

There are a number of factors to consider when making a renewal decision, including:

- 1) Viability of Kenwick Mall,
- 2) Condition of Office
- 3) Market Price of Rent

- 1) The Viability of Kenwick Mall - Over the past 5 years, the tenancy of the mall itself has changed. Two major tenants, Shoppers Drug Mart and the Dollarama Store, both have moved out of the Kenwick Mall. The main tenant, Food Basics, continues to operate from the mall. The vacancy rate in the mall has increased, and it appears that the mall may be up for sale.
- 2) The Condition of the Office
In 2009, the Health Unit invested resources in leasehold improvements to better utilize the office space; therefore, the interior of the office is in good condition. The current space is adequate for providing public health services to Strathroy and surrounding communities. Recently however, the office has experienced flooding from what appears to be a damaged roof drain and an aging roof. In addition, the older of the two Heat Ventilation and Air Conditioning (HVAC) units, has required increased costs to repair and maintain. The landlord continues to make basic repairs to the roof, and during the last major rainfall, the office remained relatively dry. In the near future, a further investment in a new HVAC unit may be necessary.
- 3) Market Price of Rent
At \$12 per square foot, the rented space in Strathroy would cost as much as or more than the leases the Health Unit holds in downtown London, depending on the valuation of parking. The \$1.50 per square foot increase would represent a 14.3% increase since the 2009 negotiated price of \$10.50 per square foot. Prior to exercising the renewal option, a market assessment of rents in the Strathroy area should be conducted.

Conclusion

The office lease for the Strathroy office is set to expire on June 30, 2014. The current lease has a renewal option that needs to be exercised six (6) months prior to the lease expiry. A number of factors should be explored prior to exercising this option including assessing the commercial property market in Strathroy. Therefore, it is recommended that the Finance & Facilities Committee make recommendation to the Board of Health to direct staff to perform such an assessment and for staff to take all necessary steps to have recommendations regarding the Strathroy office lease to the Finance & Facilities Committee prior to the end of 2013.

This report was prepared by Mr. John Millson, Director of Finance & Operations.

Christopher Mackie, MD, MHSc, CCFP, FRCPC
Medical Officer of Health