

15. Re: Health/Social Services Building
Rental of Premises

The question was raised during discussion of the construction of the proposed Health/Social Services Building of the comparison of leasing premises rather than constructing our own building.

Doing some research on this subject, the Municipal Manager discovered that several years ago we had a lease versus construction of a library building decision to make. Even though the case is not related, the principle is the same and it is worthwhile to review our experience with the library study.

The lease won out in the case of the library, primarily because of building location and the fact that the lease gave promise of earlier occupancy than could be expected if a building were to be constructed. There was no vacant land in the Willingdon-Kingsway area and expropriation and demolition of existing homes would have taken time. Furthermore, the lease location was considered the most attractive because it was located in a centre of activity which is considered desirable for library purposes.

The term of the lease is fifteen years, calculated as follows:

6,576' main floor area @ \$4.50	\$ 29,592.00
3,269' mezzanine floor area @ \$1.75	5,720.75
	<u>\$ 35,312.75</u>

Additionally, the Corporation is expected to pay for its share of annual realty taxes, lighting, heating, water, janitor service and the cost of maintaining the parking and common areas. An estimate of these additional costs is not available.

Also, the building required finishing which is estimated to cost \$136,369.

In other words, the cost to Burnaby over a fifteen year period to lease is:

Lease - \$35,312.75 - 15 years	\$ 529,691.25
Finishing - \$136,369 @ 8% - 15 years	238,977.00
	<u>\$ 768,668.25</u>

All other costs, excluding realty taxes, are common to both "leasehold" and "owned" operations and realty taxes may be ignored. Taxes paid out are collected back through the tax process. Furthermore, land used for an exempt purpose takes away tax revenue.

A building suitable for library purposes can be built for approximately \$24.00 per square foot, much less than it would cost to build a Municipal Hall because of the large open areas it contains as compared to the multitude of partitions in a Municipal Hall. 10,000 square feet of library building would therefore cost \$240,000. In 1971, when this project started, land costs were estimated at \$210,000. Therefore, estimates of costs are:

Land	\$ 210,000
Building	240,000
Fees	19,200
Landscaping	10,000
Parking	10,000
	<u>\$ 489,200</u>

The cost of amortizing \$489,200 over 15 years at 8% is \$857,291 - \$88,623 higher than the cost of leasing the Burnaby Centre quarters.

At the end of 15 years, in the case of the Kingsway lease, the Corporation would have to either renegotiate the lease or vacate the premises. It would possess no residual value.

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ITEM 15

MANAGER'S REPORT NO. 23

COUNCIL MEETING Mar. 26/73

15. Re: Health/Social Services Building
Rental of Premises (Cont'd)

If the Corporation had constructed a building, the building would belong to the Corporation debt free. Its possible life would be fifty years either as a library or converted to some other use.

From an economic standpoint, there seems to be no doubt that a better financial deal would have been made if a site had been acquired and a building constructed, although we cannot establish exact land costs, etc.

In summary, as a generalization, it is quite clear that even if we had to borrow funds, somewhere along the line the rental proposition breaks even with an owner-constructed proposition and after that point we are "ahead of the game". In the case of the Library, the break-even point appears to be 17 years. It has to be other than long term financial aspects that force a municipality to rent rather than construct. Renting can only be considered in the case of the Municipal Hall extension to be an interim situation. Clearly the main question to be resolved is not one of renting versus construction but one of being satisfied with the building being proposed and the budget forecast for it. There is absolutely no doubt that the space is needed.

This is for the information of Council.