

Fed Office Sale Hot Opportunity for Investors: Real Estate Exec

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Investors looking for a stable, reliable, long-term place to stick \$1.5 billion may not need to look much longer.

With federal Public Works Minister Michael Fortier considering the sale of nearly \$1.5 billion worth of federal government buildings across Canada, investors may not have long to wait, said national real estate consultant Stan Krawitz.

Forty buildings in total, including 25 in the National Capital Area, were reconfirmed last week by the federal government for a BMO Capital Markets and RBC Capital Markets Real Estate Group Inc. study.

The banks are tasked with looking into how the government manages its office building portfolio and to find “savings,” which raises the likelihood of a sale.

In Ottawa, buildings in line for a change of ownership include stalwarts like the Lester B. Pearson building on Sussex Drive, the Thomas D’Arcy McGee (the “Royal Bank”) building on Sparks Street, and the National Library and Public Archives on Wellington Street. Across the river in Gatineau, the slate includes all four phases of the Place du Portage complex and the National Printing Bureau on Sacre-Coeur Boulevard.

What does it mean for the commercial real estate market in Ottawa if all these buildings are sold to the private sector? Not much, said Mr. Krawitz, president of Real Facilities, a brokerage consultancy and commercial real estate firm.

“I wish I could give you a more dramatic quote, but I don’t think it will have any impact for office space itself,” Mr. Krawitz told the *OBJ*. “This is space that the federal



Stan Krawitz, president of Real Facilities. (photo supplied)

government currently uses, and will continue to use. The only thing that's changing is they are going from being the owner of the building, to being a tenant in the building.

"There is no effect on the vacancy or absorption markets that we see," he added.

The real winners if the properties are sold, he said, will likely be Canadian taxpayers, particularly those with pension plans and others who have cash to invest.

Real estate investment trusts and pension funds, Mr. Krawitz said, are the likely buyers of the buildings, should they go in a massive sell off.

"(The sales) could have an effect in the real estate capital market," he said about the \$1.5 billion. "That's money that's sitting and waiting for an investment opportunity. What better opportunity than buying a building occupied by the federal government? The federal government will pay its rent, so it's an excellent opportunity."

The timing of the sales, at least for the feds, could not have been better, Mr. Krawitz said. The commercial real estate market is hotter in Canada than it has been in years, while the costs of maintaining these buildings, bringing them up to standards (estimated to cost some \$4 billion over the next 15 or so years), and converting them to energy-efficient "green" buildings have gone up substantially.

"There is an initiative from the federal government that these buildings need to be more energy efficient, or green," he said. "They can quite clearly make it a condition of the sale that the buildings must become more energy efficient by the winning investor."

"This is the best time in economic history to do this, because the multiples are so high and the capitalization rates are so low," he added. "And it shifts capital improvement risk from the federal government to the private sector."

At least one local commercial real estate broker, however, said the best option, at least for taxpayers, is for the federal government to borrow the money needed to maintain the buildings. At least it will retain ownership that way, said Bruce Wolfgram of J.J. Barnicke.

"First of all, they (the government) own these buildings, and they've been in these buildings for decades. Chances are, their space requirements have generally stayed the same or gone up. Very rarely have they gone down. They're going to need space for decades," he said.

If borrowing is not possible, however, Mr. Wolfgram said it should negotiate a very lucrative deal for itself.

"(If) they have to go this route, at the very least . . . they'd want to negotiate long-term fixed-rate options to renew," he said. Otherwise, he asked, what will happen 25 years

from now? “They’re going to be out in the street, looking at market rates, which will be substantially higher.”

Another scenario the government could investigate would be a “hybrid” sale, Mr. Krawitz said. It could sell the properties to private investors, but retain ownership of the land, in many cases lucrative downtown real estate, for itself.

“The advantage is (the government) has more control,” said Mr. Krawitz. “They haven’t given up ownership of the land they do control, but have achieved their goal of raising money.”

It is expected that the sales will be in the form of “sale-leasebacks,” a way of ensuring that the federal government remains a tenant for at least 25 years. Mr. Krawitz urged Public Works to set a low rental rate, and have bidders purchase the buildings based on those rates.

“The government should not set those rental rates too high,” he advised. “They must secure their right to renew today when they have the negotiating power to do so, as opposed to 25 years from now having to negotiate with their landlord.”

FED BUILDINGS POTENTIALLY FOR SALE IN OTTAWA-GATINEAU

The Constitution Building, 305 Rideau St., Ottawa

Lorne Building, 90 Elgin St., Ottawa

West Memorial Building, 344 Wellington St., Ottawa

Tunney’s Pasture Complex, Tunney’s Pasture, Ottawa

Place du Portage Phase III , 11 Laurier St., Gatineau

Place du Portage Phase IV, 140 Promenade du Portage, Gatineau

Major-General George R. Pearkes Building, 101 Colonel By Dr., Ottawa

National Printing Bureau, 45 Sacré-Coeur Blvd., Gatineau

Place du Portage Phases I & II, 50 Victoria St., Gatineau

Skyline Tower I to VII , 1400 Merivale Rd., Ottawa

Lester B Pearson, 125 Sussex Dr., Ottawa

Nicholson Building RCMP HQ & Trailers, 1200 Vanier Parkway, Ottawa

Taxation Data Centre, 875 Heron Rd., Ottawa

Asticou Centre, 241 de la Cité-des-Jeunes Blvd., Gatineau

Thomas D'Arcy McGee Building, 90 Sparks St., Ottawa

National Library & Public Archives, 395 Wellington St., Ottawa

Plouffe Park (includes Dome), 1010 Somerset St. W., Ottawa

Sir William Logan Building, 580 Booth St., Ottawa

Wellington Building, 180 Wellington St., Ottawa

Sir John Carling Building, 930 Carling Ave., Ottawa

Sir Charles Tupper Building, 2720 Riverside Dr., Ottawa

111 Sussex Complex, 111 Sussex Dr., Ottawa

East Memorial Building, 284 Wellington St., Ottawa

Gatineau Preservation Centre, 625 du Carrefour Blvd., Gatineau