



LEASING - LAHM RIDGE TOWER

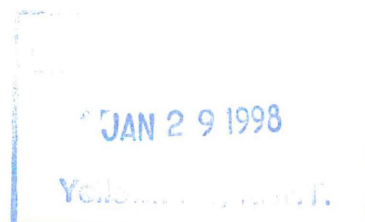
INTRODUCTION:

The Lahm Ridge Tower was leased by the Government of the Northwest Territories from Lahm Ridge Investments in 1985 to house the Departments of Education, Culture and Employment and Health. It is currently occupied by Education, Culture and Employment and Transportation. This 10-year lease had provision for two five year extensions by mutual agreement between the parties. These extensions would take effect on December 1, 1995 and expire on November 30, 2005. In late 1995, Public Works and Services (PW&S) began negotiations with the owner to exercise the extension options. However, the negotiations were terminated in November of that year as PW&S elected to retain the space on a month-to-month overhold due to the uncertainty associated with government staff reductions and potential departmental consolidations.

In January 1997, Public Works and Services began the preparation of the YK Office Space Plan Rationalization. As part of the plan, Public Works and Services considered a variety of initiatives including the sale of some properties, the extension of existing leases on terms that were favorable to government (wherever existing leases allowed for such extensions) and the leasing of new space to replace government owned buildings that were sold in the market place. In July 1997, the owner of the Lahm Ridge Tower approached the GNWT to exercise the extension options. The owner made it clear that, if the government were prepared to exercise the extension options, he would negotiate terms that provided significant cost benefits for the GNWT. It was understood by Public Works and Services that the owner was attempting to negotiate the sale of the building to a northern company. It was also understood that PW&S would accept an assignment of the extended lease following the sale of the building if it were possible to negotiate agreeable extension terms. Following discussions with the current occupants, the Deputies of Education, Culture and Employment and Transportation, negotiations began. Public Works and Services was already considering the potential extension of some existing leases as part of the draft Yellowknife Office Space Plan. Under that Plan, leases could only be extended if they satisfied a number of criteria:

1. Where extension options existed within the existing contracts;
2. Where the space currently occupied continues to efficiently satisfy government needs;
3. Where significant government investments have been made on tenant improvements; and
4. Where lease rates are favorable.

January 28, 1998



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After evaluating the business case for the proposed extension, the Deputy Minister of Public Works and Services agreed to the extension and the subsequent assignment of the extended lease to, 974102 NWT Limited following the sale of the property. Extending the existing lease meant the avoidance of \$1.4 million in tenant improvement costs that would be incurred if the lease were simply dropped and the occupants had to be accommodated in alternate space. In addition to the continuation of a base rental rate that was competitive within the Yellowknife market, the owner agreed to some major concessions which made the deal very attractive:

- to replace the existing air handling system;
- to do an additional \$100,000 of improvements within the building at no cost to the Government of the Northwest Territories;
- to complete improvements that would result in savings to the GNWT of over \$500,000 (utilities) over the remainder of the lease.

CHRONOLOGY OF EVENTS

- December 12, 1985 - lease signed between GNWT and Lahm Ridge Investments for the period December 12, 1985 to November 30, 1995 with 2 five-year extension options after expiry.
- November 13, 1995 - owner requested Public Works and Services to negotiate lease extensions under the provisions of the existing lease. Negotiations began immediately.
- November 20, 1995 - PW&S wrote to owner acknowledging the agreements reached to date.
- November 30, 1995 - Deputy Minister, PW&S terminated negotiations due to uncertainty around staff cut backs and potential departmental consolidations.
- December 1, 1995 - Lahm Ridge Tower lease continued on a month-to-month overhold.
- November 30, 1996 - owner wrote to PW&S requesting that Department complete some financial documents to assist the owner in renewing the mortgage on the building in uncertain economic times.
- January 1997 - PW&S begins the development of the YK Office Space Plan Rationalization in consultation with all government departments.

- July 29, 1997 - owner telephoned Public Works and Services to request that negotiations be renewed to extend the existing lease for a 10-year period.
- July 30, 1997 - owner met with PW&S to request the extension and begin negotiations. PW&S stated that it could not extend the leases beyond the year 2005 as outlined in the existing lease.
- August 1, 1997 - agreement reached on extension provisions and the subsequent assignment of the lease to a northern company following the sale of the building in November of 1997.
- August 1, 1997 - owner wrote to PW&S agreeing in general terms to the details of the lease extension.
- August 6, 1997 - letter from PW&S to owner outlining the specific details under which the government would be prepared to extend the lease. Owner signs off the letter signifying his acceptance of the terms.
- August 14, 1997 - Executive Council grants approval in principle to the Yellowknife Office Space Plan.
- 3rd week in September 1997 - lease renewal documents signed by Deputy Minister of Public Works and Services and forwarded to the owner's lawyer by courier.
- September 29, 1997 - owner signed renewal documents.
- October 1, 1997 - lease renewal documents hand delivered by lawyer's office together with a document assigning the lease to 974102 NWT Limited. PW&S Deputy Minister signed the document the same day.
- November 1, 1997 - 974102 NWT Limited assumes ownership of the building.
- November 1, 1997 - first electronic payment by PW&S to the new owner.
- January 8, 1998 - Executive Council grants approval for the detailed Yellowknife Office Space Plan.