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Tuesday, May 29, 2007

—
Chair

The Honourable Diane Marleau

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• (1530)

[English]

The Chair (Hon. Diane Marleau (Sudbury, Lib.)): I call the meeting to order.

I thank you for coming. I want to reassure you we're not mean, not really—not even on this stuff. We are really interested in trying to make up our minds; at least some of us are.

Why is this such a good deal for the government, and should the government do this and why? We want more of the global answers, if you can give them.

The way it works, normally, is we ask you to make a statement, and then we open it to questions and answers, and that usually works quite well.

Go ahead, please. Who's first?

Mr. Keith Jameson (Director, Real Estate, BMO Capital Markets): I am.

Thank you, Madam Chair, for the opportunity to address you and the committee.

My name is Keith Jameson, and I am a director of the real estate group with BMO Capital Markets.

In relation to the matter that is currently before this committee, my role at BMO Capital Markets includes the coordination of the initial preparation of the due diligence and underwriting for the marketing of this portfolio, as well as working on the transaction team, as it relates to the execution of the deal.

There are 16 professionals in our Canadian real estate team and another 20 in the U.S., providing a full range of services, including investment brokerage, equity capital markets, debt financing, and real estate advisory. We have experience handling many billions of dollars of commercial brokerage transactions for the complete spectrum of asset classes, including many large and complex sale leasebacks.

BMO Capital Markets also has a long and good track record of advising governments on their investment banking requirements. Specifically, our capital markets team has been involved in some of the most significant privatizations in Canada, including CN, Air Canada, and NavCan.

Our real estate team demonstrated its capabilities in the RFP in July and August 2006, and our full credentials are detailed in those submissions to PWGSC. We believe that we were selected for this

assignment because of our proven capabilities and track record and because of our understanding of PWGSC's issues and objectives.

With that, Madam Chair, subject to certain confidentiality provisions that may limit some of our responses, I will be happy to answer questions from you and your colleagues on the committee.

Thank you.

The Chair: Thank you.

Ms. Blair.

Ms. Carolyn Blair (Managing Director, Real Estate Group, RBC Capital Markets): Thank you, Madam Chair, for the opportunity to address you and the committee today.

I'd like to give you a little bit of background on our firm, which may serve to provide you with some insight into why PWGSC selected us to assist them in this advisory assignment and transaction.

RBC Capital Markets Real Estate Group is part of RBC Capital Markets, which in turn is part of RBC Financial Group. RBC Capital Markets Real Estate Group is the largest dedicated real estate corporate finance group in Canada, and we are the only Canadian investment dealer that also has a real estate investment banking group in the U.S. We have 40 real estate professionals in Toronto, Montreal, Calgary, New York, and Atlanta. Our firm, including its predecessor, has been in the real estate financing business for 75 years.

For public, private, corporate, and government users and investors in real estate, we specialize in raising equity and raising debt from public and private sources, and selling properties, including office, retail, industrial, hotels, multi-residential, seniors housing, and land, typically in sizes ranging from \$10 million to over \$1 billion per transaction. Providing advisory services, including mergers and acquisitions, valuations, and fairness opinions, is part of our work.

We are the largest competitor in our market. Our credentials include over \$17 billion of commercial brokerage transactions over the last five or so years. We've completed approximately \$4 billion of credit-leased sale-leasebacks, which may be of interest to you, given today's topic. We are the market leader in large commercial real estate brokerage transactions in Canada. We're the market leader in REITS in Canada. We have the top-ranked REIT analyst, and we are the leading MNA advisors for real-estate-related transactions in Canada. We also happen to be the leader in real estate unsecured debt financing.

Along with our partners in RBC Capital Markets we are also active in securitization, infrastructure finance, and triple P, or public-private partnerships. We have a team of over 60 professionals worldwide who specialize in infrastructure, triple P, and PFI. Over the last 10 years we've been the lead underwriter on over \$113 billion of infrastructure debt. We have been active in 53 of 192 issues that have come to market for infrastructure finance, and we have participated in 85% of the nearly \$30 billion of infrastructure transactions done in Canada.

My own background includes 24 years of real estate finance experience with this same firm and its predecessors. I was the first investment banker in Canada to raise public equity for REITs when they began in 1994. I'm a director of REALpac, formerly known as the Canadian Institute of Public and Private Real Estate Companies. By way of training for this, I'm a civil engineer and a Harvard MBA.

Our credentials, in much more detail, were made available to Public Works in our response to their RFP in the summer of 2006. We responded to the RFP in full and in writing in early July 2006, and as requested by them we made a presentation to an independent selection committee on August 11, 2006.

After what appeared to us to be a rigorous and very thorough review of our submission, including questions and answers during our presentation, we were advised that we were selected to negotiate a contract with Public Works. RBC Capital Markets was very pleased to have been selected as co-advisor with BMO by Public Works.

As has been previously indicated in our correspondence to the clerk of the standing committee, we are pleased to try to assist the committee today, but we are bound by specific confidentiality provisions in our contract with Public Works that we are not in a position to waive. In general, we are bound by our professional obligations to maintain confidentiality for the work we have done for all of our clients.

I will now be pleased to answer your questions, along with my colleague.

• (1535)

The Chair: Thank you.

Mr. Turner.

Hon. Garth Turner (Halton, Ind.): Thank you, Madam Chair.

Thank you to the witnesses for being here. I have a few questions, and if you can be fairly brief in your responses so we can get through a couple of them that would be great.

My first question was about when you were contacted, and you've answered that. Basically it was in the summer of 2006. So the initial contact came in July. Is that correct?

Ms. Carolyn Blair: I think the RFP was actually issued in June, perhaps even late in May. There was a period of time for preparing our responses, and they were due in early July.

Hon. Garth Turner: Was this proposed to you as being a pilot project on the part of the government, or as a *fait accompli* for these nine buildings we're talking about here? Because we have heard some talk from the minister that this is, as I said, a pilot project going forward. What's your understanding?

Ms. Carolyn Blair: The RFP talked about 35 buildings. During the process of the study, that was increased to 40 buildings. As part of our work, we identified nine buildings, based on a number of objectives, that would be suitable for certain types of transactions. I don't recall anybody ever using the word "pilot", no.

• (1540)

Hon. Garth Turner: Right, but the government was going to put 40 buildings on the table. You recommended nine—of the 40?

Ms. Carolyn Blair: We recommended nine of the 40 for this type of transaction. The remainder of them might be suitable for other transactions. They are still under consideration.

Hon. Garth Turner: Were all 40 contained in the RFP, or was that subject to an invitation?

Ms. Carolyn Blair: There were 35 in the RFP, and the government decided to add another five to the study. I'm not aware why.

Hon. Garth Turner: Do we know all of those buildings?

A voice: *Oui.*

Hon. Garth Turner: All 40?

A voice: *Nous les avons.*

Hon. Garth Turner: Can I confirm the fee that you were paid, please?

Ms. Carolyn Blair: The advisory fee has been disclosed as \$150,000 each, so \$300,000 in total.

Hon. Garth Turner: Are there any other fees on an ongoing basis?

Ms. Carolyn Blair: For the advisory assignment, our travel expenses were covered as well. The execution of the transaction is the subject of a separate contract.

Hon. Garth Turner: Right, but in terms of the first contract—maybe Mr. Jameson can chime in here—what was the totality of what the taxpayer spent on this, please?

Mr. Keith Jameson: As Carolyn has advised you, \$300,000—\$150,000 each—was our fixed fee, plus expenses, which I cannot recall, at cost. That is the fee for the contract that we had signed, which does not include the contract we are under for the nine properties.

Hon. Garth Turner: So let's talk about the second contract. Are the banks being compensated on a commission basis, from proceeds of the sale?

Mr. Keith Jameson: That's correct.

Hon. Garth Turner: Can you tell us what the commission structure is, please?

Mr. Keith Jameson: No, I cannot.

Hon. Garth Turner: Why?

Mr. Keith Jameson: We equally have elements of confidentiality that we frankly cannot disclose. That relates both to our client and to us. Both of our banks have to maintain an element of confidentiality in terms of the actual contract that we have executed.

Hon. Garth Turner: Is the commission structure a flat-rate structure, based on the percentage of the proceeds that are realized by the government?

Ms. Carolyn Blair: The terms of our contract are subject to confidentiality.

Hon. Garth Turner: Surely you can tell us if it's a flat percentage on the proceeds that are raised by the government. That hardly seems to be a state secret.

Ms. Carolyn Blair: We would say that they are industry-low fees. We have never attempted to sell more real estate for lower fees. The basis of them is the subject of the contract.

Hon. Garth Turner: Can you answer my question?

Ms. Carolyn Blair: That is my answer to your question.

Hon. Garth Turner: Could I remind you that we're your clients?

Ms. Carolyn Blair: I understand that.

Hon. Garth Turner: We are members of Parliament from whom the government is formed. So we are actually your clients here. So I think that you could at least tell us whether that's a flat rate based on the total amount. If you sell these buildings for \$1 billion, do you get 5%? Is that the way it works?

Ms. Carolyn Blair: No, we do not get 5%.

Hon. Garth Turner: Is that the way it works? Is it a flat rate on the proceeds? Or is it net proceeds, or gross proceeds?

We can't tell if this is a good deal for the Government of Canada unless we dig down into some details.

Mr. Keith Jameson: If I could interject, with all due respect and in fairness to what we are here for, there are elements of confidentiality, and it is very difficult for us to figure out where we cross that line between answering a very vague question and being fairly specific, which is what you're looking for. We're not trying to avoid answering questions that are fair to what we're trying to do.

If you are the client—and I'm not suggesting you are not—we respectfully suggest that your colleagues share that information, and

that it's not really for us to breach confidentiality that we have to maintain.

Hon. Garth Turner: We have lots of lawyers. Just tell us, and they can figure it out.

Mr. Keith Jameson: That's an option.

Hon. Garth Turner: So you're negotiating the sale of the buildings, and then you're negotiating a leaseback on behalf of the government.

Mr. Keith Jameson: We're not negotiating the leaseback. We're actually working with our client, the government, in structuring a leaseback that reflects what the client needs in terms of its business, its occupancy, and the deal structure. We're certainly not negotiating it. We're assisting and advising, along with lawyers and other advisers, how it should be formed, .

• (1545)

Hon. Garth Turner: What do we know about the leaseback arrangement so far? Do we know the length of it—25 years?

Mr. Keith Jameson: I can tell you that there will be structures where purchasers will have the ability to provide options for the government to review. The specific term is subject to bids and structure when we receive them.

Hon. Garth Turner: So has any particular lease term been established?

Mr. Keith Jameson: Certain lease terms have been established, but there is flexibility to those terms. Again, I'm not trying to avoid the answer to the question. The lease and the bid process have been structured in such a way to provide an element of flexibility for the government, being the vendor, to determine the best terms that are provided at the bid date. Those may include a longer lease, a shorter lease, a higher price, a lower price—

Hon. Garth Turner: Do we know how many people are moving into the buildings? Is there an existing number of bodies in there? Do we know how many people we're trying to accommodate?

Mr. Keith Jameson: My understanding is that the buildings will be full when the leases are executed.

Hon. Garth Turner: How many people is that?

The Chair: Thank you, Mr. Turner.

We're going to move on to Madame Bourgeois.

[*Translation*]

Ms. Diane Bourgeois (Terrebonne—Blainville, BQ): Thank you, Madam Chair.

Madam, Sir, welcome.

Do you not find it somewhat abnormal that we not be able to have some idea of the amount of the commission you will be paid? We know that on the regular market, real estate agents can be paid a certain percentage when they sell a house. Others, when they only help in closing the deal, are paid some other percentage. It is rather odd that you not be able to provide us with information on that, not even the percentage of the commission you will be paid.

[English]

Ms. Carolyn Blair: The terms of our contract are subject to a confidentiality agreement between ourselves, BMO, and our client. It is not usual in any way in our business for the fees for large commercial real estate transactions to be a matter of public record. We consider it to be a matter of not wanting our competition to know how we charge for our business.

We have undertaken in the contract—and I believe it's been mentioned in prior testimony—that the fee being charged is the lowest available. Both BMO and ourselves have undertaken that we have not sold more real estate for a lower fee, so the government is certainly getting a very good fee from the banks.

[Translation]

Ms. Diane Bourgeois: Very well.

Ms. Blair, if I understand correctly, you are providing advice with regard to sale/lease-back.

• (1550)

[English]

Ms. Carolyn Blair: Yes.

[Translation]

Ms. Diane Bourgeois: Why did you advise the government, which had nine of the 35 or 40 buildings, to opt for sale and lease-back? What basis did you rely upon?

[English]

Ms. Carolyn Blair: In the RFP and as part of our early advisory work the government made known to us what their objectives were in trying to assess the strategic alternatives for the 40 buildings they had identified for us. We worked to refine those throughout the analytical or advisory stage of our work, and we felt that the government's objectives were met by this type of transaction. But the government decided whether to pursue the transaction, not us.

[Translation]

Ms. Diane Bourgeois: If I understand correctly, it is not you who suggested to the government that it opt for sale and lease-back, because the government already had its own opinion in that regard. That was the mandate that you were given.

[English]

Ms. Carolyn Blair: That's not quite right. I said that the study we did in the advisory phase identified that a sale and leaseback type of transaction would be appropriate for nine out of the 40 buildings. We made that recommendation to the government. It was their decision whether to proceed or not with that recommendation. In our best professional view, we felt it was a suitable type of transaction to meet the objectives that were laid out in our report.

[Translation]

Ms. Diane Bourgeois: How can we be sure that the best interest of taxpayers was taken into account when it was in fact to your own benefit to suggest sale and lease-back? You would thus be getting a commission; it was worthwhile for you. How can we ensure that taxpayer interests are protected? What guarantees do we have?

[English]

Ms. Carolyn Blair: The client decides whether to proceed or not. Our job is to give our best professional advice on how to meet a client's objectives. I think we're successful in our business because we give good advice. We wouldn't be in business very long if all we gave was self-serving advice.

By the credentials laid out by Mr. Jameson and me earlier, you can see that we've been in this business for quite some time. We only do large-scale real estate, and in our best professional assessment that was an appropriate thing to pursue. Ultimately it will be the subject of a further fairness opinion by an independent party whether the bid that emerges from the process we are running now is satisfactory or not. Our job is to first give advice, and then to generate the best possible bid available from the government.

[Translation]

Ms. Diane Bourgeois: The Thomas D'Arcy McGee building, that houses one of your branches, RBC Financial Group, is to be sold. I know that my question is hard, but it must be put. Can you assure me that in a sale and lease-back situation, given that one of your group's branches is situated in that building, there will not be a sweet deal for the branch renting space in this building? How can you expect us to place our trust in what is going on?

[English]

Ms. Carolyn Blair: The Royal Bank lease at D'Arcy McGee is a third-party lease that Public Works entered into quite some time ago. They own the building now. There will be no change to the terms of that lease as part of this process. Any buyer of that building will take a look at the government's lease and the Royal Bank's lease as it is and make an assessment on that basis.

• (1555)

[Translation]

Ms. Diane Bourgeois: This nevertheless is one of the buildings involved in the lease-back. In the case of a lease-back transaction, if I understood correctly, the government sells a building and the purchaser then rents space to the government. As for you, you will remain in the building because you have a branch there. There is something here that I find incomprehensible.

[English]

Ms. Carolyn Blair: If you realized the government owns that building now, it would perhaps help you to understand. The Royal Bank is simply a tenant under an existing lease in that building. That lease has been in place for a number of years. It is in place now. As per the terms of that lease, it will remain in place for a number of years. There will be no change as a result of this transaction, so there's no opportunity for what you call a "sweet deal". The deal was negotiated quite some time ago, without us being involved.

[Translation]

The Chair: Thank you, Madam Bourgeois.

[English]

Before I go to Mr. Kramp, I want you to know that the beeping you hear is your BlackBerries receiving or sending messages. I just want you to know that. If you want to turn off your BlackBerries, it's up to you; otherwise, we'll keep having this distortion.

Mr. Kramp.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Madam Chair.

Welcome to our guests. I'd like to start by expressing that I recognize the parameters and restraints you face, and will face, regarding questions about confidentiality today. Notwithstanding that, I certainly hope you will explain as best as possible so we can alleviate any concerns we have.

One thought I have is regarding timing. There are people who say timing is everything. Timing is crucial. Timing is really the essence of a lot of business decisions. It has been stated by many, many people that today's market conditions are favourable, particularly for a government leaseback transaction.

What I'd like you to do, if possible, is to elaborate on the market conditions as you see them. Are we in a buyer's market? Are we in a seller's market? Is it a time of good value on the dollar? Please give me your thoughts on that.

Mr. Keith Jameson: I think we are in an extremely strong market. I would call it a balanced market right now. We've had significant strength in our market for a number of years. It's no longer considered an anomaly, where two or three years ago we were surprised at the strength of our market. Our vendors and purchasers have now come to the understanding that this is a reality. There are significant amounts of capital in the market—pension funds, private equity funds, and private people for that matter, who have a significant amount of money. Real estate has become the favourite investment again.

I think the answer is that we are in a strong but balanced market.

Mr. Daryl Kramp: Thank you very much.

Understanding that you're in an ongoing process for the leaseback of the nine buildings, without jeopardizing the process and the obvious confidentiality, I'd like some idea of what kind of expression of interest and activity you have on this file right now. Do you have people jumping up and down saying "Me too, me too", or is it a hard sell? What are your thoughts on that?

Mr. Keith Jameson: I think we have the level of interest we expected. We have a combination of public interest and private interest. Frankly, the intent of the client was to make sure this was something the entire market could participate in.

As you say, this is a difficult time for us to talk specifically about our process. We have strong interest, and I don't think I can elaborate more than that. Obviously we can't negotiate a transaction by releasing information of levels of interest on who's looking or not looking. I frankly don't think that's appropriate.

Mr. Daryl Kramp: Fine. Could I ask you to narrow the scope a bit? Do you have expression both nationally and internationally?

Mr. Keith Jameson: That would be correct.

Mr. Daryl Kramp: Fine. Thank you very kindly.

We've had a number of discussions at committee regarding landlord responsibilities with regard to buildings currently being leased by the government, and/or in some cases the lack of it, with responsibilities not being upheld, repairs and maintenance not being up to a particular standard.

With regard to this new lease that's being proposed now, could you elaborate on how it will ensure that the landlords will provide a high, high standard of property management? Is there going to be a basic standard? Which lease arrangement are we going to be following? Is it going to be consistent from year to year, or is this a bellwether lease?

• (1600)

Mr. Keith Jameson: First of all, I can say that in previous transcripts that I have seen, Minister Fortier has already indicated that the base of the lease was taken from a lease that was previously negotiated between Morguard and the CBC, which various parties considered to be a strong and balanced lease. We, our colleagues at RBC, third-party lawyers, and government lawyers have worked on that lease to develop a lease that effectively reflects what the government truly needs to create to protect itself and to achieve the objectives they've asked us to address.

All of the protection mechanisms, in our opinion, exist in the lease that is being proposed.

Mr. Daryl Kramp: Thank you.

Obviously this is not your only client. You have a number of clients, as you've expressed, and you have quite a track record and a history of accommodating many transactions of various sizes and shapes and distortions or arrangements.

I'm wondering if you could comment on other transactions that you have completed, once again without breaking confidentiality. Obviously people have made efforts to improve the management of their portfolios, be they in the private sector or the public sector. Have you been able to glean any of their experiences that you could bring to bear to effectively offer some constructive advice in this transaction?

Mr. Keith Jameson: I would say that there's something that is maybe a misconception. We keep talking about property management and poor property management. I think what you need to do is to take this to the higher level. If you look at major property owners, what they really use is what they call asset managers. Property managers, with all due respect to their skills and services, are maintaining properties; they're coordinating janitorial and snow removal and so on.

Asset managers are making key decisions on what should be spent and why. For example, if there is a leak in the roof, do they fix the roof or repair the roof? The asset manager makes the strategic decision that he can keep repairing it for five years at say \$100,000 a year, or he could fix it for \$500,000 and never see the problem again.

I think the reality is that we're seeing professional managers, asset managers who make valid decisions to maintain the integrity of their real estate. I guess if there's a lesson to be learned, the reality is that sometimes you have to pay money to save money.

Mr. Daryl Kramp: There are some people who obviously might wish to participate in this process, and for some variety of reasons they find themselves unaware that this transaction is even taking place or being promoted. Because it's very local to us and we're all aware, we just assume that everybody's aware.

In order to make sure that we have a competitive market and to open it up to as many people as we can and hopefully get the best buy for the Canadian taxpayer, what sorts of tools or marketing efforts have you enacted to be able to broaden the market appeal on this?

Ms. Carolyn Blair: There were ads placed in four Canadian newspapers at the beginning of this process on either three or four different occasions. We found the awareness is really quite high in our marketplace. As a result of the experience that we have built up over the years, we also would be aware of who many of the buyers might be, and they would have received an e-mail reminder of the transaction. If they were interested in it, then additional information was made available to them, subject to a confidentiality agreement.

La présidente: We'll go to Madam Nash.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Madam Chair.

Welcome to our witnesses this afternoon.

I have a few questions. This, we're told, is one of the largest real estate deals in decades. We've not seen the study that you've conducted to justify the sale. So I guess what I'm curious about is why it is these nine buildings. There are many other buildings that are available, and there were 40 that were proposed. Why was it these nine? Would you say these nine were the best of the 40 buildings, and if so, would you qualify what best means?

• (1605)

Ms. Carolyn Blair: Certainly the reasons for the selection of the nine buildings.... In fact our whole report covers how the government can meet its objectives on the 40 buildings they laid out. The market, as Keith mentioned earlier, is very strong right now, with a tremendous amount of capital available globally. Interest rates are quite low. The type of transaction for these nine buildings is very attractive to the market right now.

Without going fully into the contents of our report, we'll simply say that these nine met certain objectives of the government, and those were the nine that met those objectives. Others did not.

Ms. Peggy Nash: But would you say these buildings are in better shape than are some of the others? Are these high-quality buildings? Are there particular qualities that would make these desirable?

Ms. Carolyn Blair: Yes, I would say the dominant characteristic, rather than trying to define what "better" means, is that they are in a location and are of a design that is suitable for a number of tenants. Whether the government is there or somebody else could be there, the buildings are suitable for tenants other than the government.

Mr. Keith Jameson: I would add that I think one of the key characteristics is that they are what we would describe as "conventional office buildings". They are basically downtown, straightforward office buildings that have utility for government operations throughout, and they effectively are optimized in terms of their utility.

If, for example, there was a property that had one building and it was 50 acres, you would clearly not sell and lease back that when you had future development potential that you were leaving on the table. You would enhance the value of that land before you created your optimum value.

These assets have already gotten to that point, and they are simply conventional office buildings—no more.

Ms. Peggy Nash: Okay. But they're in reasonably good shape.

Ms. Carolyn Blair: Yes. I couldn't say, on average, whether they are better or worse than the rest of them.

I think Professor McKellar, in his testimony, described them as "commodity-type buildings", and that would probably be a fair characterization in addition to Keith's characterization of them as "conventional office buildings".

Ms. Peggy Nash: Because of the kind of confidentiality around this tender—the whole process, all of the conditions around it—we've really seen nothing that gives us an indication whether or not this is going to be good for Canadians. Is this very strict confidentiality typical in the real estate transactions you're involved in?

Ms. Carolyn Blair: The type of process that we are running now is very typical. The information is made available only to those who sign confidentiality agreements.

Ms. Peggy Nash: Is this a requirement of the banks, then, that this would be confidential?

Ms. Carolyn Blair: I would say anybody who is active in large commercial real estate, whether it is bank-owned or otherwise, would run a process just like this.

Ms. Peggy Nash: And is it typical that the party or parties advising a potential vendor to sell would then also be the same party or parties that conduct the sale, as you're doing with Public Works?

Ms. Carolyn Blair: It is very typical in our business, whether it's real estate, or mergers and acquisitions, or infrastructure finance, that the clients who are dealing with large, sophisticated projects want that level of advice. They want the people who are active in the deal flow to be giving them advice. They ultimately make the decision. The client makes the decision of whether to proceed or not, but you can't get that advice with respect to accounting firms and what not. People who are not in the deal flow are not able to give that type of advice as to whether it's a good idea or not.

• (1610)

Ms. Peggy Nash: And is it typical that the proposed sale and leaseback would be for 25 years? Is that a typical leaseback period?

Ms. Carolyn Blair: It depends on the objective of the client and what their expected uses are for the building.

Ms. Peggy Nash: Have you handled other 25-year leasebacks?

Ms. Carolyn Blair: Certainly. We've handled shorter and handled longer. It just depends on the client's needs.

Ms. Peggy Nash: And is the goal in this sale that all of the space will be leased by the vendor?

Ms. Carolyn Blair: With the exception of a very small number of third-party tenancies—one that is already in place has been mentioned—very dominantly the Government of Canada is the tenant.

Ms. Peggy Nash: So once the leasing agreement is in place, the new owner really doesn't have to worry about finding new tenants. They have pretty secure tenants that are going to be in these buildings.

Ms. Carolyn Blair: That is correct. That would be an important characteristic of the investment. And when we talk about maximizing value, that is an important part of doing that.

Ms. Peggy Nash: It would be very desirable for a new owner.

Ms. Carolyn Blair: Yes.

Ms. Peggy Nash: Will the building and the grounds be part of the sale?

Ms. Carolyn Blair: Yes.

Ms. Peggy Nash: So it would be the whole package.

The figure that's out there is \$1.5 billion. Is that what your understanding is?

Ms. Carolyn Blair: I really can't comment on value. It's not in the interest of the Canadian taxpayer to have us talking about value.

Ms. Peggy Nash: Do I have any time left, Mr. Chair?

The Chair: You have one minute.

Ms. Peggy Nash: Just in terms of normal leases—because you're telling us it's confidential what these particular arrangements are—is it normal in this situation that the operating costs and taxes and expenses involved would be borne by the tenants, the party leasing the building? You talked about a roof being fixed, or maybe a furnace or whatever. Are those costs normally borne by the tenants of the building?

Mr. Keith Jameson: The quick answer is yes. There is a long answer that does stem back to this whole issue, which is, as you probably know, the government has chosen over the years to not

carry a number of those costs. That's part of the reason as tenants they've seen certain buildings deteriorate, because there is no ability for landlords to recover—

Ms. Peggy Nash: So the government will still have those costs, except they'll be paying them as a tenant rather than an owner.

Mr. Keith Jameson: But at the same time, they'll be certain that the repairs and maintenance are being carried out, in which case the building will be maintained to the standards their employees require.

Ms. Peggy Nash: Again, for the owner of the building there is no risk on that, because the costs, the operating and maintenance costs, will all flow through, paid for by the tenants.

Mr. Keith Jameson: There will be certain risks. I can't be too specific, but the lease does transfer certain building risks to the landlord. That is part of the structure and strategy behind the transaction.

Ms. Peggy Nash: Thank you.

[Translation]

The Chair: Thank you.

Mr. Simard, you now have the floor.

[English]

Hon. Raymond Simard (Saint Boniface, Lib.): Thank you very much, Madam Chair.

I welcome the witnesses today.

My first question is with regard to the process. You spoke earlier of a \$300,000 advisory fee. I'm just wondering if you were hired to provide an analysis of whether or not we should actually sell the buildings or whether you were told we are selling the buildings so please tell us how to do this, advise us how to do it. Because those are two different things.

Ms. Carolyn Blair: It was more the former.

Hon. Raymond Simard: The former?

Ms. Carolyn Blair: It was the former. It wasn't even limited to whether sale and leaseback was a good idea. It was quite open on a variety of different alternatives that we reviewed in the advisory stage. Sale and leaseback was just one of many alternatives. We found it to be suitable for only a small number of the buildings under consideration.

Hon. Raymond Simard: And you made the recommendation that nine of them should be sold.

• (1615)

Ms. Carolyn Blair: Right.

Hon. Raymond Simard: Could you tell me if there's going to be a reserve bid? It seems to me there is a price under which we wouldn't be willing to sell. Does that normally happen in this kind of huge sale?

Ms. Carolyn Blair: We probably wouldn't comment specifically on this process. I would say that in general, the concept of reserve bids is maybe more common in an art auction than in this type of auction. The effective reserve bid probably comes more from the fairness opinion. Unless this is seen by an independent party to be fair to the taxpayers and our client, the government, then it just won't happen. Our job is to generate the highest bid out of the current market.

Hon. Raymond Simard: But there has to be, in somebody's mind, fair market value for these buildings. It seems to me that if you're going to put out a tender over there—I'm not going to repeat the amount that was quoted, but whatever amount we feel is fair—and it comes in half a billion dollars lower, we wouldn't sell.

So that fairness study is where we would get that response?

Ms. Carolyn Blair: Right. Once we know what the bid is, a separate study will be done to determine whether it is fair or not. And I think it would be reasonable to assume that if it's not a satisfactory price coming out of this process, then....

Hon. Raymond Simard: The government would pay for that fairness report as well, I would imagine. The client wouldn't.

Ms. Carolyn Blair: I would imagine, yes. We certainly will not be providing that fairness opinion.

Hon. Raymond Simard: How do you ensure that there is no conflict of interest with regard to the purchaser in terms of maybe...? Obviously this is a large-scale purchase. One of the purchasers may be a BMO or a Royal Bank client. How do you make sure there is no conflict of interest there in terms of favouring one over the other?

Ms. Carolyn Blair: As part of our contract we are prohibited from buying the buildings; from financing the buildings in any way, shape, or form; or from arranging the financing. It's not our balance sheet. It's not the use of our debt placement services. We're certainly capable of doing that, but are not doing that. All the bids will come in sealed and we'll determine which is the best one—or more—of them.

Hon. Raymond Simard: That's very important, by the way. We haven't heard that, so that's very important.

Are you going to give preference to a bidder that will bid on the whole thing, the nine buildings, or are you going to put the buildings out individually? How is that going to work in terms of process?

Ms. Carolyn Blair: The offering shows all nine, and they can bid on all or part.

Hon. Raymond Simard: So if you got a higher price for one individual building, you would go with that one purchaser?

Ms. Carolyn Blair: As long as it didn't prejudice another bid for all. We need to optimize that, and we won't know until the bids come in.

Hon. Raymond Simard: On the sale and leaseback, did I understand correctly, Madam Chair, that the government would have an opportunity at the end of buying back the building?

The Chair: It depends on the terms.

Hon. Raymond Simard: Is that something that is being considered as well? It sounds like it may be an interesting proposal.

Mr. Keith Jameson: I can answer that. Yes, and I think the minister also made that reference. There will be a mechanism for the government to buy back.

Hon. Raymond Simard: That's at \$1 or \$2? Is that what was quoted?

Mr. Keith Jameson: That I can't comment on.

Hon. Raymond Simard: We'll have to ask the minister that.

Have you done similar sales with other levels of government, or is this a first for both your companies?

Mr. Keith Jameson: I have not done a sale and leaseback for another level of government, no.

Hon. Raymond Simard: Or for the federal government?

Mr. Keith Jameson: No.

Ms. Carolyn Blair: We have done them where the government is a tenant but is not the vendor. We have also done them in other countries. My partners, for example in the U.K., have done sale and leasebacks for the U.K. government.

If you're asking me personally, it's been limited to instances when the government is a tenant but not the vendor.

Hon. Raymond Simard: Is it unusual to have two sales agents on this type of sale? How do you work that out? You guys are competing on a daily basis. Are you sharing the commission? This baffles me. It would seem that the government would go out, have one company respond, and deal with that one company.

Ms. Carolyn Blair: In the RFP there was a one-liner that made it clear that the government reserved the right to select more than two advisers. We had the opportunity to work together, or not work. You compete until the point where you're selected, and then you work well together. This happens in our industry all the time, in particular on securities transactions. You'll put five, six, seven, or eight dealers together on a single securities transaction in what they call a syndicate. Each of our firms is comfortable in these transactions, either working alone or in concert with another.

And yes, the fee is shared, to finish the answer.

Hon. Raymond Simard: I have one last question. Did you make recommendations as to how the other 35 buildings should be disposed of? Was that part of the consulting contract?

Mr. Keith Jameson: First of all, just to clarify, there isn't necessarily a recommendation to dispose, and there wasn't, even at the beginning. The recommendations will be to look at optimizing the real estate—the other 31 and change—in terms of how they best meet the objectives of what the government requires, whether that's in terms of their physical ability to serve your needs, increasing the accommodation space, or maximizing density on sites where there's additional land to build on. This is not a sales process, this is an advisory process for the entire operation of your utility of space.

● (1620)

Hon. Raymond Simard: Thank you.

The Chair: Thank you.

Mr. Albrecht.

Mr. Harold Albrecht (Kitchener—Conestoga, CPC): Thank you, Madam Chair.

I thank each of you for being here today.

I think a lot of the questions I had have already been addressed.

I want to follow up on a statement that Professor McKellar made when he was here with us. I'm sure I won't get it word for word, but it was something to the effect that no government body has ever done a good job of managing its buildings. Having served as a trustee on a school board for a number of years, I know how easy it was to put off until next year what should be done today or should have been done two years ago. I think there have been studies that have shown that this current government is in a position of millions of dollars' deficit in terms of some of the maintenance that should have been done previously.

Do you agree with the overall assessment that government bodies tend not to do a great job of managing their assets in terms of the overall maintenance?

Mr. Keith Jameson: First of all, in fairness to the government or other governments, I don't think it's only governments. I think owner-users tend to be poor managers of their real estate.

There are corporations that are excellent, but from my experience, I can tell you they also overspend. There is a need to spend money on real estate. There isn't necessarily a need to overspend on real estate.

They're not efficient. They don't really put the amount of time or effort into the real estate because it's such a small portion of their business operations.

It's not only government. Owners of real estate are not great.

Mr. Harold Albrecht: On that point, you indicated earlier that you haven't had previous experience in sale and leasebacks with other government bodies, municipal, provincial, or federal, but you have obviously had that with a number of other major corporations. Could you elaborate a little on that, without going into any privacy issues?

Mr. Keith Jameson: Well, both of us have had a significant amount of experience in traditional sale and leasebacks, where there are many reasons for structure in the sale and leaseback. I'm not sure specifically what information you want me to elaborate on.

Mr. Harold Albrecht: What kind of experience have they had? Is this five years ago or twenty years ago, and it's a continuing process, and they're happy with the process? Are some of them backing out of it now and going back into ownership, or is it a long-term trend?

Mr. Keith Jameson: This is a trend that's been continuing, and I don't see any change in the trend. Owners look at sale and leasebacks for a host of different reasons. They all have different purposes for structuring them. Our role is to understand those purposes.

The lease, which is a key to a sale and leaseback, is the most critical part of it in terms of protecting the owner, who becomes a tenant and a user of the building, to make sure he gets what he needs. At the same time, we obviously achieve the objective of optimizing the value.

Each one is different, and each one's needs are different. It depends on the business operations.

Ms. Carolyn Blair: I think I could concur with that. The reason for doing it could be to free up capital to put into the core business. A focus on the core business is a very large one, because with real estate being such a small part of most businesses, they don't properly focus on it. Some of them do it for flexibility, and they might lease some or own some. It would certainly be the case here.

As I mentioned, in the last five years or so we have done about \$4 billion of sale and leasebacks, and that wouldn't include.... All the major banks have now sold their headquarters. To my knowledge, there's no thought of a reversal on it. They're quite happy to invest the capital elsewhere. It is no longer something that is done out of distress in order to raise money for a company that has to sell its headquarters in order to raise money. They do it by choice.

We just finished one for a well-known Canadian corporation that's between \$1 billion and \$2 billion. They have decided to do that with their headquarters. There are many names.

Mr. Harold Albrecht: The long and short of it is it's good business practice and will benefit the Canadian taxpayer in the long term.

Ms. Carolyn Blair: I believe so. It was certainly the conclusion in our report.

● (1625)

Mr. Harold Albrecht: Could you give me an idea as to what the actual goals in terms of timelines are? Maybe you've already stated them and I didn't hear it. What are the deadlines? What are your projections in terms of having this transaction completed?

Ms. Carolyn Blair: I don't think we have mentioned the exact process. We are in the market now. Information is being made available. In a matter of weeks, the bidders will be required to show an indication of interest, and we then assess it from there.

I think talking about the specific time period would prejudice our position vis-à-vis the bidders.

Mr. Harold Albrecht: But there's a deadline for submissions.

Ms. Carolyn Blair: Correct.

Mr. Harold Albrecht: Okay. Is it within the next few weeks?

Ms. Carolyn Blair: I'll broadly say weeks.

Mr. Harold Albrecht: Thank you.

The Chair: We'll go to Mr. Turner.

Hon. Garth Turner: Thank you.

The work of the committee right now is to try to establish whether what we're examining is a good deal for the taxpayers or whether it's the result of some ideological hormonal balance on the part of those guys.

You did a report on the sale and leaseback agreement for the government that recommended that the action being taken now should be taken. What can you reveal to us of that report? In other words, how can you give us some assurance that this is in the best interests of the taxpayers of the country?

Ms. Carolyn Blair: There were a broad number of objectives that the government laid out, and we explored other objectives we thought were appropriate to discuss with them.

As I said before, the report took a look at many different alternatives and came to the conclusion that at least for these nine buildings, the sale and leaseback was the best alternative to meet the government's objectives.

Hon. Garth Turner: Of what—of what options?

Ms. Carolyn Blair: The options that we considered in the body of the report. I think the specifics of that report are confidential at this point.

Hon. Garth Turner: Can you talk about the options?

Ms. Carolyn Blair: Yes. I can tell you that companies or governments that consider their strategic alternatives tend to look at sale and leasebacks. They look at REITs. They look at pre-sales. They look at joint ventures. There is quite a broad range of different types of alternatives. They consider the status quo. There are a large number of alternatives that are considered.

Hon. Garth Turner: So having looked at those alternatives, it was your recommendation that selling the buildings and leasing them back was a better deal financially for the Government of Canada than any of the other options.

Ms. Carolyn Blair: Correct, for those nine.

Hon. Garth Turner: For those nine. So was the report's conclusion, the bank's conclusion, that it was better for the taxpayers of the country?

Ms. Carolyn Blair: Correct.

Hon. Garth Turner: All right. But we can't see a copy of the report.

Ms. Carolyn Blair: Our client has it. It's in the hands of our client.

Hon. Garth Turner: I guess we will ask the minister on Thursday to give us the report.

I have another question for you, which I posed the other day when we had officials here from Public Works. The Government of Canada is spending around \$200 million a year, which it has budgeted for repairs on buildings. Yet we, as a committee, have been told that one of the overriding factors that is prompting the government to consider the sale of buildings is an accumulated deficit for repairs of some \$3.5 billion. If the Government of Canada

came to you and said "We'll give you \$200 million a year as financing and will you lend us a couple of billion dollars to get this going", is that an outrageous request?

Mr. Keith Jameson: I don't understand the question. You want to raise the funds? Do you mean you want to finance it yourself?

Hon. Garth Turner: Sure. If we're spending \$200 million a year on repairs anyway, why not rent capital in order to use the capital to complete all repairs and improve the value of the real estate portfolio?

Mr. Keith Jameson: That is a fair question, and that absolutely was considered. It comes back to the theme of ownership and how owners determine how they invest money in their buildings.

I will give you a very fundamental example. A builder builds a home. The homeowner decides to spend all sorts of money changing it, holding back, waiting to decide if he wants to do something different, and suddenly it's 30% more expensive than if it had been left to the builder alone to build it. The fact of the matter is that users are not efficient in how they make decisions and what they spend their money on.

I suppose if you started to engage professional asset managers who truly could make decisions on where the money was spent most effectively, it's possible you could restructure the whole organization. But that opportunity has been in place for many years, and clearly that hasn't been done.

The government has indicated to us that there is not an ability to make those decisions effectively. With the bureaucracy required to make those decisions slowing things down and therefore being more costly, the private sector is deemed to be more efficient at doing that. Your \$200 million could maybe be done by the private sector for \$100 million. That is part of the objective of selling and leasing back and having private sector management.

● (1630)

Hon. Garth Turner: This was an option that was looked at in the report?

Ms. Carolyn Blair: Maybe we could say it this way. We definitely considered whether the government's cost of capital, as defined by the government's cost of debt, is an appropriate benchmark to look at as a source of financing. Whether it's this client or other ones, I think it's very important to consider what your real cost of capital is. I think when you take a look at a situation like this, you have an apparent cost, being your cost of debt, which is lower than anybody else's. However, the gap between where the government's cost of capital is and everybody else's certainly has compressed, so there's not that much difference any more.

But let's grant that you have the lowest cost. If you lop on top of that the real estate risk that you are assuming by continuing to own—and by that I mean residual risk—as you continue to own these and don't maintain them well, their value does not appreciate the same way as a private sector building does. As your deferred capital that we've all heard about builds up, your value is going down. So when you go to sell that building way down the road, maybe it's occupied, maybe it's not. Let's say you're selling an empty, poorly maintained building. Its value is quite low. So that's residual risk.

You have the preventative maintenance deficiencies that we've talked about already. You have the forgone market opportunities, which might be realizing additional density, putting different tenants in on the ground floor, or using excess space. This is what Keith was talking about earlier: the asset management versus just plain property management.

If you combine those risks with forgone opportunities, with the massive cost of delivering the service versus the private sector, in terms of the infrastructure that the government needs to process and make decisions, the real cost to capital of owning these buildings, I would respectfully say, is probably a lot higher than people in this room may think it is, if you think it's only the cost of debt.

Hon. Garth Turner: It would be nice to see that.

[Translation]

The Chair: Thank you.

Mr. Nadeau, you have the floor.

Mr. Richard Nadeau (Gatineau, BQ): Thank you, Madam Chair.

Madam, Sir, thank you for coming.

An article in the Globe and Mail of March 19 said that the nine buildings had a total market value of 1.4 billion dollars and that one had been overvalued by 120 million dollars. First of all, how is such a thing possible? Next, would this not result in overrating the rents to be paid?

[English]

Mr. Keith Jameson: I'll try. I'm not 100% sure that I'm clear, although I would suggest—

[Translation]

Mr. Richard Nadeau: I will repeat quickly because I only have five minutes: on March 19, the Globe and Mail... Did you get that? The nine buildings had been appraised at 1.4 billion dollars. One of the nine had been overvalued by 120 million dollars.

How could such a thing happen? Furthermore, when something like this happens, how does this impact the new tenant, who is the previous owner?

• (1635)

[English]

Mr. Keith Jameson: First of all, we appear to have lost \$100 million from the last member's estimate of value. But the fact is that the values that were in the paper have very little, if any, relevance to real market. As an example, there are certain assets, I know, that the government acquired that were empty. They would have had certain values at that point in time, and at that point in time in the market, there's no question that the value of the buildings with the government as an occupant paying rent was significantly greater and therefore different from the "market value" that an appraiser might apply under different circumstances if you were not an occupant and tenant under the lease term.

So I think we're dealing with the analogy of the apples and oranges in terms of trying to compare value of one versus the other, if I understood your question.

[Translation]

Mr. Richard Nadeau: Thank you, that is fine. I have many questions but am allowed only five minutes. I do not want to cut you off, but I would like to move along.

Investors are not necessarily good managers. We agree so far. I would like to know if the Government of Canada would not be better off by retaining ownership of its buildings and hiring somebody to manage them if it is itself such a bad manager.

[English]

Mr. Keith Jameson: This comes back to my first point of the split between the services of property management and asset management. Hiring a property manager is easy; you already have one. Making the important decisions on where the money gets spent and why is the real key issue, and that's where asset management, the owner of the building, makes those key decisions, and I think that's where there is a breakdown in communication in the ownership and management of the government buildings. The people who are ultimately making the decisions on what to spend and how much to spend, and how efficient a quote is to repair something, that's where the challenge is. So retaining ownership and simply hiring property management doesn't achieve the real objective of having good solid decisions on how the building gets truly operated and managed.

[Translation]

Mr. Richard Nadeau: Okay.

Are you looking for Canadian or foreign owners? Does it matter?

[English]

Ms. Carolyn Blair: There are provisions in the process to deal with Canadian content. I don't think it's appropriate that we go into exactly what it says in the confidential—

[Translation]

Mr. Richard Nadeau: Could it happen that ownership be indirectly in foreign hands?

[English]

Ms. Carolyn Blair: I think you could assume that the majority of ownership would be Canadian.

[Translation]

Mr. Richard Nadeau: Okay, but there is no guarantee.

Have you already received any offers for the nine buildings or are you still at the early stages of the process, after almost a year?

[English]

Ms. Carolyn Blair: We are in the middle of the public part of the process where we are seeking bids. It has been a long road, a carefully considered road, to get this far, but we do not have bids in hand, nor would we expect to at this point in time.

[Translation]

The Chair: Thank you.

[English]

Mr. Moore.

Mr. James Moore (Port Moody—Westwood—Port Coquitlam, CPC): Thank you for being here to give us some further insight into this issue. I appreciate it very much.

You've looked at a number of the options that were before the federal government dealing with the infrastructure debt with regard to federal government buildings. About two years ago, when Scott Brison was the Minister of Public Works, he put together an RFP, and actually put it out there, to sell 360 federal buildings. The way the RFP was written—it was a few hundred pages long—it was easily conceivable that every single one of those federal buildings could have been purchased in a trust, a large trust. So he put every single federal building up. We've obviously scaled it down with the rather modest proposal of nine very specifically chosen buildings, because we thought the approach of the Liberals was reckless.

What would the liability be to taxpayers of the Liberal plan of 360 federal buildings being all put into an RFP? That was one of the options that the government could have pursued. The Liberals pursued it; we chose not to. Tell us about that approach, and why that would be dodgy for taxpayers.

● (1640)

Ms. Carolyn Blair: I'm not sure that I can speculate on that. All I can tell you is that we reviewed that RFP and chose not to respond to it.

Mr. James Moore: Dismissed out of hand. Thank you.

As to the buildings that weren't chosen, the remaining 31 buildings, obviously without going into details of the buildings, tell us about some of the common denominators of those buildings and why they would not have been ripe for the picking like the nine that were chosen.

Mr. Keith Jameson: I somewhat referred to that earlier. Some of those buildings are what we would refer to as “value-adds”, where there is still work to be done to create value. They may be development lands, and the highest invest use may not be the existing office building that's sitting on them.

They may be surplus buildings to the government's needs and further review and work is required to determine whether they can be reutilized as office buildings, renovated for some other use, or demolished and developed as something else.

So to the point that there is still considerable study to determine what other opportunities exist, those assets typically would have greater values down the road in some other way and therefore would not be conducive to a sale and leaseback, which would effectively leave money on the table if sold in this fashion.

Mr. James Moore: Back to my first question, with regard to RFPs for nine individual buildings, nine specific RFPs dealing with these nine buildings, and the different geographic realities of them, we're going ahead and signing each of them on an individual basis with the sale and leaseback option. Is that a better approach than grouping them all together, as the Liberals may have done?

Mr. Keith Jameson: The nine in particular that are being sold, as Carolyn has said, are being marketed as a package of nine, or as an individual alternative, or potentially could be broken up regionally. The value will absolutely be optimized through this process. The value of buildings that have not reached maturity would not be optimized under this process. So the other 31 buildings, in this case, or in the other 341 buildings in the other case, would absolutely not be ready to be sold in the process we're going through for the sale and leaseback.

The Chair: I will take the prerogative of the chair, and I'm going to ask you a question before I turn to my colleagues. We all know that the Government of Canada has some leased buildings that are not particularly well run, with leaking roofs and so on. You are advising the government on the lease they're going to sign. Someone mentioned—and I don't know if it was one of you—that the government would continue to pay taxes. Would they continue to pay the repairs themselves?

I'm often curious as to how we go into a lease and end up with our employees in a building that's not well maintained because suddenly the owners have fallen down on the job. How do you address that? That's always a challenge, I know.

Mr. Keith Jameson: It was mentioned a little while before that the old-style government lease, which in fairness was designed, I presume, as a cost-saving measure because it eliminated the right or the need for the government as a tenant to pay for certain expenses, i. e. for capital items and so on, basically created a disincentive for the building owner to spend on capital items. As a result of that, you end up in the situation you're in as a tenant. While it might have seemed logical to ask why you should spend money on something if you don't own the building and therefore it's the owner's building, obviously the answer is clear: nobody wins, essentially.

It's no different from maintaining anything, whether it's your car or your house, or anything. When something starts to break, you have to start repairing it, and if you leave it for too long, the repair cost is a replacement cost, and it's huge. Our lease....

I'm sorry. If you want to....

● (1645)

The Chair: Are we back to where we were, though—where we can't afford to repair our buildings?

Mr. Keith Jameson: The lease that we have structured protects you, because it does allow for recovery of the types of capital repair that are required, that would be required, and that would be there for the mutual benefit of both parties. There's obviously an incentive on the landlord's part to maintain the building to a quality. Yes, it's costing a little bit more, but it's a lot less than the impact of having not done the work, and having staff in a building that frankly is not functional.

The Chair: I'm not sure it's all clear to me, but I will go on to the next questioner.

Monsieur Simard.

Hon. Raymond Simard: Thanks, Madam Chair.

I have two very brief questions. The agreement that you have with your client right now—is it limited to the nine buildings? You're not doing any work on the other 30 or...?

Ms. Carolyn Blair: The advisory assignment covered 40. The transaction is only for nine, so the second contract is only for nine.

Hon. Raymond Simard: But are you finished with the advisory part of the contract?

Ms. Carolyn Blair: No.

Hon. Raymond Simard: You're still working with that?

Ms. Carolyn Blair: Yes.

Hon. Raymond Simard: Are you still advising the government on the other 35 buildings?

Ms. Carolyn Blair: Yes. As a practical matter, our time is totally focused now on the nine, so while the other engagement letter is still active practically, we're spending our time on the nine now.

Hon. Raymond Simard: And you will be focusing on the other 35 buildings later on?

Ms. Carolyn Blair: Later, yes.

Hon. Raymond Simard: The federal government seems to be actually going in reverse on this. They seem to be reducing their lease periods. That's what I've seen in Manitoba anyway, where they used to sign 15-year leases, and they are now signing five-year maximums, and even five-and-five type of thing. Is it unusual right now to sign a 25-year lease? Maybe you can just also advise me as to what they do, what the market is going to bear in 10, 15, or 20 years. It is very difficult to be able to see that far down the road.

Ms. Carolyn Blair: I would say there is a direct relationship between value and length of the lease. If one of your objectives—not the sole objective—is to maximize value, generally speaking the longer the lease term the better the value.

We're talking about nine buildings out of 360, or whatever the number is. You can take a broad portfolio approach and say, "I have these nine buildings with 25-year leases. I have a 60-40 split between owned and leased in the portfolio generally. If I look at my maturities between now and 40 years from now, I'll probably find some evenness." So working with nine buildings won't materially skew the lease maturity schedule, and there is flexibility in the process to alter the lease term. We won't know the outcome of that until we've finished this process.

Hon. Raymond Simard: So there are normally periodic increases after five years, that kind of thing.

Ms. Carolyn Blair: That is the usual lease term in commercial buildings.

Hon. Raymond Simard: Thank you.

Mr. Keith Jameson: If I may add about the lease, the fact that they are conventional office buildings is also a relevant point, because they can be utilized by all of your other resources, other user groups, when and as needed. They're not so unique that in 15 or 20 years you won't have other user groups looking to move in.

Hon. Raymond Simard: That brings me to something else. Does the government ensure to new clients that the building will be 100% full? I know you alluded to that, but some of their buildings may not be full right now. Is the government responsible for ensuring that they are fully leased?

Ms. Carolyn Blair: They're responsible for paying rent, not ensuring occupancy.

Hon. Raymond Simard: It's the same thing, right? Basically you are ensuring that they will get the full leased value of the building.

Ms. Carolyn Blair: Correct. There's flexibility built in for the government. They can change the department that occupies a certain building if that is their wish.

Hon. Raymond Simard: But they're paying for every square foot in that building.

Ms. Carolyn Blair: Yes, they are, with the exception of the small number of third-party leases we talked about before.

Hon. Raymond Simard: Thank you.

The Chair: Mr. Warkentin.

Mr. Chris Warkentin (Peace River, CPC): Thank you very much.

I think we're probably getting down to the end of our questions—at least I am.

The chair asked about transferring the risk from the government to the new owner. I wonder if you can go a little further in that whole discussion about the federal government's mitigation of risk by transferring the ownership to the new owner. I think the chair was still looking for some clarification on that point.

• (1650)

Ms. Carolyn Blair: Sure. Without getting into the specifics of the lease, you can imagine that there will be significant provision for the new owner to pay for capital repairs. I think the government's exposure over a great number of years to those known repairs now is negligible.

Mr. Chris Warkentin: That may clear it up. You're not saying anything more because of confidentiality, but there would be a mitigation of risk on the federal government's part.

Ms. Carolyn Blair: Correct, and there would certainly be full mitigation of the residual risk we talked about before. It's a significant part of the equation when you're talking about the economics of owning buildings. If the government chooses to leave after 25 years, the new owner will be sitting there with an empty building and there will be no cost to the government for doing that.

Mr. Chris Warkentin: I appreciate that. Thank you for the clarification on that point.

Mr. Nadeau asked a question about ownership. I know that because of confidentiality, certain portions of that can't be spoken about. But I was left with the impression that there would be some type of incentive or provision to ensure there was Canadian content in the ownership. Mr. Nadeau didn't quite get to that. I think his final comment was that there is no guarantee of Canadian ownership.

Certainly you can say if you're not able to speak about that.

Ms. Carolyn Blair: It is specifically addressed as part of the process. It's fair to say that is an expected outcome.

Mr. Chris Warkentin: So there looks to be a guarantee that there'll be Canadian ownership.

Mr. Keith Jameson: In order to qualify, there is a requirement to have a certain Canadian content in the purchase.

Mr. Chris Warkentin: I really appreciate getting a clarification on these points. Thank you very much for coming in today.

[Translation]

The Chair: Thank you.

Madam Bourgeois, it is your turn.

Ms. Diane Bourgeois: I will touch on several points. I want to follow up because although you have given us lots of information, I need much more. The government owns nine buildings that it wants to sell in order to lease them back later. Is that correct? Could you answer by yes or no?

[English]

Mr. Keith Jameson: Yes.

[Translation]

Ms. Diane Bourgeois: It will lease them for an agreed term of 20 years, I believe. Did you mention 20 years?

[English]

Mr. Keith Jameson: I'm not sure I said that.

[Translation]

Ms. Diane Bourgeois: I do not know who mentioned 20 years.

[English]

Ms. Carolyn Blair: I think we commented that there is flexibility, as part of the process, to set the lease term. There has been some discussion about 25 years, but there is some flexibility on how long the lease could be.

[Translation]

Ms. Diane Bourgeois: Normally, this type of lease is for a term of 15 to 25 years.

[English]

Ms. Carolyn Blair: I don't think it would be fair to say that there is a normal. It depends on the objectives of the client and what they are trying to achieve.

I think I commented that we have done sale leasebacks that are both longer and shorter than 25 years.

[Translation]

Ms. Diane Bourgeois: A sale and lease-back is a form of financing. It is a way for the government to raise capital, to get cash that it will then use for something else. Is this what a sale and lease-back is? Our government needs money. It is going to sell nine buildings because it needs cash. Am I right?

[English]

Ms. Carolyn Blair: I don't think it would be fair to say that the government is selling buildings because it needs money. It has many ways of raising money.

[Translation]

Ms. Diane Bourgeois: It is to get cash. Is that what a sale and lease-back is, Madam?

[English]

Ms. Carolyn Blair: The objectives the government was trying to achieve, if I might just go back to their RFP, which was a public document, were meeting their accommodation requirements with respect to quality, location, and quantity of office space, generating through cost-efficient management—we've talked about cost-efficient management an awful lot—and ensuring that stewardship of the properties is appropriate to maintain the requirements of an aging portfolio.... None of this speaks to raising money.

• (1655)

[Translation]

Ms. Diane Bourgeois: These are provisions that were included in the call for tenders or the original mandate, but normally a sale and lease-back is a way to free up captive capital that is contained in capital assets. Am I right?

[English]

Ms. Carolyn Blair: I won't speak to equipment leasing, because that is not my area of expertise.

In terms of sale leasebacks of commercial buildings, there are a wide variety of reasons why companies or governments enter into sale and leasebacks, and we've covered some of them before. Raising money is often not the primary goal. It's sticking to your direct business—

[Translation]

Ms. Diane Bourgeois: There are benefits. I visited the Web site of Industry Canada where it explains what a sale and lease-back is. It mentions pros and cons. There are obviously benefits, but among the drawbacks — and this is very important — the tenant acts more like an owner than a lessee. Indeed, the tenant has to pay for all the repair and maintenance work, as well as pay for insurance and property taxes during the term of the lease. Is this standard in the contracts the government will have to sign as a tenant?

An hon. member: This is correct.

Mrs. Diane Bourgeois: This means that if 4 million dollars must be invested to maintain these buildings, the government will sell them, lease them back and still be required to invest these 4 million dollars for repairs and on top of that will have to pay insurance premiums and property taxes.

[English]

Mr. Keith Jameson: I think part of the process that we've explained is the capital repairs. In the case you mentioned—I think you said \$4 million—part of the obligation is being passed over to the new purchaser to undertake. That's part of the reason for carrying out this exercise. At the same time, as time goes by, ongoing maintenance and repairs would be carried out by the landlord. Yes, you as a tenant would be paying certain funds towards them, but they would be done more efficiently, in our opinion, than the government has been doing the repairs to its buildings up to now.

[Translation]

Ms. Diane Bourgeois: You will admit that one might wonder how this could be beneficial to the taxpayer. Even if the government, as owner, does not have the money to maintain these buildings because it costs too much, if it sells them and leases them back, it will nevertheless have to pay for the repairs, pay for insurance, which is normal practice for a tenant, and pay property tax for the term of the lease.

Madam, Sir, it is very important to provide us with figures in order for us to be able to tell ordinary people who pay their taxes whether the government is making good use of their money or is wasting it. At present, we have nothing, absolutely nothing.

The Chair: Madam Bourgeois, you are over time.

Ms. Diane Bourgeois: That is fine, Madam Chair. I said what I wanted to say.

The Chair: Ms. Nash, it is your turn.

[English]

Ms. Peggy Nash: Thank you, Madam Chair.

Because, of course, we can't see any of the criteria for the purchasers of the building, can you share with us any...? Will it be that we're strictly going to take the bidder with the highest price? What will be the rationale for ultimately deciding who we're going to sell these buildings to?

• (1700)

Ms. Carolyn Blair: I think it would be fair to say the price is very important, but quality of owner and experience as a large owner is also important.

Ms. Peggy Nash: Okay.

After the sale, will there be any explanation of why this purchaser as opposed to another purchaser? Will we be able to understand why certain purchasers were rejected from the sale?

Ms. Carolyn Blair: I think we'd have to leave it up to our client what disclosure.... It would not be typical to do that, because again, it sort of prejudices processes in the future.

Ms. Peggy Nash: Okay. Is it your sense that these will all be one package, the set of nine buildings?

Ms. Carolyn Blair: As I said before, it's hard to say. All nine are available, but it's hard to tell whether they will go all to one owner or not.

Ms. Peggy Nash: Something we have talked about at this committee is retrofitting buildings and energy efficiency in buildings. In terms of our discussion about the tenant's being responsible for the operating costs, would things like new windows and energy efficiency, upgrading toilets, low-flush toilets, that kind of thing, be the tenant's responsibility or the owner's?

Ms. Carolyn Blair: The lease in any large commercial sale and leaseback is a very complex document. These are 100 pages plus, and they divide the risks and responsibilities between the tenant and the landlord.

Our objective in this transaction is to pass risk on to the landlord. Without getting into the specifics of who's paying for doorknobs and who's paying for the roof, there is an element of risk transfer expected in this transaction.

Ms. Peggy Nash: Although it sounds very low risk for the purchaser, because the—

Ms. Carolyn Blair: No, I wouldn't characterize it that way.

Ms. Peggy Nash: —tenants are very secure and the Government of Canada is not going to default on the lease there. They're occupying the complete buildings and they're paying all the operating costs.

Ms. Carolyn Blair: What I'm saying is who pays for what in terms of the types of repairs is the subject of the lease.

Ms. Peggy Nash: What's the typical breakdown? Is it a typical breakdown that maybe the owner pays for the exterior of the

building and the tenant pays all of the interior costs? Is that a typical breakdown?

Mr. Keith Jameson: Again, if I can go back to the minister's statement of some time back, he has already revealed the fact that the purchaser will be responsible for—as he refers to it—the superstructure, what we would call the cladding of the building, the exteriors of the building. That is being transferred to the purchaser. So to the extent that that's a significant risk transfer from the government's point of view...

From an operating perspective, you are obviously going to pay for the day-to-day operations of the building. That will include the normal costs that you already incur, cleaning and so on.

Ms. Peggy Nash: I'm talking about the maintenance, the retrofitting, and the physical investment that has been in fact raised as a rationale for selling these buildings.

Mr. Keith Jameson: As we've already alluded to, there already is a 10-year capital plan that has been provided, that the new purchaser is required to invest into the building to create and improve. So for mechanical systems, elevators, or whatever has been determined to be not up to current standards, the purchaser is required to carry out those investments into the building as part of the acquisition.

Ms. Peggy Nash: So the details of that will be pretty important. It makes sense if marble blocks are falling from the exterior of the building—God forbid such a thing should happen—the new owner would be responsible for that, but it will be important to see what that 10-year plan actually translates into, because if this is one of the reasons we're selling these.... I'm thinking that right now the government owns these buildings, and you've said yourself they're centrally located in major cities. I know the one in Toronto is in an area of huge growth. I wouldn't like to think about purchasing a piece of land there, 25 years from now. It will be fantastically expensive.

So we sell these very centrally located properties. We're going to fill them for 25 years and take on maybe not all the risk, but a substantial risk in terms of operating these buildings, and then after 25 years, if the need is there, and another lease arrangement needs to be negotiated, we no longer have the negotiating clout of having the ownership of the building in order to enter into a new lease agreement. So it really is challenging to figure out how Canadians come out ahead on this transaction. The details will have to be scrutinized very carefully.

• (1705)

The Chair: You're way over your time.

If you want to try to answer it, then very quickly, because they've gone over their time.

Ms. Carolyn Blair: I will just refer back to the comments I was making earlier about the cost of capital. It's really important to look at the totality of the economics that affect.... We have done a thorough and professional job of that. We considered all the factors, not just operating costs, and we have come to the conclusion that over a long period of time you are better off, on these buildings, considering all the factors, doing a sell and leaseback.

The Chair: Thank you very much for coming before us. I know this was new to you. You've done very well and you've given us quite a bit of information. I think it will help us.

On Thursday we have Minister Fortier, so it should be interesting on Thursday.

Before we adjourn I just want to make one point. Minister Fortier will come before us and we will be in camera. The rules of committee say that only the committee members and their own staff and the minister can be present. We've had a request from the minister's office about whether some of his staff can be included in that meeting. We need the consent of the committee for that.

Mr. James Moore: Minister Fortier will be bringing Tim McGrath and other folks who are relevant.

The Chair: I'm bringing this up to make sure that we have the okay of the committee so that they can do this and know in advance it's okay.

Is that fine with the committee then?

Some hon. members: Agreed.

The Chair: Ms. Nash.

Ms. Peggy Nash: Yes, I'm fine with that, but I just wanted to ask another question. I appreciate, based on previous discussions, that there certainly are elements of the discussion on Thursday that parties want to keep confidential. My question is, does that mean the entire meeting needs to be in camera, or are there just portions of the discussion that need to be in camera?

The Chair: I think the meeting needs to be in camera. That was the motion and that's what we all agreed to.

The meeting is adjourned.

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