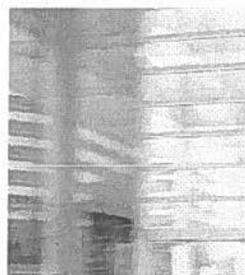


**OAA Headquarters
111 Moatfield Drive
Real Estate Financial Analysis**

Prepared for:
Ontario Association of Architects
111 Moatfield Drive
Toronto, Ontario
M3B 3L6

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Global Real Estate Solutions driven by talent, resources, results.





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May 30, 2008

Mr. Gordon Masters
Director of Operations
Ontario Association of Architects
111 Moatfield Drive
Toronto, Ontario
M3B 3L6
gordonm@oaa.on.ca

RE: OAA Headquarters, 111 Moatfield Drive – Real Estate Financial Analysis

Dear Gordon:

The OAA wishes to understand the value of its headquarters building, and benchmark potential future renovation/greening costs against other occupancy alternatives – namely, selling the 111 Moatfield property and building a new facility elsewhere in Toronto, or alternatively, simply leasing office space. Cushman & Wakefield LePage Inc. was engaged by the OAA through an RFP process to undertake a financial analysis of real estate options in identifying the costs associated with the above-noted scenarios.

I am pleased to enclose our Draft Report providing an indication of value for 111 Moatfield Drive, as well as exploring two potential Scenarios, as follows:

- Scenario 1 – Sell 111 Moatfield Drive and construct a new building; and,
- Scenario 2 – Sell 111 Moatfield Drive and lease office space in a new LEED certified building.

Importantly, this report serves as an “indication of value” and is not a substitute for a formal appraisal. The value conclusions are only to be used for internal purposes.

The report summarizes our approach to concluding an indication of value, including the following

- A description of the land and the improvements;
- A review of existing zoning and Official Plan status;
- A review of past appraisal methodology (2005 appraisal by Bosley Farr Associates Ltd.);
- A review of the Density Allocation Agreement;
- A discussion of space configuration and utilization, as well as architectural challenges evident at 111 Moatfield Drive;

MR. GORDON MASTERS
DIRECTOR OF OPERATIONS
ONTARIO ASSOCIATION OF ARCHITECTS
MAY 30, 2008
PAGE 2

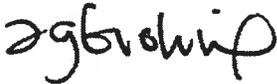
CUSHMAN & WAKEFIELD LEPAGE, INC.

- An examination of the Genivar building condition reports and Reserve Fund Study;
- A conclusion regarding highest and best use; and ultimately,
- Generation of an indication of value based upon recent market sales comparables.

The remaining sections of the report deal with our review of the Scenarios outlined above, and discussion of the inputs to the financial models.

I look forward to discussing the results of our analysis with you and your Committee. Thank you for retaining Cushman & Wakefield LePage to complete this assignment; we look forward to finalizing this report and to future opportunities to work together.

Respectfully submitted,
CUSHMAN & WAKEFIELD LEPAGE, INC.



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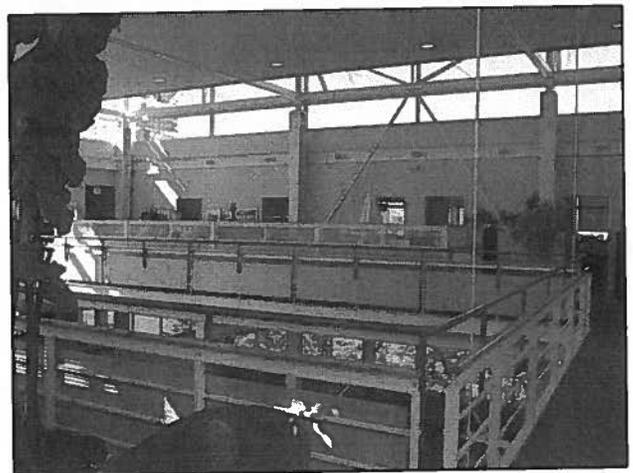
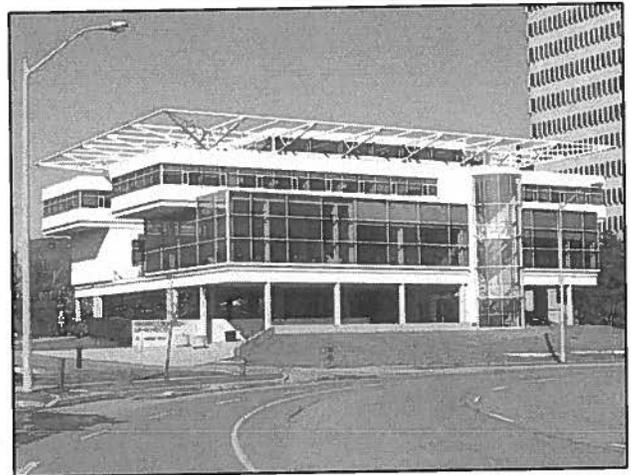
INTRODUCTION

PURPOSE OF THE REAL ESTATE FINANCIAL ANALYSIS

The Ontario Association of Architects' (OAA) headquarters building was completed in 1991, and is in need of various building systems upgrades to bring it in line with more modern standards. The building has recently undergone a condition assessment of its mechanical systems (heating, cooling, controls, ventilation, lighting, security and elevator). Included in this analysis is an evaluation of the building's performance and energy efficiency. The review identified building maintenance and renovations priorities, with short and long-term requirements identified, as well as detailed costing. In contemplating these works, and efforts to green the building, the OAA wishes to understand the value of its building, and benchmark the potential renovation costs against other occupancy alternatives – namely, selling the 111 Moatfield property and (i) building a new facility elsewhere in Toronto, or (ii) becoming a tenant and leasing office space. *Cushman & Wakefield LePage Inc. was engaged by the OAA to undertake a financial analysis of real estate options in identifying the costs associated with the above-noted scenarios.*

BUILDING DESCRIPTION

The Ontario Association of Architects headquarters building is located at 111 Moatfield Drive, which is situated in the Duncan Mill office submarket of Toronto. The building is three storeys in height, but the lower level consists of an entry stairway and elevator, and is otherwise covered parking. The second floor plate is exposed to the third floor, which does not have central core office space. The building is located a short distance northwest of the intersection of Don Mills Road and York Mills Road, and is architecturally unique in its setting. In addition to the covered parking, there are some uncovered surface parking stalls in the rear of the building.



INDICATION OF VALUE – 111 MOATFIELD

INTRODUCTION

The following section outlines our approach to developing an indication of value for 111 Moatfield Drive. This indication of value takes into account the highest and best use of the property, subject to conditions that are in place governing its development. Importantly, this is not to be considered an appraised value.

Building Description

The site measures 33,013 sf, or 0.76 acres, with a perimeter of 2,368 linear feet (source: Geowarehouse – Ontario Land Registry). The improvements consist of a purpose-built, three-storey office building measuring 21,334 sf of gross floor area (source: 2005 Bosley Farr Associates Ltd. appraisal report). Notably, we were provided with an alternate figure of 22,196 sf of gross floor area by the OAA (source: Manager, Finance & Administration), but have relied on the former for analysis purposes. There is both covered surface parking (32 stalls – 3 pairs of which are tandem in configuration) and uncovered surface parking (16 stalls) provided, totaling 48 stalls.

Zoning and Official Plan

The zoning for the property is designated MO(6) – Industrial-Office Business Park Zone. The following are the permitted uses in this zone:

Adult education school;	Gasoline station;	Personal service shop;
Artist studio	Health science research laboratory;	Place of worship;
Car rental agency;	Hotel;	Public library;
College	Industrial sales and service;	Research laboratory;
Commercial gallery;	Laundry;	Restaurant;
Commercial school;	Manufacturing;	Retail store;
Communications and broadcasting;	Museum;	Service shop;
Community centre;	Office uses;	Service station;
Day nursery;	Outdoor café;	Showroom;
Financial institution;	Park;	Theatre;
Fitness centre;		University uses.

The following are pertinent elements of this zoning classification:

- There are certain types of manufacturing uses that are not permitted (abattoir, auto wrecking yard, paint or varnish manufacturing, waste incinerator, etc. – refer to zoning by-law for complete list.
- Limited retail uses are permitted – refer to zoning by-law for guidelines.
- The maximum gross floor area of all buildings is 150% of the area of the lot. This means that for the OAA property (lot measuring 33,013 sf), the maximum gross floor area of a building on the site is 49,520 sf. The present structure has a site coverage of just 0.65 times the lot area. However, the Density Allocation Agreement in place for 111 Moatfield Drive supersedes this provision.
- There is no maximum building height in the MO zone.

In Toronto's Official Plan, the area is designated as an Employment Area. Broadly speaking, the City of Toronto is very protective of employment areas in ensuring that they are not converted to other non-employment uses (i.e. residential uses), and any prospective redevelopment requiring rezoning or an Official Plan amendment would likely face considerable opposition.

2005 Bosley Farr Associated Ltd. Appraisal Methodology

Cushman & Wakefield LePage is in agreement with the appraiser's methodology, namely, the direct comparison approach. This is the most suitable method with which to assess the value of the subject property, given that there are no leases in place to prepare a discounted cash flow, which is the other principal approach to real estate valuation. A discussion of recent office sales comparables is utilized to generate an indication of value for the subject property.

Density Allocation Agreement

A Density Allocation Agreement dated January 23, 1998 is in effect. This is a restrictive covenant as to the gross floor area limiting the "Owner of the OAA Parcel" to the erection of a total gross floor area of no more than 1,982 square metres (21,334 sf) on the subject site. This corresponds to the exact measurements of the OAA building, meaning there is no permitted excess density at the site (*refer to Density Allocation Agreement Section 1 – Restrictive Covenants – Gross Floor Area*).

This Density Allocation Agreement has been reviewed by Cushman & Wakefield LePage, but importantly, any opinions made in respect to this Agreement are not to be considered as informed legal opinions. An independent legal viewpoint should be sought to resolve any questions surrounding this agreement.

The potential to have this covenant waived is presently unknown, as are the potential legal fees and perhaps negotiated settlement fees. Further, the legal enforceability of such a covenant is unknown. It seems a release from title would need to be sought from the beneficiary of the Density Allocation Agreement in order to construct additional square footage at 111 Moatfield (either as an addition to the existing building, or a demolition-new construction scenario), or an agreement with one of the other parties to the agreement (*refer to Density Allocation Agreement Section 6 – Agreement to Alter Gross Floor Area Allocation*).

The Agreement specifies that no zoning by-law amendments may be sought to increase the gross floor area permitted at the site (*refer to Density Allocation Agreement Section 2 – Restriction Regarding Amendments to Zoning*); however, other zoning by-law changes or land use regulation changes could be pursued (*refer to Density Allocation Agreement Section 3 – Permitted Amendment to Zoning*).

A potential course of action would be to propose to the other parties to the agreement that all parties could share in the upside potential of the excess revenue that may be achieved in a sale of the property with this restrictive covenant being waived or removed. An appraisal of the property would be suggested to establish its value prior to lifting the covenant, from which the additional revenue achievable could be gauged.

Space Configuration and Utilization

With the atrium configuration of the OAA building, intended as gallery and display space, as well as being suited for hosting receptions, its functionality as conventional office space is compromised. The open space between the floors likely causes noise and acoustical issues that would be an issue if the space was more intensely occupied. While the layout is not ideal for certain office tenants, firms such as software and technology enterprises that thrive in non-conventional office surroundings would be suitable occupants.

According to information provided, there is currently approximately 36 staff working at 111 Moatfield Drive, translating to a ratio of approximately 600 sf per person. For comparison, industry benchmarks suggest that 225 sf per person is a typical requirement for service companies. This confirms the abundant “excess” space situation perceived at present, although recognizing that a significant amount of space is presently set aside for non-office type uses.

New Office Construction

There has been no new competitive market office development in the Duncan Mill node for the past 16 years, with the most recent construction consisting of three properties built in 1992 (50 Lesmill Road, 18 Dyas Road, and the OAA building itself). Since this era, most of the new office supply across the GTA has been located in the suburbs, with the Downtown Core only recently seeing new activity. As such, there is no perceived added value to the OAA property for redevelopment to higher density commercial-office space.

Building Condition Reports and Reserve Fund Requirements

Cushman & Wakefield LePage reviewed the following reports prepared by Genivar Consultants:

- Curtain Wall Investigation (June 11, 2007);
- Condition Assessment Report (June 19, 2007); and,
- Comprehensive Reserve Fund Study (October 19, 2007).

While the reports are technical in nature, a review of the recommendations of the reports suggests a variety of repair and maintenance priorities, along with potential building system modifications to improve efficiency and reduce energy use. The review identifies where various building components are past or approaching

their useful lifespan, or where such replacement may be deferred. Overall, the reports portray a building that is generally similar in condition to other comparable properties of the same age, apart from the curtain wall issues, which would typically not be anticipated as a concern at this point in the building's lifecycle.

The Annual Expenditure Schedule in the Comprehensive Reserve Fund indicates a range of suggested near-term repairs or replacements for 2008. Notably, many of the building components that have a 20-year useful life are approaching their required or recommended replacement date in 2012, and the same is true of 25-year lifecycle components (2017) and 30-year components (2022), which represent the most significant capital expenditure requirements year by year during the next 15 years.

Architectural Challenges

Some of the building's architectural challenges include:

- The large central galley space – causes space inefficiencies and increases the occupancy cost per person factor;
- Atrium space – while an appealing design element, it would cause noise/acoustical issues if second floor was used more intensively as office space;
- Kitchen/bar facilities – these amenities are well above the standard for typical office users, and would not likely "hold their value" upon sale;
- Extensive use of glass cladding – contributes to increased heating and cooling expenses; and,
- High ceilings – large volume of air to be heated/cooled and circulated per person.

Highest and Best Use

It is the conclusion of Cushman & Wakefield LePage that the highest and best use of the property is its continued occupancy as an institutional or head office-type location, likely with an owner-occupier. The architecturally unique building presents occupancy challenges for conventional office tenants, and it would be difficult to demise for multi-tenant occupancy. Such purpose-built facilities are not built with the intention of their ultimate sale to other parties, and consequently tend to be inefficient for more traditional office occupants. Further, it is difficult to assign any excess value to the potential scenario of further demising the open space portions of the building into more conventional office space, given the costs associated with such a renovation to be borne by a future owner.

If 111 Moatfield was sold, the likely purchaser would be an institution or professional organization. While the existing building is not as large as would be permitted under the present zoning, there is not a sizable enough amount of excess density to justify demolishing the building and building a larger building – other sites can accommodate such a building more economically. The City of Toronto is likely to oppose any attempts to redesignate the property as either through a rezoning or Official Plan amendment. The timing, cost and uncertainty of such a venture would be factored into any purchase price a property developer might offer, largely offsetting any potential monetary gain. The OAA itself could pursue these redesignations, but at considerable time, cost and effort for what might prove to be a fruitless exercise.

RECENT OFFICE BUILDING SALES

A sample of sales of office buildings between 10,000 sf and 50,000 sf was compiled for the former municipalities of North York and Toronto that have taken place during the past 12 months (source: RealNet). Some would not be considered true "comparables" in the property appraisal sense; while all are of relatively similar size, they are different in character, with both single tenant and multi-tenant buildings represented, along with a variety of building ages. Despite the evident variations, these recent sales serve to provide benchmark valuation parameters that could be applied to an indication of value analysis for 111 Moatfield Drive. They are presented below in order of descending sale price.



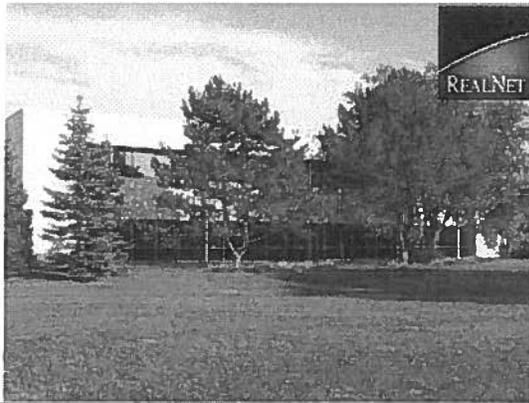
544 King Street West, 1, & 7-9 Morrison Street, Toronto

Size (sf): 36,000

Year Built: N/A

Sale Price (\$psf): \$7,402,000 (\$206)

Comments: Sale-leaseback arrangement with existing occupants, at \$15.00 psf and \$10.00 psf, respectively (there are two buildings). Purchaser expects to construct a building addition at end of sale-leaseback term.



75 Scarsdale Road, North York

Size (sf): 35,248

Year Built: 1998

Sale Price (\$psf): \$6,000,000 (\$170)

Comments: 12-year sale-leaseback arrangement with existing occupant (Vendor is an affiliated organization with the Tenant). Rent of \$11.39 psf with future contractual escalations. 6.7% cap rate estimate based upon income.



164 Merton Street, Toronto

Size (sf): 23,199

Year Built: 1978

Sale Price (\$psf): \$5,200,000 (\$224)

Comments: Multi-tenant property. Purchaser was intended future user – Geneva Centre for Autism. In-place leases expire in 2008 and 2010, and purchaser will eventually use premises as its head office.

**164 Eglinton Avenue East, Toronto**

Size (sf): 21,203

Year Built: 1955

Sale Price (\$psf): \$5,000,000 (\$236)

Comments: Building has ground floor retail space in busy Yonge-Eglinton neighbourhood. Typical floorplate is small, at less than 4,000 sf. Building has undergone recent extensive renovations. 6.9% cap rate based upon income.

**110 Eglinton Avenue West, Toronto**

Size (sf): 33,774

Year Built: 1969

Sale Price (\$psf): \$5,000,000 (\$148)

Comments: Multi-tenant building was 91% occupied at time of sale. The Purchaser is an existing Tenant at the building.

**780-786 King Street West, Toronto**

Size (sf): 20,000

Year Built: 1914

Sale Price (\$psf): \$4,500,000 (\$225)

Comments: At time of sale the buildings were completely vacant. The Purchaser, Lamb Development Group (Brad Lamb) intends to use the property for its own real estate business. The property was not formally marketed for sale.

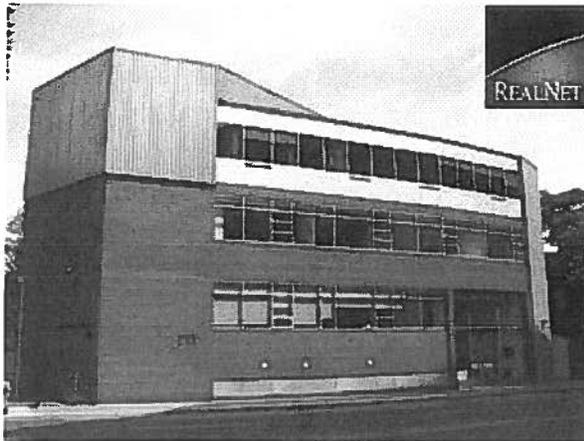
**30 College Street, Toronto**

Size (sf): 25,000

Year Built: 1990

Sale Price (\$psf): \$4,050,000 (\$162)

Comments: Building contains 4,500 sf of ground floor retail space. At time of sale, building was approximately 75% vacant. The Purchaser, Native Child and Family Services of Toronto, intends to use the building for its own head office. Property was on the market for approximately six months.

**717 Church Street, Toronto**

Size (sf): 11,128

Year Built: 2001

Sale Price (\$psf): \$3,500,000 (\$315)

Comments: At the time of sale, the building was occupied by the Vendor, the Association of Registered Interior Designers of Ontario. The Purchaser, the Pharmacy Examining Board of Canada, intends to use the building as its own corporate head office. Property was on the market for approximately four months.

**101 Richmond Street East, Toronto**

Size (sf): 11,798

Year Built: 1986

Sale Price (\$psf): \$2,950,000 (\$250)

Comments: Typical floorplate is small, at just less than 3,000 sf. There are two terraces and a two-storey library space. The building was sold as vacant, and the Purchaser, Ontario Cornerstone Leadership Corporation, intends to use the building as its own head office. Property was on the market for approximately two months.

**28 Overlea Boulevard, North York**

Size (sf): 10,000

Year Built: 1964

Sale Price (\$psf): \$2,610,000 (\$261)

Comments: Medical office building was sold by owner-user with one additional Tenant in place. The Purchaser, Melles Reppas Developments Inc., intends to use the building for its own medical business. Property was on the market for approximately four months.

CONCLUSIONS

In considering the recent sales comparables, and with the existence of the Density Allocation Agreement, in-place zoning and Official Plan status, the indication of value presented does not reflect any “premium” for the property above market norms for this class of asset. The existing curtain wall concerns will have to be incorporated into an analysis of the building’s potential sale value, as a prospective purchaser would likely pursue an adjustment to the sale price given the immediate recommended capital expenditure requirement. This expense is projected to be approximately \$350,000 (source: Genivar Curtain Wall Investigation, page 19). Otherwise, a prospective purchaser would recognize the impending capital expenditure requirements outlined in the Reserve Fund Study as normal operating and maintenance costs of a building that is approaching 20 years of age, and these would not impact potential pricing.

Based upon our analysis, the recent sales comparables range from approximately \$150 to \$300 psf, but the majority are in the neighbourhood of \$200 to \$250. It would be reasonable to expect that the subject property would achieve a value in the middle to upper end of this range, given its unique architecture, with some discount applied to its location relative to the more centrally located properties sold recently. If sold today, it is estimated that 111 Moatfield could be expected to achieve a price of approximately \$4.8 million (\$225 psf) to \$5.3 million (\$250 psf). ***For modeling purposes in subsequent sections of this report, we have utilized a figure of \$5.0 million, less \$350,000 attributable to near-term capital expenditure requirements (curtain wall), resulting in an indication of value of \$4.65 million (less legal fees and brokerage commissions).***

SCENARIO 1: SELL 111 MOATFIELD AND CONSTRUCT A NEW BUILDING

INTRODUCTION

It is understandable that an architects' association would prefer to own its headquarters building, and there is an intangible value to calling a signature property its home. This Scenario envisions the OAA acquiring land and constructing a new design-build project to meet its space requirements, while selling 111 Moatfield Drive to partly offset the cost of this new project. The projected sale price generated from our indication of value analysis is \$4.65 million (less brokerage commissions and legal fees).

A new design-build project would be tailored to the specifications of the OAA, and would resolve the space inefficiencies that exist in the current building. The OAA provided a table delineating the use of space across a range of categories (office, service, hallway, reception, meeting, gallery, and storage). For the purposes of our analysis, we have assumed certain achievable reductions in required space, particularly in the following areas:

- Reception – at nearly 1,200 sf, this appears to be generous given the overall size of the present building.
- Meeting rooms – in discussion with OAA staff, some of the existing meeting room space is seldom used (the smaller breakout rooms). Altogether, meeting room space measures approximately 1,800 sf.
- Gallery, including kitchen – the kitchen/bar facility would presumably not be incorporated in a new building, and the size of the gallery could potentially be downsized. This space currently measures roughly 6,300 sf.
- 1st floor space – this space is inefficient and would not be replicated in a new building; the first floor of a new structure would be on-grade, with no covered parking provided. This accounts for some 1,300 sf.

By eliminating the first floor space (which isn't functional), reducing the reception area by 50%, reducing meeting room space by 20%, and downsizing the gallery space by 50%, some 5,500 sf has been identified as potentially excess space that could be eliminated if a more efficient, workable floorplan were to be created for a new facility. Thus, a required building area of less than 16,000 sf appears feasible, even allowing for future office space expansion. For modeling purposes, a figure of 17,500 sf has been utilized, which represents roughly an 18% reduction of space required compared to the existing building. Notably, the 225 sf per employee benchmark requirement for service organizations translates to just 8,100 sf, but clearly, the OAA's needs greatly exceed this level.

FINANCIAL MODEL INPUTS

The following is a discussion of the source and methodology behind various inputs to the financial model for Scenario 1:

- 111 Moatfield Drive sale price – estimated by comparing and analyzing sales of comparable properties sold in Toronto and North York during the past year.
- Real estate brokerage commissions and legal fees – based upon market sales transaction history.
- OAA space requirements – estimated based upon potential space efficiencies and reduction in excess space that could be achieved in a new building. This figure is greater than the space required in leased premises, because mechanical and service space would have to be provided that would not be included in a calculation of leased area. A 10% gross-up factor is applied to the financial model, generating a figure of 19,250 sf.
- Land acquisition cost – based upon market sales transaction history. This would vary depending upon location within the GTA (higher in Central Toronto, lower in outer suburbs), but would not vary considerably. Development sites with higher achievable densities would be considerably more costly and infeasible for the OAA's requirements. Land values are often expressed (and parcels sold) based upon price per square foot buildable. However, smaller land parcels, perhaps less than 5 acres in size, may be sold on a per acre basis.
- Construction costs – generated using the Marshall & Swift construction cost guide prepared by the Marshall Valuation Service. This resource is widely used by valuation professionals to benchmark building construction costs for all types of construction. Soft costs of 20% is a benchmark commonly used in our development proforma modeling based on past analyses. Two levels of building finish were utilized – Excellent Class A and Good Class A, for comparative purposes, based upon definitions provided by Marshall & Swift. These are benchmark figures, as actual building specifications are not under consideration at this point in time.
- Parking – spaces required was estimated based upon the OAA's needs.
- Moving costs – an industry benchmark based upon case examples.
- Fixturing costs – an industry benchmark based upon case examples.
- General inflation – a figure used for modeling purposes to inflate future costs. A figure of 2.0% or 2.5% per year is widely used for real estate modeling purposes.

FINANCIAL MODEL

Based upon the financial model presented below, Option A (constructing an Excellent Class A building) exceeds the cost of Option B (constructing a Good Class A building) by some \$1.2 million, or roughly \$55 psf. However, both Options result in a net loss to the OAA in present dollar terms in the neighbourhood of \$3.5 million to \$4.8 million, as revenues from the sale of 111 Moatfield Drive do not offset the expenses of constructing a new building (including land acquisition costs, hard and soft construction costs, fixturing, and other expenses).

Scenario 1: SELL 111 MOATFIELD AND CONSTRUCT A NEW BUILDING

	Present Value
Revenues	
Sale of 111 Moatfield Drive	\$4,650,000
Total Revenues - Option A - Excellent Class A Building	\$4,650,000
Total Revenues - Option B - Good Class A Building	\$4,650,000
Expenses	
Brokerage commissions	\$186,000
Legal fees	\$233,000
Land acquisition cost	\$1,231,000
Moving costs	\$18,000
Fixturing costs	\$1,750,000
<i>Option A - Excellent Class A building</i>	
Building hard construction costs	\$5,005,000
Building soft costs	\$1,001,000
Total construction costs	\$6,006,000
<i>Option B - Good Class A building</i>	
Building hard construction costs	\$3,946,000
Building soft costs	\$789,000
Total construction costs	\$4,736,000
Total Expenses - Option A - Excellent Class A Building	\$9,424,000
Total Expenses - Option B - Good Class A Building	\$8,154,000
Total - Revenues Less Expenses - Option A	-\$4,774,000
Total - Revenues Less Expenses - Option B	-\$3,504,000
<i>Difference (Option A minus Option B)</i>	-\$1,270,000

Note: Some figures may have been rounded for presentation purposes

SCENARIO 2: SELL 111 MOATFIELD AND LEASE OFFICE SPACE IN A NEW LEED-CERTIFIED BUILDING

INTRODUCTION

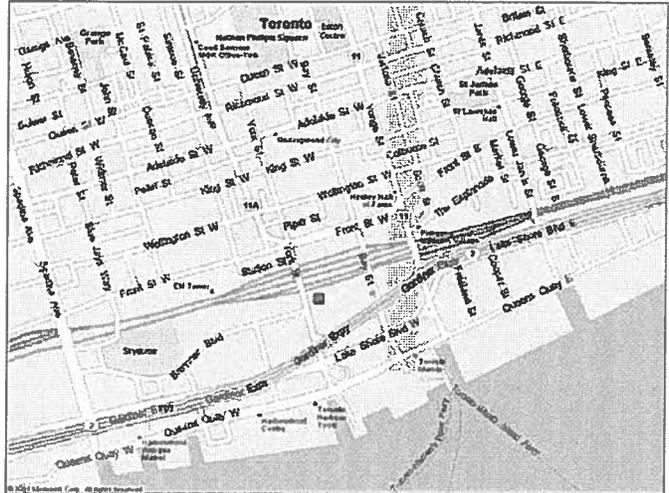
This Scenario satisfies the OAA's desire to occupy green office space, but does so as a Tenant. This frees up capital in the near-term, with building sale revenues able to be invested back into the organization, while creating a longer-term lease obligation. It is likely that space efficiencies can be gained by designing an occupancy plan tailored to the organization's needs, best achieved by working with a Strategic Occupancy Planning professional. Tenant inducements paid by a Landlord of a new LEED office building would be put towards fixturing costs for the premises. Again, the projected building sale revenue from 111 Moatfield Drive generated by our indication of value analysis is \$4.65 million (less brokerage commissions and legal fees). A leasable area figure of 17,500 sf has been utilized for modeling purposes (the same as was incorporated in Scenario 1, presented earlier).

We have examined two near-term occupancy options in green, LEED-certified projects. Construction of one the buildings is underway with occupancy scheduled for June 2009; while the other remains in the pre-leasing stage, with no firm commitment on construction commencement, although it could be ready by late-2009 or early 2010. The buildings present downtown versus suburban locational alternatives, with accompanying variations in expected rental rates (subject to negotiation). These options are presented on the following pages. For the sake of simplicity, the start date of the financial models of Option A and Option B (Year 1) is simultaneous, rather than staggered, in terms of initial occupancy. It would be impractical for the OAA to sell its building and require interim space for a year or more until the leasable space is available for occupancy, which might range from mid-2009 to early 2010.

OPTION A: 25 YORK STREET, DOWNTOWN TORONTO

Building Description

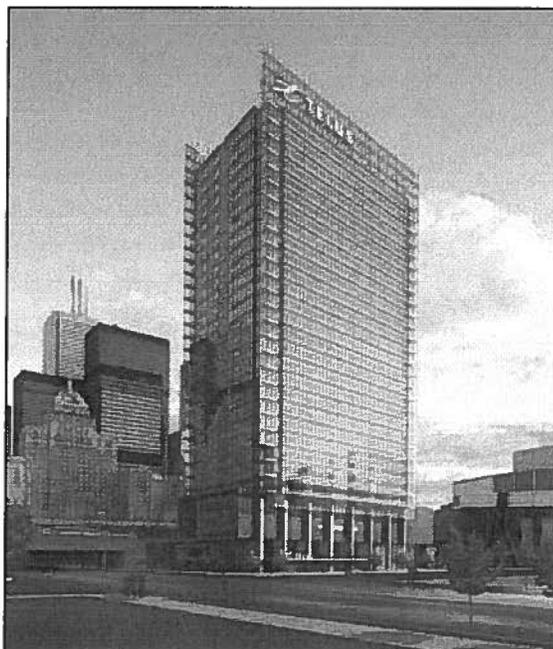
25 York Street, also known as Telus Tower, will be ready for occupancy in June 2009, with tenant fixturing beginning in February-March 2009. The LEED Gold building is being developed by Menkes. It is located directly south of Union Station, at the northeast corner of York Street and Bremner Boulevard, and is linked via the PATH. The standard floor plate is 27,500 sf (the OAA would not require a full floor, but could conceivably occupy three of the four sides of the building, which has a central core). There are 30 floors, totaling some 780,000 sf of gross leasable area.



Net Rent, Taxes & Operating Costs, and Tenant Inducements

The asking net rental rate is \$33.00 psf for years 1-5, then \$36.00 psf for years 6-10 of a 10-year lease. There is a \$40.00 psf tenant inducement allowance, with taxes and operating costs estimated at \$22.00 psf in 2009.

This translates to a net effective rent of approximately \$27.00 psf (net present value calculation utilizing a commission of \$8.00 psf and a discount rate of 8%). The gross effective rent is approximately \$51.30 psf, incorporating taxes and operating costs inflating at 2.5% annually.



OPTION B: AEROCENTRE V, SUBURBAN TORONTO

Building Description

AeroCentre V is intended to be a LEED Silver development, but construction has not yet commenced. The developer is in the process of deciding whether to wait to secure a lead tenant to begin construction, or to instead proceed on a speculative basis. If construction begins soon, the project could be ready by the end of 2009 or early 2010. The property is situated on Explorer Drive in Mississauga, with Highway 401 exposure between Satellite Drive and Orbitor Drive, immediately south of the airport.

The building has 45,000 sf floorplates with two elevator cores, so the OAA could occupy one-half of a floor comfortably. The total building measures 227,000 sf across five floors.



Net Rent, Taxes & Operating Costs, and Tenant Inducements

The asking net rental rate starts at \$24.00 psf, with annual increases of \$0.25 psf for a 10-year lease deal. There is a \$25.00 psf tenant inducement allowance, with taxes and operating costs estimated at \$11.40 psf in 2009.

This translates to a net effective rent of approximately \$20.50 psf (net present value calculation utilizing a commission of \$8.00 psf and a discount rate of 8%). The gross effective rent is approximately \$32.60 psf, incorporating taxes and operating costs inflating at 2.5% annually.



FINANCIAL MODEL INPUTS

The following is a discussion of the source and methodology behind various inputs to the financial model for Scenario 2:

- 111 Moatfield Drive sale price – estimated by comparing and analyzing sales of comparable properties sold in Toronto and North York during the past year.
- Real estate brokerage commissions and legal fees – based upon market sales transaction history.
- OAA space requirements – estimated based upon potential space efficiencies and reduction in excess space that could be achieved in a new building. This figure is less than the space required in newly constructed premises, because mechanical and service space would not be included in a calculation of leased area (it would be common area space in a building). This generates a figure of 17,500 sf.
- Parking – ratios and rates provided by Landlords. Note that there would only be 6 parking spaces allocated at 25 York Street based on its posted ratio (42 less than presently available at 111 Moatfield Drive), and that parking comes at a cost of \$275 per month, per space. However, this building is directly south of Union Station, an easy commuting/transit location. Alternatively, AeroCentre V would offer 70 spaces given its much more generous parking ratio, and this parking is at no extra charge above base rent.
- Moving costs – an industry benchmark based upon case examples.
- Fixturing costs – an industry benchmark based upon case examples.
- Rental rates, operating costs and taxes – provided by Landlords.
- Tenant inducements – provided by Landlords.
- Discount rate for net present value calculation – A figure of 7.0% to 9.0% is typically used at present to calculate the net present value of future revenue or expenditures, to account for the “time value of money”. Discounted cash flows are cash flows that have had their value decreased by the discount rate, compounded by the amount of time until the cash flow is realized. This accounts for the time value of money when determining the true value of the future cash flow. Summing all appropriately discounted cash flows allows the calculation of the net present value. There is no discount rate applied to Year 1 values, only future years.
- General inflation – a figure used for modeling purposes to inflate future costs. A figure of 2.0% or 2.5% per year is widely used for real estate modeling purposes.

FINANCIAL MODEL

A net present value calculation was utilized to express future rent and operating cost payments during a 10-year lease term in present dollar terms. Based upon the financial model presented below, Option A (lease space at 25 York Street) exceeds the cost of Option B (lease space at AeroCentre V) by some \$2.3 million, due to higher operating costs and taxes at the downtown versus suburban location. However, both Options result in a net loss to the OAA in present dollar terms in the neighbourhood of \$1.5 million to \$3.8 million, as revenues from the sale of 111 Moatfield Drive do not offset the expenses of leasing space at a new LEED certified building (including up-front fixturing costs, and the ongoing lease obligation).

Scenario 2: SELL 111 MOATFIELD AND LEASE OFFICE SPACE IN A NEW LEED-CERTIFIED BUILDING

	Present Value
Revenues	
Sale of 111 Moatfield Drive	\$4,650,000
<i>Option A - 25 York Street</i>	
Tenant inducement	\$770,000
<i>Option B - AeroCentre V</i>	
Tenant inducement	\$481,000
Total Revenues - Option A - 25 York Street	\$5,420,000
Total Revenues - Option B - AeroCentre V	\$5,131,000
Expenses	
Brokerage commissions	\$186,000
Legal fees	\$233,000
Moving costs	\$18,000
Fixturing costs	\$1,750,000
<i>Option A - 25 York Street</i>	
Net rent	\$4,018,000
Operating costs and taxes	\$2,850,000
Parking costs	\$147,000
<i>Option B - AeroCentre V</i>	
Net rent	\$2,943,000
Operating costs and taxes	\$1,477,000
Parking costs	\$0
Total Expenses - Option A - 25 York Street	\$9,202,000
Total Expenses - Option B - AeroCentre V	\$6,607,000
Total - Revenues Less Expenses - Option A - 25 York Street	-\$3,782,000
Total - Revenues Less Expenses - Option B - AeroCentre V	-\$1,476,000
<i>Difference (Option A minus Option B)</i>	-\$2,306,000

Note: Some figures may have been rounded for presentation purposes

APPENDIX A – INPUTS TO THE FINANCIAL MODELS

111 Moatfield Drive - Ontario Association of Architects Head Office

FINANCIAL MODEL INPUTS		
Variable	Units	Description
Area Measures:		
21,334	sf	111 Moatfield Drive - Gross Floor Area
19,250	sf	OAA space requirement in new building
17,500	sf	OAA space requirement in leased premises
0.76	acres	111 Moatfield Drive - land area
1.50	acres	New building - land area required
48	spaces	111 Moatfield Drive - parking spaces
60	spaces	New building - parking spaces (25% increase over 111 Moatfield Drive)
2.2	spaces/1,000 sf	Parking ratio at 111 Moatfield Drive
3.1	spaces/1,000 sf	Parking ratio at new building
6.0	spaces	Parking provided at 25 York
70.0	spaces	Parking provided at AeroCentre V
Construction Costs:		
\$260	\$psf	Office Building - "Excellent Class A" - hard construction costs
20%	%	Soft costs as a % of hard costs
\$312	\$psf	"Excellent Class A" - construction costs - total
\$205	\$psf	Office Building - "Good Class A" - hard construction costs
20%	%	Soft costs as a % of hard costs
\$246		"Excellent Class A" - construction costs - total
\$2,000	\$psf	Cost per surface parking space
60	spaces	Parking spaces provided at new building
\$120,000	dollars	Parking cost - total
Building/Land Values:		
\$4,650,000	dollars	Sale of 111 Moatfield Drive
\$50	\$psf buildable	Commercial development land - \$psf buildable
\$962,500	dollars	Land acquisition cost - \$psf basis - total
\$1,000,000	\$ per acre	Commercial development land - \$ per acre
\$1,500,000	dollars	Land acquisition cost \$ per acre - total
\$1,231,250	dollars	Land acquisition cost - blended (average) - total
Rental Rate and Operating Cost Schedule:		
Option A - 25 York Street		
\$33.00	\$psf	Years 1-5
\$36.00	\$psf	Years 6-10
\$22.00	\$psf	Operating costs and taxes - 2009 estimate
Option B - AeroCentre V		
\$24.00	\$psf	Year 1
\$0.25	\$psf	Annual escalation
\$4,813	dollars	Annual escalation - total
\$11.40	\$psf	Operating costs and taxes - 2009 estimate
Miscellaneous:		
4.0%	% of sale price	Real estate investment brokerage commissions
\$186,000	dollars	Real estate investment brokerage commissions - total
5.0%	% of sale price	Legal fees - property sale
\$232,500	dollars	Legal fees - property sale - total
\$500	per person	Moving costs
36	persons	Current staffing level
\$18,000	dollars	Moving costs - total
\$100	\$psf	Fixturing costs - furniture, equipment and professional fees
\$1,750,000	dollars	Fixturing costs - furniture, equipment and professional fees - total
\$40.00	\$psf	Tenant inducement - 25 York
\$770,000	dollars	Tenant inducement - 25 York - total
\$25.00	\$psf	Tenant inducement - AeroCentre V
\$481,250	dollars	Tenant inducement - AeroCentre V - total
\$3,300	per space	Parking cost - 25 York (annual)
\$19,800	dollars	Parking cost - 25 York (annual) - total
\$0	per space	Parking cost - AeroCentre V (annual)
\$0	dollars	Parking cost - AeroCentre V (annual) - total
2.5%	%	General inflation
8.0%	%	Discount rate for net present value calculation

Sources: Cushman & Wakefield LePage; Marshall & Swift; OAA