



House of Commons
CANADA

Standing Committee on Government Operations and Estimates

OGGO • NUMBER 048 • 1st SESSION • 39th PARLIAMENT

EVIDENCE

Tuesday, May 1, 2007

—
Chair

The Honourable Diane Marleau

Also available on the Parliament of Canada Web Site at the following address:

<http://www.parl.gc.ca>

Standing Committee on Government Operations and Estimates

Tuesday, May 1, 2007

•(1535)

[English]

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

We have with us today James McKellar, who is the associate dean, external relations, for the school of business at York University. We've invited him here to talk to us about the sale of federal buildings. Hopefully he can enlighten us somewhat.

Mr. McKellar, normally we allow our invited guests to speak for 10 minutes. If you require less time, that's fine too, and then we open it up for questions and go from there.

Thank you for coming, and welcome. Hopefully, we won't give you too hard a time.

Prof. James McKellar (Professor of Real Property, Academic Director, Real Property Program, Schulich School of Business, York University): Thank you for the opportunity.

I would suspect that your questions are more important than my brief, so I'll keep it fairly brief.

I should say that throughout my career, for some reason, I gravitated toward the study of the management of public assets, and last year I published a book—it was published out of Washington—with a colleague of mine. We looked at the management of public assets in various countries, really, in order to assist some of the more emerging economies in how they handle that. As you know, many countries that were communist or socialist or that had controlled economies own a lot of property. So their problems are certainly larger than ours.

I am also an advisor to a group we set up about 10 years ago called the National Executive Forum on Public Property. We now have 30 members—10 from each level of government—and we try to share insights.

The bottom line, I will say right at the outset, is that every government does a terrible job of managing its assets, so that's a given. We are no better than most former communist countries in that regard, and there are lots of reasons why. I think that now many of the assets have been so badly managed over the period of time that we have to do something about it. I think the problems we face in Canada are no different from those faced by Australia or the U.K. or France or Switzerland, etc., and now we see the problems in emerging economies.

To talk directly about sale/leaseback, it's essentially a financing mechanism. It's really a form of releasing capital and redeploying it

in the private sector, as I've outlined. It's well used in the private sector, and more so now because a lot of industries really don't want to be managing real estate or owning real estate when in fact they're making gadgets and so forth. So over the past 10 to 15 years, most organizations, including our major banks, have basically gotten out of real estate. Part of that is also driven by the fact that there's so much money that wants to buy real estate today.

When you look at sale/leaseback, you're really looking at three things: What are you going to do with the money? What's the price? And what are the terms and the lease rate? The difficulty in this whole topic is that, given my first comment about the state of these, it's kind of like taking a car that is not running very well, you don't have any money to fix it, and asking someone to buy your car, fix it up, and lease it back to you. That's a simplification, but it raises the issues of what the car is worth, how long it is going to run, and how much money you are going to put into fixing it up. It all comes down to the details, so a lot of this is all about the detail.

The fact is, in commercial real estate you don't sell buildings. In fact, I always said bricks and mortar are a liability. You're selling leases, and those leases today are packaged. They're sold in the secondary market as mortgage-back securities or what we call commercial debt obligations. Wall Street is great at taking these and slicing and dicing them.

The last thing the people who buy real estate today care about is buildings. In fact, I don't know if they could identify a good building from a bad one, because millions and billions of dollars now go around the world chasing real estate, and it's all predicated on leases.

Is this a sound approach for government? Well, the answer is both yes and no. You have to know what the details are. It could be a good deal. It could be a bad one. I don't know what the details are. I could say, however, that what distinguishes between this whole business in the public sector and that in the private sector are the two variables that the private sector doesn't deal with. One of those is public perception.

It's very interesting. As we looked around the world at various countries for our book, we found that there are countries in which you just don't sell the public asset—for instance, Switzerland. And they don't care what condition it's in. They expect government to keep it. The argument that we don't need it, or it's in bad shape, or we can't afford to fix it, they don't care about.

There is a public perception. I remember years ago when the government was going to sell off small harbours in little towns and there was a public perception that the government was going to do something bad, etc. So there is this element. And this isn't a real estate issue; it's an issue for you as politicians.

You have to realize that there are Canadians, as well as people in other countries, who really view our public assets as sacrosanct. No matter what you do, they're going to feel that you're selling our legacy. I don't have an answer to that.

The second one is just the politics itself. One of the comments in our book that we like to recite is that removing politics from a process is like taking sand from the beach, one grain at a time. No matter what you do, it's going to be open to politics. I'm not saying that in a negative way, because these are political decisions. I'm just saying that those are two variables that you have to deal with when you take this concept. It's a sound approach; it can be well used in the public sector. I would suspect that both public perception and politics are going to limit its applicability.

I had experience with two of these. I was a vice-chair and then chair of Ontario Realty Corporation, and I took it through a restructuring. We tried two sale/leasebacks. One was in Kingston, I believe. It was difficult. I remember years ago when the federal government, I believe, was trying this idea or something similar to the sale of a building on Adelaide Street West, and they pulled it back at the last moment, again because of public perception. So they can be very good business deals, but they do run into these difficulties.

The point here, though, is that it's really a practical solution to a political dilemma, and that is, there is virtually no evidence that governments in Canada and other countries will accept the fact that maintaining a building is a cost of doing business. I think you can find taxpayers' money to build new hospitals, new schools, but it's very difficult to take taxpayers' money and put it into changing light bulbs and changing the carpets and so forth. Again, this is a systemic problem. I think it's fair to say that most governments today are acknowledging that, number one, there isn't the political will to maintain old buildings, and, number two, they're lousy managers; they're just not good at it compared to the private sector.

So we are looking at office buildings, in this case I believe eight of them. In fact, it's interesting. Commercial property is a good substitute for federally owned buildings. I think around 43% of office space is in fact leased from the private sector. So maybe the issue of public perception isn't that difficult to deal with in this case.

Why sell? I think the reason you sell is that you admit that you're lousy managers of your property. It's that simple. I'm not pinpointing any particular government. I'm just saying governments in general. There's ample evidence, certainly in our research all over the world, that governments acknowledge that they are not good managers of their property, and they're likely not going to be good managers in the future. Many of the assets are coming to a point of severe deterioration and something has to be done.

It's also clear I think that governments, like industry, are saying perhaps we have to refocus ourselves and not worry about being good building managers, but being good at the delivery of services.

Is it a good time to sell? It's a great time to sell. I don't think we've ever seen real estate prices almost at a ridiculously high mark. It's a very legitimate asset class today. It's a strong generator of cashflow, and certainly it's a very appealing asset in the marketplace. I'm not saying that's a reason to sell; I'm just saying that certainly it's a very healthy market today.

What is government selling? In this case, I think it's not the bricks and mortar, but it's the leases. Unless you know what's in those leases, it's hard to know just what is going on. How much are you willing to pay over 25 years? What is it you're buying on a lease basis? What's the quality of the space that you're going to get? Do you have rights to reduce the amount of space? There's a tremendous amount of detail in this.

• (1540)

Will it lead to higher accommodation costs in the future? My answer is yes. You cannot transfer risk over to someone without paying for it. And what you're doing is you're transferring the risk of the asset, of managing these, to someone else. You're also having to pay to have them upgraded. So yes, it is a higher cost, but again, it's one thing to dwell on the costs and it's another to dwell on what you're going to get.

In industry, for example, we know that about 3% to 5% of the total costs of a business will be real estate, and yet the most important asset a service organization has is its people. It's rather interesting that we continue to say we're in a knowledge-based environment and we have to recruit people, but then we turn around and say, "You know, we should stick them in smaller offices." We have to be conscious of the role this real estate plays, going forward, in the quality of the work environment we produce.

So there may be added costs. The government is saying they don't want to bear those costs at the moment. Again, the sale/leaseback has some advantages. There are savings and there could be efficiencies, energy efficiencies and so on, depending on the retrofit.

In terms of lease structures, normally in industry they run between 15 and 20 years. I always say that 25 years...I don't know. I won't be around that long, and today there's so much going on in terms of the impact of technology and the way people work, etc. All I can say is that normally in industry it's 15 to 20, with a five-year option.

What are the risks of this arrangement? First and foremost, it's just the political risk. It's really an imperfect asset, imperfect in the sense that no one really knows what something is worth.

Take the famous case from years ago, after the Vancouver Expo, when the government sold a piece of land by tender. It was purchased by a Hong Kong investor who I think took one piece of it and sold it within months at the value of the whole asset. There was no fraud involved. Put simply, it's an imperfect market, and you're always subject to that.

Second, there's the market risk. I for one do not believe rents always go up. I believe they go just down just as fast as they go up. Going back to 1993, I signed a lease for 18,000 square feet in the TD Centre. It was 98¢ a foot for 10 years. It's gone up today, but in 1989 that rent was forecast to be \$65 a foot. Again, there is that market risk. You may find at some point in time that you're paying a higher rent and you may find at some point in time that you're paying a lower rent.

Third, though, is what perhaps is much more important in any lease term, and that's the opportunity cost of making the deal. As long as you know you're going to have your business there—that business, for 25 years, in that location—then you can lock in. But again, you have to be careful that in fact the lease is consistent with the objectives of your business.

There is an opportunity cost when you lock in for that long; you are committed. However, again in the lease arrangement, you can have ways by which you can relinquish some of that. Again, it goes back to the details.

What I really come down to in all of this is that a sale/leaseback is nothing more than an assignment of risk and the mitigation of that risk. We have to know what those are. In the private sector, it's a little easier. In the public sector, we have political risk and we have something that drives that, called public perception.

What does it receive? There are some very good benefits from sale/leaseback. If it works, you get better working conditions for your employees. You get a long-term cost base. You know what your costs are going forward. In some ways, you avoid the political risk of having to deal with this problem year after year. You avoid some of the risks of just managing the property itself. It also gives you an exit out of years of neglect, of not being able to address the problem. So it's not a bad exit strategy.

As I indicated before, I see it as a practical solution to a political dilemma. It's one solution. It can be a very effective approach. Really, the success of this first round will depend upon the details of the arrangement itself.

• (1545)

And I don't know those details; I have no idea. I'm relying simply on what I read in the newspapers and what I can get on the website. And it will be the details that will ultimately dictate whether the taxpayer got value for money.

The Chair: The only other thing I want to add to that is there are slum landlords as well, and there's no guarantee that the person you're leasing the building from, depending, as you say, on what's in the contract, will keep it up. There are leased properties right here in downtown Ottawa that are in terrible shape and people are housed in them. So I get a little leery sometimes. I thought I'd throw that in.

Prof. James McKellar: There is a partial solution to that. So often what happens is we measure input costs, but really you can structure the lease on what I would call output performance. That is that landlords must deliver the following things, and if they don't, there are adjustments made.

To give you an example, that was the approach that was used in the famous...it's called the PRIME, the big English deal where government services sold all of their buildings to a consortium called

Trillium for £250 million up front. They signed a lease, for which the net present value was about £2 billion, and it was performance based. Each time these objectives weren't reached.... Now, the problem is, in order to do that you have to keep information, you have to keep data, and you have to be on top of it.

• (1550)

The Chair: Thank you.

Monsieur Simard, for seven minutes.

Hon. Raymond Simard (Saint Boniface, Lib.): Thank you very much, Madam Chair, and thank you for being here, Mr. McKellar.

I guess the chair's comment was my first question. I'm from Winnipeg, and I can tell you that in the private sector...I'm just trying to think. If I look at the government buildings in Winnipeg, and I take the private sector buildings and I take an average.... My feeling is that I'm not sure the government is that bad a manager overall.

You've obviously done the stats and the work on this. Are you telling me that if we take 10 average buildings, compared to the government ones we're looking to divest ourselves of right now, the government ones would be in a lot worse shape than the private sector ones?

Prof. James McKellar: That is certainly my experience. I can tell you that when I was involved at Ontario Realty Corp., whenever we went to place a ministry, it was clear they didn't want to go into a public building, because a building that was managed by Oxford or Cadillac Fairview or someone....

To give you an example, a general rule of thumb is that a government should budget annually somewhere between 2% to 3% of the capital costs of an asset for annual reinvestment. As you well know, it can only be done in government by annual appropriation. Not to be critical, but when it comes to funding health care, defence, and other things, it's hard to come up with that. The City of Montreal has in fact now instituted that rule, but there are very few governments that do that.

I come back to your question. My own impression and first-hand experience is that our buildings...and it was quite severe. We had one situation where there was severe mould. We had a lot of buildings with severe mould, which is simply caused by water coming in. I could also indicate that this is true of schools. It's not only federal buildings; it's schools, it's local government buildings.

Hon. Raymond Simard: In the federal government, my experience has been that when you have lousy.... One of your comments was that we have lousy managers or we're lousy managers of our buildings. Normally, what we try to do here in Parliament is improve things. I'm wondering if you've ever analyzed the possibility of having a government agency that would do nothing but manage buildings. Public Works is obviously a huge box. Have you seen that as a possibility?

Prof. James McKellar: I have to tell you, when I took over Ontario Realty Corp., I downsized it from 2,500 to 300, because I felt they should be managers. We outsourced all of that.

Here's the problem you get into—a very simple one. I tell my students, graduate MBAs, to go and work for government. It's like a six-month process. By the time they go through all the...you can't get those people. Industry comes along and interviews them and two days later they've hired them. So even getting good people is difficult, and really the question is, if the private sector can manage these properties, why not?

There are alternatives. You could outsource, which the federal government has done in a number of situations.

Hon. Raymond Simard: They have. For instance, some of the ministers who were here told us that they did outsource and hired professional managers.

Can you tell us if there was a notable change when they hired professional managers? There are people like Century 21 who do just that, property management. Is that an option that you've considered, and is that a viable option, as far as you're concerned?

Prof. James McKellar: It's a viable option to manage the property. The problem is, where are you going to get the money to fix them up? That's your dilemma.

I think the portfolio of federal buildings that Public Works owns, the last time I looked, had an average life of 39 years. That's a long time. Many of these buildings are going to require major overhauls to meet green standards of efficiency and air quality. They're going to require major retrofitting.

That's already happening in the private sector. We have a situation in Toronto today where we're going to build three million square feet of office space and there's absolutely no demand for it. What they're going to do is to move people out of what were.... So the demand in the marketplace today is for really good quality workspace.

• (1555)

Hon. Raymond Simard: If you were to divest these buildings, what process would you use? What the government is doing now is they've hired two banks to look after divesting the properties. It seems to me that would limit you very much. In Winnipeg, for instance, there may be real estate firms that are very strong there, but not necessarily in Vancouver.

Wouldn't you be better off getting local people who know the marketplace, as opposed to having just two banks doing it right across the board, across the country?

Prof. James McKellar: Again, I hate to speculate without knowing very many of the details. I only read what I can in the papers, and I don't believe a lot of what I read sometimes. I'm sure there are others in this room who can appreciate that.

Some hon. members: Oh, oh!

Prof. James McKellar: But I think it's a good point. It is a local business and sometimes it's best to rely on local people.

Hon. Raymond Simard: Who know the market.

I know for a fact that Toronto people sometimes have no idea what's going on in the Winnipeg market. We see it all the time.

Mr. Harold Albrecht (Kitchener—Conestoga, CPC): Where's Winnipeg?

Hon. Raymond Simard: Exactly. That's the point.

So from that perspective, it would seem to me that if you're going to be divesting properties and selling buildings in certain regions of the country, it may be wise to use local people who know the markets.

Prof. James McKellar: I would suspect, though, that this is going to go out as a package and will be picked up by one of the large institutions. The last one I saw was when Oxford Properties set out half of their portfolio. I forget how many buildings were in it, but it sold for just over \$1 billion. They had three bids: two were from offshore and one was Canadian. It was purchased by the CPP.

Don't forget these are leases. I think there's such an appetite, you're probably going to see bidding by these major institutional investors, as opposed to seeing people buying each one of these buildings.

Hon. Raymond Simard: That was my next question, actually. I was going to ask if you thought the sales would be partitioned to individual buyers or if there would be one big institutional buyer, like a Cadillac Fairview, for instance.

I guess the other thing is foreign ownership. Already, with the income trusts, we've just lost 16 companies to foreign ownership. The last thing we'd want to do is lose another \$1.5 billion to foreign ownership. Do you see that as a real possibility in this case?

Prof. James McKellar: Well, it comes back to the lease. The world of real estate today is an international business. For example, Bental Capital is over in China buying buildings. So it's hard for me to say there's some benefit to being owned by Canadians, because I do think, the way real estate is being transacted today, it is an international market. And that's the way you'll get your pricing.

To come back to your first point on whether we should sell them as a portfolio or sell them individually, that's a political decision, in the sense that there may be advantages seen. For example, I'm sure that local brokers must be yelling and screaming and saying, why are our banks getting the plum jobs when the Barnickes and the CBREs, and all of these people, are selling every day? I'm sure these people are complaining that somehow they didn't get in on the big deals.

Again, I can't answer that. I would suspect they went to the banks because they want to sell it as a portfolio.

Thank you.

The Chair: Thank you very much.

Madame Bourgeois.

[*Translation*]

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

Good day, Mr. McKellar.

Earlier, you stated that all governments are poor managers of their real estate assets. And yet, unless I'm mistaken, according to my large binder, the Canada Lands Company Limited, which reports to Public Works and Government Services Canada, in theory is supposed to manage, develop and sell government properties.

Does this mean that the Canada Lands Company Limited hasn't done a good job so far developing or verifying the status of federal properties? In your opinion, if the Canada Lands Company Limited can sell federal properties, how do you explain the fact that two major banks were called upon for their services? Why is that, when we already have all the services we need to help us care for our built heritage?

• (1600)

[*English*]

Prof. James McKellar: There are two agencies within the federal government dealing with real estate on a large scale, and those are Public Works and the Canada Lands Company—and I believe you're referring to Canada Lands in your comment.

The Canada Lands Company was created to dispose of what are called strategic assets, and in fact they've done a very good job, ranging from Garrison Woods in Calgary to.... But they are selling what we call surplus property. Canada Lands was created to sell property deemed to be surplus. This property here is not surplus.

Now, as for Public Works, if the question is, have they done a bad job, I would turn it around and say they've never had the money to do a good job. In other words, I remember not that long ago where—

[*Translation*]

Ms. Diane Bourgeois: I'm sorry, Ms. McKellar, but I was talking about the Canada Lands Company.

Ms. Mary Chaput from the Government Operations Section of the Treasury Board Secretariat testified before the committee that the Canada Lands Company was responsible for the orderly disposal of strategic surplus property, in accordance with business practices. Therefore, the Canada Lands Company—

The Chair: It's referred to as Canada Lands.

Ms. Diane Bourgeois: Fine then, Canada Lands. However, the witness was talking to me about land.

The Chair: No. Canada Lands is a Crown corporation that sells surplus federal government properties.

Ms. Diane Bourgeois: I understand. I apologize.

So then, has Canada Lands mismanaged any properties? The corporation is responsible for maintaining properties on behalf of Public Works and Government Services Canada. Could it have sold these properties, in light of its expertise in the area of business standards?

Perhaps I misunderstood?

The Chair: By Canada Lands, what exactly do you mean? Are you referring to Public Works and Government Services Canada, the department that manages federal property? Each department, Heritage Canada for instance, also has certain responsibilities.

Ms. Diane Bourgeois: The Canada Lands Company Limited is a Crown corporation.

[*English*]

The Chair: Is it Canada Mortgage and Housing Corporation?

[*Translation*]

Ms. Diane Bourgeois: It's not the Canada Mortgage and Housing Corporation. I'm talking about a Crown corporation that reports to PWGSC and that is responsible for managing our Canadian heritage — that's what our binder says—and for selling federal properties, albeit commercially managed properties.

Why then did we turn to the banks for help when Canada Lands has this expertise?

[*English*]

The Chair: Mr. McKellar, maybe you can try to answer that. I think she's talking about Canada Lands and their expertise, and why we didn't use them versus going out to somebody else. Maybe that's the question.

Prof. James McKellar: Well, I think Canada Lands' expertise is in a particular area, and that is to take surplus property, add value to it by taking it through zoning and changing the use, and then sell it. They actually act as a broker on behalf of the different ministries. In other words, they act on behalf of the ministries themselves, and they get the money in their account. They actually provide a professional service.

Could they deal with this? I suppose they could, but they probably wouldn't have the expertise to deal in what we call the capital markets. We're not selling bricks and mortar; we're actually selling future income. In a sense, we're really selling a bond, and that's what the government is saying. We guarantee that if you can take these buildings, upgrade them, and do whatever we require, in a sense, we're willing to pay you a sum of money for 25 years.

The market really looks at this as being like a bond. It's why I say it's very comparable to a mortgage-back security and that kind of thing. It's not really a building they're selling, because the people who are going to buy it are people who need to get an income—pensioners, institutions, etc.

Could Canada Lands do it? They likely could, but it isn't their expertise.

• (1605)

[*Translation*]

The Chair: You have one minute remaining, Madam.

Ms. Diane Bourgeois: Thank you, Madam Chair.

Nevertheless, I want to check into Canada Lands' mandate, because I feel this is rather important. Perhaps we could even hear from some corporation officials.

Mr. McKellar, you stated that not every single detail is disclosed when the government enters into a sale/leaseback agreement. We asked some questions about certain clauses, but we were told that this was confidential information that could not be discussed.

In your opinion, should the committee know the details of all of these clauses? Is it normal to be told that these clauses are confidential and that the scope of the business arrangements cannot be disclosed? Should members of Parliament know the specifics of these clauses?

[English]

Prof. James McKellar: I'm not sure if I know how you should do your business. Again, I don't know the extent to which this is held to be confidential in negotiations. It's a very difficult issue when the government deals privately, because there is this issue of confidentiality and then subsequent disclosure. I don't know what your powers are to request more detail. Certainly, I don't know any more than you on this.

I can appreciate your concerns, because, as I've indicated, there are the two big variables of public perception and political risk. You can't transfer those. You can transfer all the other risks, but you can't transfer those two.

The Chair: Thank you.

Mr. Albrecht.

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

Thank you, Mr. McKellar, for your very good summary of this issue. I feel that you pointed out in a very clear manner both the risks that are inherent and some of the potential benefits of the sale/leaseback.

You pointed out on page 2 of your summary that the big problem is the inability of almost all governments at all levels in all countries to meet the obligation to maintain their assets. You went on to point out that deferred maintenance is pervasive, from school boards to national groups.

I can certainly attest to the school board issue, having served as a trustee for a number of years. There was nothing easier at budget time than to find a few extra million dollars by deferring maintenance that we all knew was really necessary. But the horrendous challenges that would face us down the road, whether it was roof maintenance, avoiding mould, or structural challenges, certainly came back to hurt us.

You also went on to suggest that we need to admit we are lousy managers of property. You pointed out that finding good people to manage them is difficult because the competition is fierce.

You then indicated that the timing is good in terms of the value of the real estate right now. In addition, you've pointed out the possible improvement of working conditions for employers.

Having said all that, it seems to me as a committee member that this is a very reasonable path for our government to pursue in terms of getting good taxpayer value for the taxpayer dollar.

If we were to sign a lease and go to sale/back-leasing, what are some of the key contractual elements or agreements that you would encourage a prospective tenant, the Government of Canada, to make sure are in that lease?

You mentioned the possibility of a poor landlord not meeting obligations. What are some of the key items that we should make sure are in the lease?

Prof. James McKellar: I think you have to be very clear on the performance requirements you want. You have to have measures by which you can force that performance or change the lease. So I would say that the lease should certainly have in it what I would call output factors.

I think a second thing that you would want is the ability to vacate that space, or portions of it, some percentage. For example, in the deal that England had, which was called the PRIME deal, I think they were allowed to vacate up to 35%, and it was something like 10% a year. In other words, you would want the ability to be able to move.

A third factor you may want to look at is a way in which you gain some benefit from the cost savings because you are the tenant. If tenants turn off their lights, they should get some benefit. So you may want to look at factors by which the efficiencies and the cost savings don't just go to the landlord but also go to the tenant.

• (1610)

Mr. Harold Albrecht: Do you have a summary as to whether other governments, whether provincial or other national governments, have gone down this road? Subsequent to that, has it been a good experience economically? Has there been evidence of political fallout? You said we can't assess that risk, but do you have any experience on that front?

Prof. James McKellar: I do. I had experience with one in the Ontario Realty Corporation, in which we did the sale/leaseback. Unfortunately, it was subject to political influence because the owner went to the local MPP and said "I got a bad deal." Then all of a sudden it was, "This poor guy got taken by the government", and they wanted to renegotiate the lease. It was such a can of worms that I think we said we're not going to do anything with those.

I don't think at the federal level you're as subject to this. At the local level it's terrible. But every local politician is a real estate expert, and for everything you do they want to be involved. I remember at ORC trying to sell a small site that no one would care about in a small town. Before long, it was the local MPP. I'm not sure if you have the same at the federal level, and I'm not saying here. But there was a point at ORC when I said, "I just don't want to sell anymore assets, because every time we do it's on the front page of *The Globe and Mail*, and there's John Barber writing some article of which he knows nothing about." So it was just fraught with this kind of problem.

As I say, it is a very imperfect asset, and it's subject to all kinds of speculation. I recall we sold a site in the Muskoka area and around it were very wealthy people; it was sold for about \$4 million. Somebody phoned the press and said it was worth \$8 million. That was it. We pulled the deal because it wasn't worth \$8 million.

So anytime you get into this there is that. As I said near the end of my paper, the process is very important, because if you don't handle it well, it'll come back and blow up in your face.

Mr. Harold Albrecht: You mentioned some local and provincial issues. Do you have any examples in other countries—England, Australia, New Zealand—any other countries that have gone down this road with their national assets?

Prof. James McKellar: Actually, I would say Australia, New Zealand, and England have been much bolder in doing it, and they've done it on a massive scale.

Mr. Harold Albrecht: In the recent past? Or has this been in operation for many years already?

Prof. James McKellar: I would say that over the past decade we've had good examples of doing this in other countries.

What you're doing is actually what other countries are doing. We learn from them, and they make their mistakes, etc., but this isn't new. In fact, you might say selling eight buildings compared to what we've seen in Australia and England is a rather timid approach. The famous PRIME one was a massive deal, as I said. One ministry turned over all their properties.

I will come back to my point. Most governments realize they're not good managers of their assets, so they're all looking for solutions.

Mr. Harold Albrecht: Thank you. I think you've given a very candid overview, and I appreciate it.

The Chair: Thank you, sir.

Madam Nash.

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

Good afternoon to you. Thank you for coming here to share your expertise with us.

The first question I have is a question we asked the minister when he was here, about having the companies that do the assessment of whether or not a property should be sold be the companies that are engaged to transact the sale.

Is this a normal situation in these types of real estate arrangements?

• (1615)

Prof. James McKellar: That's a good question. Let me comment.

This goes back to the issue of public perception. Normally buildings are sold on a commission basis. The public may ask whether you can really depend on the advice of people who are going to be compensated on the basis of a percentage of the sale.

It's a tough one. I don't know how they structured that; apparently it went out to a proposal call, etc. Certainly it is a good question. It's one that's going to be raised and is deserving of a good answer.

I don't have the answer, but certainly it's a question that I think would continue to come up: what is the motivation of the people who are giving the advice, and the objectivity? I'm not questioning their objectivity, but I'm saying there may be that perception.

Ms. Peggy Nash: You said that when you were at Ontario Realty Corporation there were a number of buildings sold, and you were overseeing on that occasion. Was the entity that assessed the buildings and advised you on that aspect the one that conducted the transaction?

Prof. James McKellar: Well, this is strange. When I took over, I had to manage a forensic audit that turned up all sorts of nonsense. As a result of it, I told the board that it should never have asked for appraisals, because in every case those properties were sold at prices well below market—there was an appraisal saying it was worth such and such.

You have to realize that appraisals are a best guess. In the end, what's more important is the process you go through and the ability of the market to really price it.

Ms. Peggy Nash: Did you use the company that did the forensic audit and the appraisals to do the sale?

Prof. James McKellar: I have to tell you that many of the appraisals I read were not worth the paper they were written on.

Ms. Peggy Nash: You didn't hire those people to do the actual sale for you, then.

Prof. James McKellar: No. Appraisal itself is a separate profession.

This was certainly a case where people, I think it's fair to say, were committing fraud, or were duping people. But the people who actually put a value on something are doing nothing more than valuing the lease. They're basically taking net operating income and dividing it by what we call "cap rate" in the industry and are saying "It's worth this". You can do it on the back of an envelope. Just tell me what the lease is and I can tell you the price, without 25 pages.

Ms. Peggy Nash: Just on that, let me ask you another question, because it's great to have someone of your expertise here to help us understand this.

One of the issues you raised, which is a reason to sell, is maintenance and upkeep of the buildings. It strikes me as quite irresponsible that moneys were not adequately set aside to do that kind of maintenance. Nevertheless, we are where we are right now.

My question is, where will the money come from to do that upkeep and maintenance—as you say, the retrofit—of many of these buildings? They are 30 or 40 years old; they're probably big energy guzzlers. Will this be covered in the lease agreement as part of the moneys that government spends over time?

Prof. James McKellar: That's right. What will happen is, someone will buy these buildings, they will do a study of what it would cost to bring them up to scratch, they will borrow that money, and they will amortize those costs over the period of the lease.

The first comment is, isn't their money going to cost more than your money? I hate to say it, but in real estate today you can get money at a rate that isn't much above the rate government is borrowing at. It is kind of silly, but—

Ms. Peggy Nash: Could I just ask about that? If the government is going to be paying, through the leases, for the retrofit and the upkeep and so on, why wouldn't the government borrow its own money, do that retrofit and upkeep, amortize it over a period of years, and at the end, own the building, which is now upgraded and presumably worth a lot more?

• (1620)

Prof. James McKellar: They could do that, but they've never shown any inclination over 40 years to do it. It would be startling news if they said they were willing to. But there's no government in the world willing to borrow money to fix up their buildings.

Ms. Peggy Nash: Maybe Canada's new government will do that.

Prof. James McKellar: Furthermore, why should they? A good question is why you would borrow money to fix buildings when in fact we may borrow it for infrastructure. We may have to borrow it for other reasons.

Hon. Garth Turner (Halton, Lib.): Buildings don't vote, though.

Ms. Peggy Nash: Do I have time for one last question?

I'm from Toronto, and the real estate market there has been going up and up. Every so often I meet somebody who says, yes, we sold, and we're going to rent for a while. And every time they do that and want to get back in, they're kind of priced out of the market.

You may say, well, that's fine, that Canada never wants to get back into the market. But when these leases expire, presumably new leases will have to be struck, except we won't have the assets to bargain good rates, assuming we get some.

Prof. James McKellar: Again, you can build into your agreement how you factor in what I would call the residual value. My guess would be that over a 25-year period, the value may be more in the land than in the improvement itself. But you can build that in. You could have right of first refusal.

Ms. Peggy Nash: We could be in a weaker position in negotiations, though.

Prof. James McKellar: It depends on how you structure the deal. For example, let's say you structure the deal in such a way that you don't take all the cash up front. In fact, you use some of that to get a lower rent. So there are ways you can offset that in structuring the deal. That's why I keep saying to go back to the details. You can certainly offset that risk. It may occur in 25 years. In 1991, you could buy office buildings in downtown Toronto for \$90 a square foot, as some wise people did.

Real estate goes up and down. I'm not a believer that it continues to go up. I think whether you go for 20 or 25 years is a good question. Some people may say there's a tipping point, and if you know you're going to be there for 25 years, but you may be there for 50 years, why sell it? It's like leasing a car. Do I buy or do I lease? Well, if you're going to keep it for three years, lease. If you're going to keep it for longer, buy.

So there are technical questions that could be looked at.

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

Hon. Garth Turner: Thank you.

It's a pleasure to have you here.

Our job on the committee, at least on this side, is to assess whether or not this is a good deal for the taxpayers. In order for us to do that work, it becomes necessary for us to know certain information, as you have alluded to in your discussion so far.

Could you give us the sort of top five things we should be looking for to determine whether this sale and leaseback is a good deal for the taxpayers, from a financial standpoint? What would you be looking for? What would you be asking for if you were sitting on this committee?

Prof. James McKellar: Let me think.

I would still come back and say this isn't a real estate play; this is a business decision. So the question you would first have to ask is why I need that space, why I need it for 25 years, and why I want to be in this location. So as in any business, the first decision you have to make is a business decision. Do I want to be in this building with this use?

Second, I would then begin to say that if at the moment I believe I'm going to be there for 25 years, there's a lot of uncertainty. There's the impact of technology. I may in fact be using less space in the future, so I'd want to make sure I had some options. And you have to remember that there's a price to be paid. I remember doing a study of the London market. People were willing to pay more for short leases because they felt that in a business, about three to five years was as far out as they could go. So I would be certainly looking for some flexibility over that 25 years.

• (1625)

Hon. Garth Turner: But I was also thinking, in terms of our ability to assess this as to whether it in fact makes sense to the taxpayers, obviously we need to have an estimation of what the buildings are going to sell for. We need to know what the terms of the lease are going to be, and not just the length of the lease but obviously the....

We need to know the base rent. We need to know the additional rent. We need to know the amortization of any leasehold improvements over that. We need to know what the buyback is going to be at the end, and if there is a buyback, we have a word that there is.

I guess we'd need to know the closing costs. We need to know the commission payable on the sale. We need to know other costs that are involved, would we not?

Are those reasonable questions? Is that knowledge we would require as to whether it's a good deal or not?

Prof. James McKellar: I think government would require the same knowledge as any private person undertaking this.

The dilemma you always have is that it's hard to go in with the private sector if everything is going to be negotiated in public. It's always a difficulty. You can't negotiate in public, but there has to be a process by which you are assured that you've had professional advice, it's objective, and you've analyzed those numbers.

Hon. Garth Turner: Right. But that is reasonable information for us to be asking for in order to understand whether it is in fact a deal the government should do. Correct?

Prof. James McKellar: It is. The problem is, when do you ask for it and when do you get it?

Hon. Garth Turner: All right, but we have the power to get whatever we want and to do it in camera. What's around this table stays around this table. We can close that door and we're done.

I'm asking you whether it's reasonable for us to be asking, for example, what the commission rate is. Is it 2%? Is it 6%? It's \$1.5 billion.

Prof. James McKellar: It's a reasonable question. I don't know, again, if you'll get an answer. The dilemma, even in my industry, is that every time you sign a lease there's a last sentence that says you will not disclose anything in this lease. So it's an industry that kind of —

Hon. Garth Turner: Right, sir, but we are the vendors. Everyone around this table is a vendor. We represent the people who own these buildings. We actually own these buildings, all of us around this table—not just that side, all of us. We are the vendors. That's an important point I think for us to know.

The minister responsible for this portfolio appeared before the committee and he flatly refused to offer that information to these committee members. We were refused to be told what the commission rate is. We were refused to be told what the buyback was. We were refused on any indication of base rent or additional rent. We were refused on a number of technical issues.

If you were sitting on this committee, would you, in your expert opinion, be able to come up with a conclusion as to whether this was a good deal or not for the people you represent, given the fact that you did not have that information?

Prof. James McKellar: Is this committee the approving committee of the deal?

Hon. Garth Turner: We are members of Parliament who are on a committee that has oversight responsibility over the minister and the department involved.

Prof. James McKellar: You're asking me a question and I'm not sure—

Hon. Garth Turner: I'm just asking you if you would be able, if you would feel competent, given your level of expert knowledge, to render a yea or nay, given the fact that you did not have that information provided to you, or would you feel that you did not have enough information?

Prof. James McKellar: If I was asked to give an opinion on whether the deal was good or not, I would need that information—

Hon. Garth Turner: All right, very good.

Prof. James McKellar: —but that would assume that you were coming to me as an expert who could do those numbers. I wouldn't

have the right to make that public. I would have the right to look at that information and render a decision, but I would have to abide by whatever terms and conditions you set for me.

Hon. Garth Turner: Absolutely, and as I said, we can close the door and we are in camera and that's just the way it is.

Madam Chair, given what this expert witness has said, I must insist, and I'd like to make a motion, that we call the minister back and we ask for this information to be tabled once again, as we did before. Without that information, this committee is incapable of making a decision as to whether this is in the interest of the taxpayers or not, plain and simple.

The Chair: I think you can give notice and....

Well, we're into it now, so we can go to a vote on this.

Would you like to write out your motion, and then we'll debate it as we go?

I'll go to Mr. Kramp while you write out that motion and then we'll come back to it.

Mr. Kramp.

• (1630)

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): I'll pass.

The Chair: You'll pass.

Monsieur Simard.

Hon. Raymond Simard: I didn't think I'd get a second round. This is interesting.

One of the questions I have is that some of the bigger private sector organizations, like the banks, got rid of their own real estate just lately. In Winnipeg, a lot of the big banks have sold it off. You would think if anybody knew the business it would be the banks. Why do you think they're doing that right now?

Prof. James McKellar: I think there's a very good reason, and that is, as a bank, you don't want to tell your shareholders you're in the real estate business. I happen to know that one of the banks had a higher return on their real estate than they did on their banking. I don't think that's an easy sell to your shareholders. I think most industries today want their shareholders to know that shareholders' equity and the debt is going toward the core business. Most of them have shed their real estate because it is a distraction, and it's hard to justify why they've got capital tied up in real estate. I think that was the primary motive.

Hon. Raymond Simard: You've spoken of other deals that have happened, for instance, in England and Australia. Would you have any idea of what the commissions would be on a deal of this magnitude? I'm sure we're not talking 5% or 7%. There's got to be an amount that is reasonable.

Prof. James McKellar: The commissions could run anywhere between 2% and 5%. I don't know if there's a base. I don't know how it's structured. I really have no idea how this is done. This is something that the government and the minister are responsible for, and I couldn't say, but certainly there would be lots of benchmarks that he or she would know to establish whether it was a fair commission.

It's not so much the commission; it's to make sure you're going to get what you pay for with the money you pay for that service. I really couldn't comment on that commission or what would be reasonable because I don't know what the task is that has been set out for them.

Hon. Raymond Simard: You've indicated quite clearly that the public sector are lousy managers. Is there one country where they have done not a bad job?

Prof. James McKellar: No, there isn't.

Hon. Raymond Simard: Really, it's that bad?

Prof. James McKellar: It's that bad, because I think they all share the same problem, and that is it's really hard to put money into fixing up assets. I was surprised as we went around the world. You'd think a place like Switzerland or Germany...but no. This is a pervasive problem, and that's why every country is looking for solutions today. Some of them are what they call private-public partnerships—there are all these acronyms—but I think when it comes to public property, that is no different. Let's face it, an office building is an office building. It doesn't matter, it's built the same, it's identical, so it gets harder to rationalize why government needs to own it.

At home, one of our problems may be that we need an electric drill. Why do we have to own it? Why can't we have a right to use it?

Our society is fraught with that problem today. Everything we need to use we have to own. You might say ideologically there's no need for us to own some of these. We need to own certain things, but the impediment is ideological. There are people who believe government has to own things.

Hon. Raymond Simard: You also mentioned that our government, or Canada, is quite timid in its approach in selling only eight buildings at \$1.5 billion.

Prof. James McKellar: Very timid compared to Australia. Australia has got rid of everything and sold it to a large private consortium.

Hon. Raymond Simard: In your professional opinion, what is your recommendation when it comes to that? Would you wholesale everything outright?

•(1635)

Prof. James McKellar: No, my recommendation is, and I would say to most governments, that you have to adopt an asset management plan. You've got to begin to look at the assets you keep and the assets you dispose of. You've got to live up to the ones you're going to keep and you've got to build in a cost.

One of the biggest issues we face is the accounting system. Traditionally, governments operate year to year and then they have the gall to turn around and say they're going to have an accrual-based system. That's a joke. You come in with an accrual-based system, but you're still going to give out money on an annual basis on a cash appropriation. One of the things we're saying to governments around

the world is that they have to change their accounting system. These deferred liabilities have to show up as liabilities on their books. I think it's more important to develop an overall asset management strategy so that 25 years from now we're not in the same boat.

The Chair: We've put a report forward, and I think we have some recommendations in that report that over the next five years they move in that direction and they have a separate way of voting appropriations so that they take into account the longer-term need. But the government isn't there yet. I know they're interested in moving in that direction.

Prof. James McKellar: As I say, I'm not in any way critical of this government or previous ones. It's a pervasive issue. Everyone faces it. And as the Honourable Garth Turner said, buildings don't vote. My comment is it's a practical solution to a political dilemma.

Hon. Raymond Simard: Do I have more time?

The Chair: We're going to be debating his motion as soon as we have it properly done. I'll go to Monsieur Nadeau—it's his turn—and we'll keep working on the motion here.

Hon. Raymond Simard: Was I out of time?

The Chair: Yes, you were.

Monsieur Nadeau.

[*Translation*]

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

Good day, Mr. McKellar.

I'd like a bit of information and I hope you can enlighten me about certain matters. Is it not to the government's advantage to erect building on federal land where it less expensive to build, and to operate these buildings more cost-effectively than to lease buildings in more expensive locations?

Let me give you a concrete example. I don't know if it rings any bells for you. Let's suppose the government erects a building in a municipality where land is less expensive, and then remains the owner of and manages the building for a number of years, instead of leasing or erecting a building in a city where costs at year end are much higher.

[*English*]

Prof. James McKellar: The land costs are an insignificant cost of doing business. The major cost is the cost of people. You locate your asset where you can get the best people at the best price. As I indicated before, the real estate cost is maybe 5% of your cost. The land is minuscule. The major decision you're going to make is where to put the asset that will provide access to the best people. So I would not make the decision on the basis of land cost. I mean, if you want to do that, there's a lot of cheap land. But it will be a long commute.

[Translation]

Mr. Richard Nadeau: Take, for example, the Gatineau-Ottawa region in which departments have access to the same personnel. It's easy to cross the river and put up a building more cheaply. That's where I'm coming from when I ask you the question. However, you seem to be saying that a saving of 5% is peanuts.

[English]

Prof. James McKellar: Again, I don't think this should be argued as a real estate case. It should be argued more on what makes the best business decision. Also, though, I would say one of the things government should take into account in where it builds are some of the policy issues of urban regeneration, etc., that would assist.

I wouldn't necessarily say that government building buildings on cheap land that it owns might not be the best. It may be appropriate, but I don't think that would be the driver. It should put the building where it can do the best job of delivering the public service.

•(1640)

[Translation]

Mr. Richard Nadeau: On another subject, I'd like to talk about sale/leaseback agreements. In the private sector, the aim may be to acquire more cash assets in order to reinvest in the business. In the public sector, in the case of a sale/leaseback agreement, what happens to the resulting cash assets? Are they reinvested elsewhere in government? Are they reinvested in property, used to lease additional property, or what?

[English]

Prof. James McKellar: I think, again, this is a decision that government has to make. It has many more options as to how it uses that money. The private sector is going to use it in the wisest deployment of its capital for its business; government has many other options. It can say, we'll pay down debt, we'll do this, we'll build.... Those are political decisions, but it might be wise for the government to say some of it would go towards fixing up some old buildings. That's not a real estate decision; that's really a political decision, in the sense that government has to decide where it wants to put that money.

That's what separates it from the private sector. We know why the private sector does it; it's because it needs to redeploy its capital. Government is doing it in response to the problem of these assets, which require a substantial reinvestment.

As I say, it's a financing mechanism; it's a financing mechanism because government itself does not want to use its own money to fix up the buildings.

[Translation]

Mr. Richard Nadeau: At the start of your presentation, you mentioned that on average, federal buildings are thirty-nine years old. Did I understand you correctly? Did you mean to say that the average life expectancy of these buildings was thirty-nine years?

[English]

Prof. James McKellar: I believe the average age of federal buildings is in the order of 38 or 39 years.

[Translation]

Mr. Richard Nadeau: Given their age, we're talking about old buildings. Are they too old?

[English]

Prof. James McKellar: They would be considered very old, but again, the rate of deterioration is a function of how well they've been maintained. For example, the TD Centre in Toronto, which was built in the late 1950s, is impeccable today, so it's not age per se.

There are two issues. One is what I would call depreciation, which is just wear and tear; the other issue is functional obsolescence, meaning that the building is in the wrong location to deliver that service. A 39-year-old building is not old, but it's old when you don't reinvest.

The Chair: Thank you.

We'll go to Mr. Turner.

Hon. Garth Turner: Thank you, Madam Chair.

I would like to make a motion, as I gave notice of doing a few minutes ago. After having conferred with the clerk, I have worded the motion to read—

Mr. James Moore (Port Moody—Westwood—Port Coquitlam, CPC): I have a point of order.

I'm perfectly prepared to entertain a motion, but right now we are under the business of dealing with Mr. McKellar's testimony here. We have in camera matters and we're going to be dealing with committee business at 5. That's the appropriate time to deal with motions, not now, in the middle of testimony from a witness. Those are the basic rules of Parliament.

The Chair: I think the time is right, because we looked; there were very few new questions being asked, it was Mr. Turner's turn, and we're now discussing this particular topic. This is the right time in which to do it. If we wait until later, he will not be able to present his motion. It has to be at the time that we're discussing the issue; otherwise, he has to give notice of the motion.

Mr. Pierre Poilievre (Nepean—Carleton, CPC): I have a point of order, Madam Chair.

The Chair: He can present it now.

Mr. James Moore: That's not how *Robert's Rules of Order* works.

The Chair: There's nothing wrong with his presenting his motion now.

Mr. James Moore: I'm prepared to entertain the motion, but Mr. McKellar is here giving testimony.

The Chair: There is no problem. I am ruling that it's in order, and I've asked Mr. Turner—

Mr. Pierre Poilievre: I have a point of order.

I don't believe we've exhausted time for questioning.

•(1645)

The Chair: I asked and was told nobody else wanted to speak. It was Mr. Turner's turn. Mr. Turner can present his motion and we can keep speaking. How's that?

Mr. Pierre Poilievre: As a point of clarification, are we in his speaking time for questioning or...what are we doing now?

The Chair: He has the right to present his motion at this time.

Mr. Pierre Poilievre: That wasn't my question. My question was, what forum do we now find ourselves in?

The Chair: I gave him his turn because when I asked for more speakers from the Conservatives, there were no more.

Mr. Pierre Poilievre: What forum do we now find ourselves in, though? Are we in committee business or are we questioning a witness?

The Chair: It's the same thing. We are discussing the sale of assets and we happen to have one person here, but he can present his motion now.

Mr. Turner, go ahead with your motion.

Hon. Garth Turner: Thank you, Madam Chair.

I'd like to move, Madam Chair, that the committee recall the Minister of Public Works and Government Services and insist that the following information be disclosed to committee members as soon as possible. I'm suggesting that it be at our meeting on May 10. The information would include, but would not be restricted to, the expected sale price of the buildings; expectations of the proposed leases; expected base and additional rents; commissions, fees, levies, and payments associated with the sale and the lease; anticipated buyback provisions; and all attendant costs about the sale and lease, including all legal fees and payments, and the recipients; and that information to be provided to us at our in camera meeting.

The Chair: Thank you.

Mr. Moore.

[*Translation*]

Mr. James Moore: Can we have a copy of the motion in both official languages?

The Chair: Yes, it will be available shortly.

Mr. James Moore: Could we have it in writing, before the vote is held?

The Chair: Certainly.

Mr. James Moore: The vote is scheduled to take place in 48 hours.

[*English*]

The Chair: Madam Nash wished to speak. Did you want to ask some questions while we get the French going on this?

Ms. Peggy Nash: Are we back to questions? Okay.

The Chair: If you wish, yes.

Ms. Peggy Nash: Mr. McKellar, my first question is, you said that Australia had sold off all of its public buildings and that countries around the world had done different things. Is there a balance that you would recommend Canada make between its capacity of office space or public buildings it retains and those that it leases?

Prof. James McKellar: I think it's clear that it's not in the public interest to sell everything from heritage sites to special use, to laboratories, etc. I think where the dividing line occurs is in what I call commodity accommodation, and that is accommodation that you

can get on the street in the market at today's price and you can sign a lease. It is hard to defend why government needs to own that kind of space.

Ms. Peggy Nash: So you're talking about just regular office space.

Prof. James McKellar: Regular office space, because one of the things that we find in industry today is that industry really isn't sure where it's going to be in three, four, or five years.

For example, if you take the city of Toronto, we're growing every 10 years at the size of Calgary. So 10 years from now there's going to be another million people who require services. Are they going to be well-served by a building that is located in Queen's Park, or in fact should we be looking at renting a mall space, or should we be looking at providing services electronically?

I think that all industry today is being a little more suspect about where its space is, etc. But I would certainly say that when it comes down to what I call commodity space, it's more difficult to defend the notion of ownership.

Now, given that you own them, the debate today is, at what price and what agreements do you dispose of those? But there's fundamentally nothing wrong with disposing of them.

• (1650)

Ms. Peggy Nash: I was thinking that there's a building on the block, 4900 Yonge Street, Yonge and Sheppard, which is a long-time government building. I don't know the age of the building.

Prof. James McKellar: The seventies.

Ms. Peggy Nash: It's from the seventies. There's going to be a demographic change. If we look out over 25 years, there are going to be massive technological changes, demographic changes in the workforce. There will be, as you say, a massive influx of people into the city of Toronto.

My question is, if we strike a lease for 25 years, we could be in any number of scenarios. We could be in a scenario where perhaps there are fewer employees and a need for less office space. We could be in a situation where real estate prices are much higher in 25 years. There are all kinds of possible scenarios.

My question is, do we have less flexibility in a long-term lease? I know what it's like to try to get out of a car lease. Do we have less flexibility with a long-term lease? In fact, we do if we can just sell or lease our own property, as Canadians.

Prof. James McKellar: You certainly sacrifice certain flexibility, but you gain other things. In other words, for 25 years you don't have to worry about renegotiating a lease, and you know how difficult it is to do that.

On the other hand, you could build flexibility into the lease. You might have the right to sublet. You might have the right of moving out of—

Ms. Peggy Nash: So these may be other things we want to ask the minister about in terms of the flexibility of the lease.

Prof. James McKellar: That's right. It would be wise for government to say on a 25-year lease there are certain uncertainties and we'll make sure we provide that flexibility.

By the way, that building...there's a good example, in some ways, of why governments shouldn't build office buildings. That is the most inefficient building, because it was designed, if you've ever been in it—

Ms. Peggy Nash: I have been in it many times. I get my passport there. It's a very open concept from the 1970s.

I have one last question. I don't know if you transfer the risk to another party, because you are still paying for it. The people of Canada will still pay for the upkeep and the maintenance, but another party will carry out the work.

My question is around accountability. Right now there is public accountability for Government of Canada buildings. If you get into long-term leases, there's a private party who is responsible for this. Do we not have the potential to lose public accountability and tie ourselves up in litigation in trying to force compliance with leases that are perhaps not being adhered to?

Prof. James McKellar: I would say you have some excellent landlords in Canada today.

Ms. Peggy Nash: I'll invite you to Parkdale, in my neighbourhood.

Prof. James McKellar: But on the institutional side, at the level of large office buildings, you have Oxford, Bentall, and Cadillac Fairview. They are good managers because one of the things they do is maintain the value of the asset for their institutions.

We rent the downtown Schulich School from Cadillac Fairview. I wish we had that level of service and quality at the university. Every time I want to paint a wall at the university, I have to go through a process. It's painful.

I asked them how much they allocate for our building for maintenance, and they said zero. I asked how they knew when to maintain something. They said when it breaks, they fix it. The institution says they have to make sure the asset is carried on their books at value, and they have to keep putting money in every year.

I think what we've seen in the last 10 or 15 years is a maturing of the industry and a group of very good professionals who have come into it. This might not have been an option 10 or 15 years ago.

But look at the Canada Pension Plan. I think 17% of their portfolio is in real estate today.

[Translation]

The Chair: Ms. Bourgeois.

Ms. Diane Bourgeois: I have no questions at this time.

Thank you.

[English]

The Chair: Do you have any other questions?

Mr. Poilievre.

Mr. Pierre Poilievre: I have one very brief question.

Do you know which provincial governments have gone down the road of leasing space as opposed to owning it?

•(1655)

Prof. James McKellar: I would say that today most provincial governments will not entertain new office buildings. I would say they will continue to look to the private market for space. That isn't to say they don't have public buildings, but I think in the future you'll see less and less.

To give you an example of what they are doing, we signed a deal at the university this week to do the archives on the York campus, and it's a design-build. Essentially, the Ontario archives will in fact have someone build it, someone own it, and someone maintain it, and they'll pay a lease. Why is that? It's because the owner will build in capital and operating....

The dilemma in the old system was that all you cared about was the capital cost and you let someone else worry about operating it. What's good about these deals is that operating it becomes a huge issue. If you're going to sign a 25-year lease, the landlord is going to want to make sure it's a very efficient building. Even in the case of the Ontario archives, they are going to a lease structure.

Mr. Pierre Poilievre: Good. Thank you.

The Chair: Are there any further questions?

Thank you very much, Mr. McKellar.

Is our motion ready for debate?

If it isn't ready, we'll go on to future business. *Nous irons à huis clos.* We're on future business. We're going in camera.

[Proceedings continue in camera]

•

_____ (Pause) _____

•

[Public proceedings resume]

•(1740)

[Translation]

The Chair: We now continue in public.

[English]

Are there any questions?

Who else wants to speak out of camera. This is out of camera.

Mr. James Moore: They are legitimate points, but it's not time to raise them. Wait until there is an actual deal and criticize the deal or scrutinize the deal. These can't be answered without violating confidentiality. That's the problem.

•(1745)

The Chair: I think what you're saying is okay, but obviously the minister is also quite able to decide what to say and not to say.

Hon. Garth Turner: Could I respond to the major points? I certainly understand the need for confidentiality, and I understand the need for the minister to have a certain amount of discretion to be able to do a deal, hopefully to the net benefit of taxpayers. I completely understand that, and it's not my intention to try to diminish this deal on behalf of my constituency, yours, or that of anyone else. I'm not out to thwart that. That is not the intent. It is merely to recognize that any time a government operates behind a self-imposed veil of secrecy, it is the duty of people around this place to question that and to try to see through the veil of secrecy.

A government, particularly this government, which ran on a platform of open and transparent government and accountability, has a greater burden of proof than most governments in the past—particularly because this was its mandate—to prove such to the Canadian people.

So if the minister comes here and gives legitimate reasons why particular points can't be answered or why particular information can't be forthcoming, he can at least try to tell people a little more forthrightly than he has done so far as to why that is the case and when in fact we can expect that.

I don't think it is too much to ask to have these questions put before him, and it is unreasonable for committee members to oppose allowing a minister, who has the discretion to say or not say what he wishes and who has lots of curtains to hide behind, to come here and answer these questions directly.

A voice: We need to have the background to do our job.

Mr. Garth Turner: My colleague is quite right. It is information we need to do our job.

Mr. James Moore: If I may, if he would be willing to take a friendly amendment, strike the final paragraph. The reason there is a confidentiality agreement with the two banks, as the minister said before the committee, is because with the assessment of the 40....

Are we in camera or not, by the way?

The Chair: No, we are not in camera.

Mr. James Moore: Well, whatever. When the assessment was done of the 40 buildings, we pared it down to nine, now that we're considering putting an RFP for sale and for leaseback. When that was done, some of the information with regard to the work that was commissioned deals with the value of those buildings. So this is not a government operating within the confines of secrecy. This is the government doing what you describe, which is getting the best possible value for taxpayers dollars.

What I don't want to get into is a situation where, frankly, you say here, "In addition the committee calls as witnesses officials of the two banks commissioned to negotiate and handle the sale and lease". They haven't been negotiated to handle the sale and lease. What has been received by the department are the two studies, which were \$100,000 each from the two banks, with regard to these 40 buildings that we examined. If the committee calls these folks before the committee and they don't come, we know that some members of this committee will grandstand and say, "There goes the Harper

government operating under a veil of secrecy and not being fully open with the Canadian public". No. What we've done is to send a confidentiality agreement with regard to those two studies because we want to ensure that the assessed values of these properties, for which we are going to enter into a procurement, an RFP.... It's so we can get the best possible buy for taxpayers.

You can't negotiate these things in public. This is basic.

So I ask that you strike the final paragraph. Let's talk about the minister and not about the banks.

Hon. Garth Turner: Madam Chair, I am prepared to modify my motion and remove that, on condition that we have no further debate and go to a vote immediately.

A voice: I have one amendment.

Hon. Garth Turner: No, especially him.

Some hon. members: Oh, oh!

The Chair: We remove that last paragraph.

James, do you move that amendment?

Mr. James Moore: Yes.

The Chair: It's a friendly amendment and it is accepted. It has been removed. Is everybody in agreement with that?

Mr. James Moore: Sorry. I have one other friendly amendment, in all sincerity here. It says, "That the minister come before the committee on May 10, 2007". We haven't had the opportunity to consult. We don't want another situation where the committee says the minister doesn't want to come and all that nonsense. The minister wants to come. Simply strike the date of May 10 and make it that he will be here before the end of this session.

The Chair: Okay, let's do a friendly amendment that he appear as early as—

Mr. James Moore: Before the House recesses.

The Chair: Before the end of May, or whatever.

[Translation]

Ms. Diane Bourgeois: I'd like it to be as soon as possible, but in May. I don't want the witness testifying in June.

[English]

The Chair: As soon as possible; on May 1, okay.

As amended, which is without the last paragraph, this changes the date that the minister appears—

● (1750)

Hon. Raymond Simard: No later than the end of May.

The Chair: All those in favour of the amendment?

(Amendment agreed to)

(Motion as amended agreed to [See *Minutes of Proceedings*])

The Chair: It's unanimous.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

**Also available on the Parliament of Canada Web Site at the following address:
Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante :
<http://www.parl.gc.ca>**

The Speaker of the House hereby grants permission to reproduce this document, in whole or in part, for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

Le Président de la Chambre des communes accorde, par la présente, l'autorisation de reproduire la totalité ou une partie de ce document à des fins éducatives et à des fins d'étude privée, de recherche, de critique, de compte rendu ou en vue d'en préparer un résumé de journal. Toute reproduction de ce document à des fins commerciales ou autres nécessite l'obtention au préalable d'une autorisation écrite du Président.