

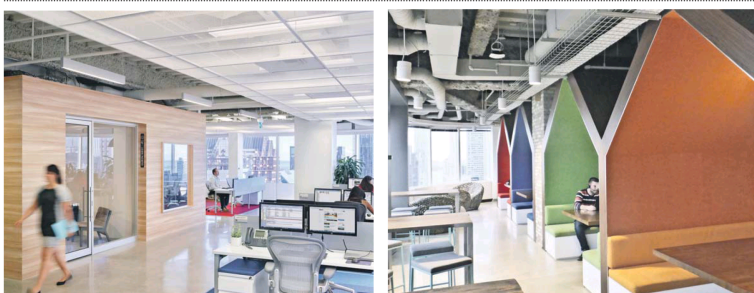
Property Report



RETROFITTING

A loft vibe comes to high-rise towers

With brick and beam space scarce and soaring in cost, growing Web-based companies like Travelzoo and LinkedIn are remaking traditional offices to meet their ethos



With their open concept, casual decor and exposed mechanicals, the new offices of Travelzoo, left, and LinkedIn at 250 Yonge Street in Toronto bear no resemblance to the buttoned-down, corporate workplaces once in fashion at the downtown high-rise. SHAI GIL, WALLACE IMMEN FOR THE GLOBE AND MAIL

WALLACE IMMEN TORONTO

An office tower above Toronto's Eaton Centre downtown seems an unlikely location to attract Web-based companies whose employees prefer funky, brick and beam workspaces. Cadillac Fairview Corp. Ltd. built 250 Yonge Street in the 1980s, the era of corporate ladder climbing and dressing for success, when tenants demanded marble lobbies, plush carpeted floors and reception areas with polished wood desks and abstract paintings on the walls.

Now, 30 years later, tech tenants who can't find converted warehouse spaces big enough to meet their expanding needs are retrofitting corporate spaces in Class-A high-rises like 250 Yonge into loft-like workspaces.

LinkedIn Canada and online vacation deal company Travelzoo have both reshaped buttoned-down spaces at 250 Yonge into workplaces with the funky, eclectic feel they need to attract tech-savvy creative talent. Drop ceilings, fluorescent lights and corner offices are out. Girders, raw ductwork, industrial lamps and walls that double as blackboards or backboards for basketball hoops are in.

LinkedIn, the business-oriented networking website, spent months searching in vain for available space in converted industrial buildings, which have become magnets for creative companies in Toronto, says Julie Dossett, communications lead for LinkedIn.

"We wanted to create a space that brings the company together and allows for our tremendous growth," she said. The Toronto operation had grown from a single employee working from his garage in 2010 to a midtown office that, by 2014, was getting snug for 70 employees. The search began for a space that could handle its

130 employees today.

Employees had a big say in the search. "They absolutely didn't want to be in a suburban campus," Ms. Dossett notes. They wanted to be near the city core and transit hubs so they don't have to drive to work.

"And a huge component of the attraction for talent in the tech sector is the quality of the work space. It's just easier to attract and retain people in a place that has the creative look and vibe of converted industrial and warehouse offices," such as those in Liberty Village, to the west of the financial core.

"But brick and beam spaces big enough for us are extremely hard to find, because they've all been claimed by now," she explained. The vacancy rate in "reclaimed and converted" office spaces in Toronto is about 3 per cent and rents are soaring because the tech sector accounts for 38 per cent of new office leasing across Canada, according to a recent CBRE Canada report. Defixturing is the New Fixturing.

A floor and a half at 250 Yonge offered the 38,000 square feet LinkedIn needed, but Ms. Dossett admits the company's search team didn't immediately see it as suitable, because it was so corporate, with its corner offices, high-walled cubicles and acoustic tile ceilings.

The transformation by San Francisco-based IA Interior Architects ripped out the ceilings to leave exposed mechanicals, tore out carpeting and polished the concrete floors to a gleam that resembles lacquer. Working areas, where the dress code is always casual, now cluster around windows that have panoramic city views, while meeting rooms and video conferencing areas in the interiors of floors may have roll-down garage doors or roofs that resemble the peaks of Victorian homes.

Travelzoo's Canada operations

had a similar goal for a move from a temporary rental in an office building to a home it can call its own. Their digs comprise 4,800 square feet of the 23rd floor of 250 Yonge and feature views of the city and Lake Ontario. To give the office the flair of a funky converted loft required putting in travel-inspired interiors.

"We aimed for a very uncorporate look," says Heather Dubbeldam, principal of Dubbeldam Architecture + Design in Toronto. "Even though Travelzoo is a large, publicly traded company, they didn't want corporate stuffiness."

There were challenges once the mechanicals in the ceiling were exposed, she says. An immediate issue was the fireproofing material that had been sprayed onto the structural I-beams. It's a safe alternative to asbestos, but its flocked material has a tendency to shed flakes, so Dubbeldam designed mesh screens to prevent stray bits from dropping on work areas.

There were also adjustments to be made to airflow once the ceiling was removed. That required bringing in new branches in the heating and cooling ducts to create consistent temperatures around the office.

Even though it was about 20 per cent more expensive to open up the ceilings, and retrofit mechanicals and cabling, rather than move to a brick and beam building, the design team managed to finish the project within budget, Ms. Dubbeldam says. It helped that the parent company in Travelzoo approved the budget in U.S. dollars at a time when the Canadian dollar kept going down.

"They ultimately got more for their money."

And even though the cost of the 10-year lease was higher, there are significant advantages to being in a Class-A building versus a brick and beam, says William Brown, Travelzoo's head of production

for Canada.

"You wouldn't have the same amenities and support as in this building. If I have a problem with the plumbing or air conditioning or a lightbulb needs changing, I call the building rep for Cadillac Fairview and they send someone right up. I wouldn't know who to call if I was in a loft somewhere."

Now that the employees have settled in, both companies say they see a boost to morale, productivity and a sense of community in their teams.

"This could be a very virtual business, with people on their computers all day or even working from home. This becomes a place where they want to be and work and play together," Ms. Dossett at LinkedIn says.

LinkedIn's office now has a campus feel, with its hand-painted murals, bulletin boards filled with snapshots taken at employee events and team spirit banners on the walls. Employees may use hover boards or scooters to get around and there's a bell to ring whenever someone makes a sale.

There's a play area where employees take breaks to shoot a few hoops, or play Ping-Pong, billiards and, of course, foosball. There's also a conversation area called Connect, a meditation room and a spa with a schedule of therapists coming in to offer massages.

Ms. Dossett predicts the deconstruction of Toronto's corporate towers is destined to accelerate. "The new generations of office workers just don't want the stiffness and formality of the former buttoned-down corporate world," she says. "You can't attract and retain talent with rigid rules, but at the same time you have to provide a work environment that will encourage them to achieve their demanding goals."

Special to The Globe and Mail

PROPERTY METRICS

11.1%

Biggest one-week REIT gainer: Lamesborough. ▀ CBRE

7.4%

Biggest one-week REIT decliner: Gazit Globe. ▀ CBRE

13.2%

Vacancy rate in U.S. office space in the first quarter of 2016, up 10 basis points from the previous quarter. New supply in markets such as Boston, Washington, D.C., Dallas and Orange County in California contributed to the rise. ▀ CBRE

6.3%

Office vacancy rate in San Francisco in the first quarter, the lowest among cities surveyed in the United States. Nashville (6.6 per cent) followed. ▀ CBRE

THE COST OF COOL

It's more expensive to be in a Class-A building than in a loft space in Toronto and Vancouver because of the amenities and support, but the gap is narrowing, according to statistics from commercial real estate company CBRE Canada.

In 2006, lease rates for repurposed former industrial and warehouse office space west of Toronto's core averaged \$14.75 a square foot and had an 8.7-per-cent vacancy rate. That compared to \$28.25 and a 5.3-per-cent vacancy rate in Class-A buildings in the financial core.

By the first quarter of 2016, however, the average rent for brick and beam space had risen to \$25.11 and just 3.5 per cent was vacant. Rents for Class-A space averaged \$35.80 a square foot and vacancy rates had risen to 6.4 per cent.

The trend is visible in Vancouver as well, with base rents in trendy Yaletown averaging \$30 a square foot, with a vacancy rate of 4.6 per cent, compared to \$28 and a vacancy rate of 9.4 per cent in the central business district, CBRE reports. Brick and beam spaces in Gastown average \$21 a square foot and the vacancy rate is 4.8 per cent.

So far this year, vacancy rates have fallen or been stable in urban markets across Canada, with the exceptions of Calgary, Edmonton and Halifax, which are affected by cutbacks in the energy sector, according to CBRE statistics.

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