



**Future Canadian Embassy, Current state**  
130 rue du Faubourg Saint-Honoré, Paris

# Paris Chancery Relocation Project – France

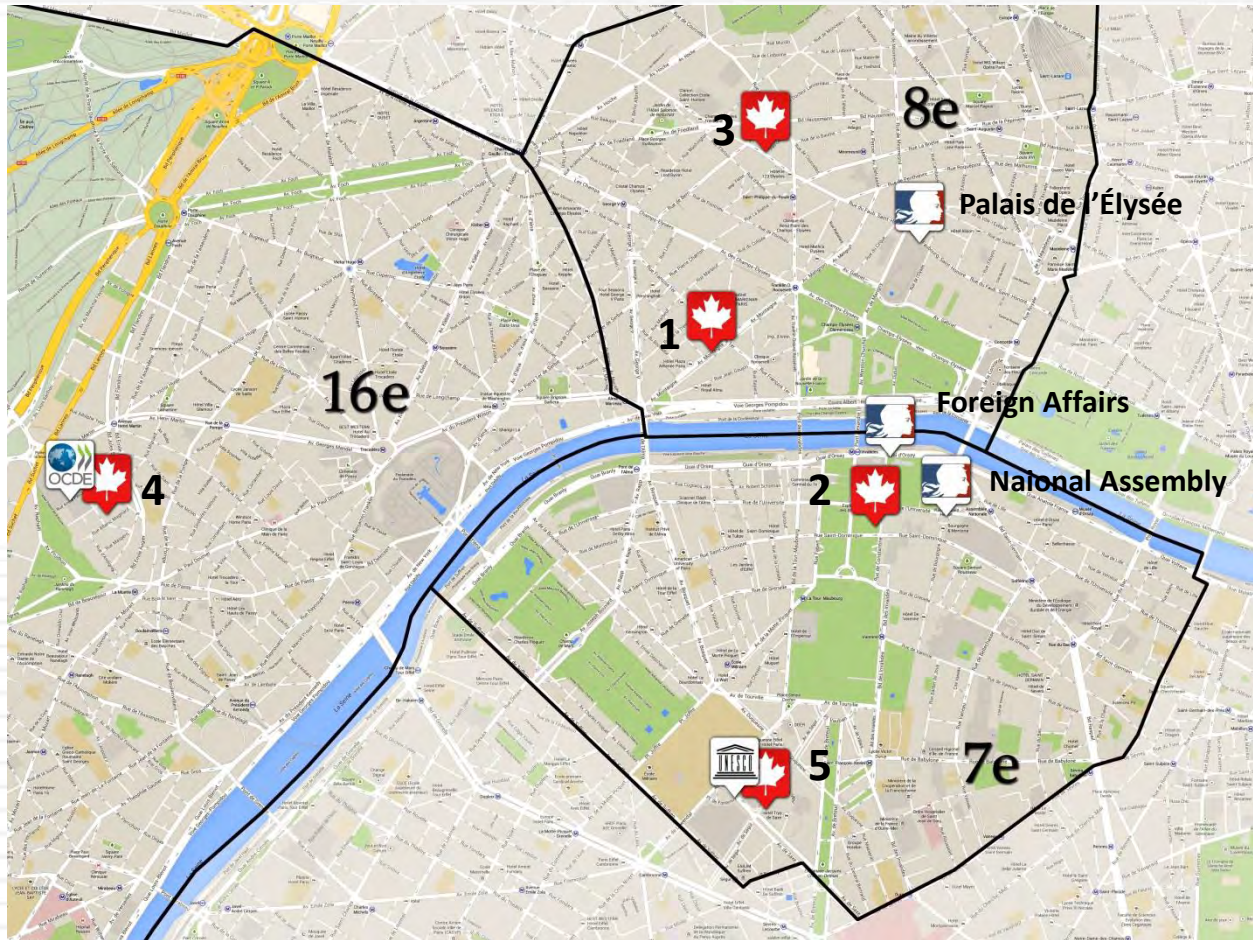
## Transferring risk through a real estate exchange

**M. Monette**





# Canadian Missions in Paris

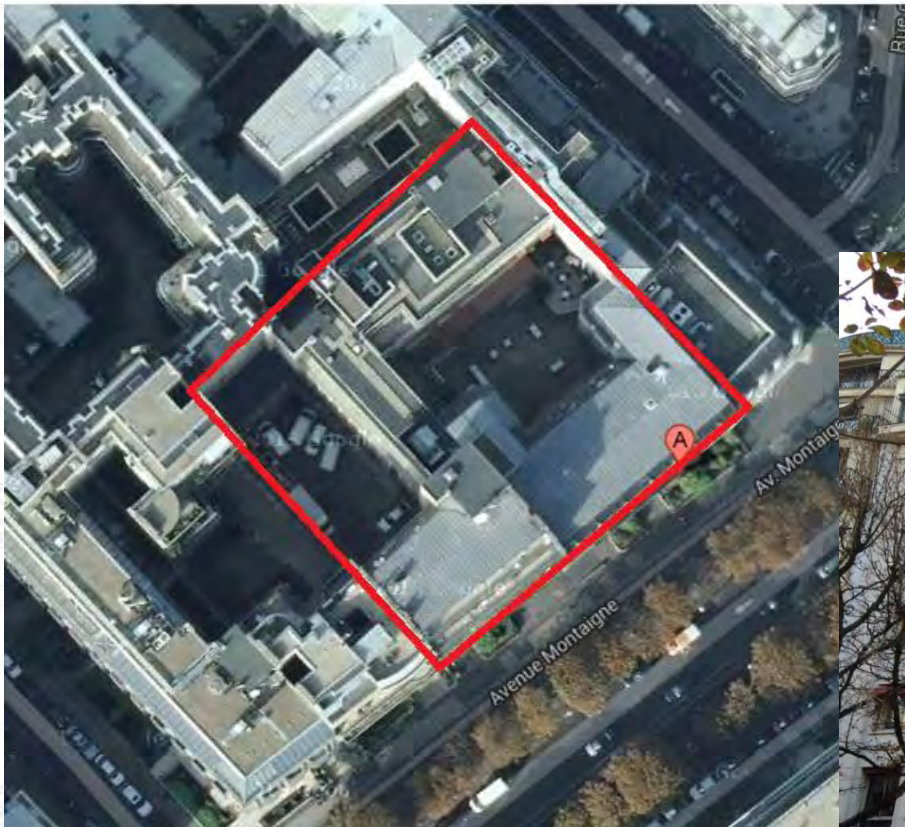


- Paris Property portfolio:
1. Canadian Embassy
  2. Cultural Centre
  3. Official Residence
  4. OCDE Mission
  5. UNESCO Mission



# Paris Chancery

- Chancery located at 35-37 Montaigne avenue
- Construction 35 Montaigne: 1946-1958
- Last major renovation: 1978, purchase of adjacent Kodak HQ, 37 Montaigne



Chancery is comprised of 3 buildings



# Chancery - Issues and current situation

- The Paris Chancery is long overdue for a mid-life retrofit:
  - Dysfunctional buildings; inefficiencies cause disruptions to programmes and Mission operations
  - Obsolete building systems: electrical, mechanical, water and waste management systems (cost of upgrade estimated at \$170M +)
  - Significant vacant space due to reduction of programmes (CIC e.g.); not compliant with new Government of Canada WP 2.0
  - Image of Montaigne avenue has evolved since embassy built: high end luxury
  - Value of property less subject to Paris market fluctuations



**Electrical and mechanical systems outdated**



# Cultural Centre - Issues and current situation



- The Canadian Cultural Centre, is due for a mid-life retrofit to upgrade building systems and optimize the use and functionality of space
  - Space not adapted for its needs
  - Obsolete systems for events, expositions and conferences
  - Significant vacant space due to reduction in programmes (NFB e.g.)
  - Space allocation no longer complies with new Government of Canada standards

- **Canadian Cultural Centre, 5 rue Constantine**
- **Established 1971**
- **Extensive renovation 1995**



# Project political and governmental context

- Category 1 Mission – Expression of France – Canada relationship
- Presence of unique Cultural Centre
- High profile project
  - Ambassador previous Minister of Foreign Affairs
  - Senior government involvement
- Business case objectives
  - No new spending – cost-neutral
  - Consolidate assets where feasible – portfolio rationalization
  - Smaller program footprint – meet WP 2.0

# Governance and Project organization

- “Major Crown Project” structure for oversight:
  - Governance structure in place providing strategic direction and senior-level project oversight (Ambassador, Deputy-Ambassador, Consul General, ADM International Platform, ADM Geographic, DG Physical Resources Bureau, Director FINTRAC)
    - Vision
    - Project Charter
    - Business Case
    - Communications Plan
    - Site selection
    - TB Submission
    - Final agreement
  - Senior Director responsible for:
    - Procurement / Real Estate Strategy
    - Development of Project Charter, Business case, TB Submission, Comms plan, Agreement
    - Project Delivery

# Real Estate Strategy – Options analysis

Two major options were analyzed in the context of the mandate, objectives and Paris market: Remain on Montaigne Avenue or Relocate

## -Option 1: Renovation of existing Chancery

- Costly project, source of funds to be identified (sale of assets analyzed)
- Interim space required during period of renovation
- Multiple approvals (Treasury Board, Contracts, Permits, etc.)
- Duration of project  $\geq 5$  years
- **Does not meet Cost-neutral mandate**

## -Option 2: Purchase of a new Chancery and disposal of current buildings

- Project financed through the proceeds of sale
- No interim space required
- One move
- Numerous contracts and approvals
- Duration of project  $\leq 5$  years
- **Meets Cost-neutral mandate: further options analyzed**



# Real Estate Strategy: Disposal and acquisition options

## Option 2a: Traditional approach

### Ph1: Broker Sale/Acquisition & Ph2: Design/Bid/Build

- Broker retained to sell the real property and then find a suitable property to acquire that meets the embassy's requirements.
- Properties would be proposed and assessed against requirements.
- Once a property is selected/purchased, DFATD would then retain Architecture and Engineering consultants to design and prepare construction documents for new building.
- Package would then be tendered to retain a contractor for the construction.
- A Design/Build approach could be considered to expedite the construction.

# Real Estate Strategy: Disposal and acquisition options

## Option 2b: Real Estate Exchange approach

### Exchange of current Chancery for a turnkey solution

- Short-listing potential developers having the financial capacity to purchase the Montaigne property and the technical capacity to provide in exchange a building (move-in ready) that meets the embassy's requirements.
- Based on a detailed description of vision, financial and technical requirements (*Cahier des Charges*), the developers would propose a building or site.
- Proposals would then be evaluated and assessed as to the suitability. This approach also implies that the Developer is responsible for the design and construction of the new building.
- The financing of the project is drawn down from the value of our properties (no bridge-financing required).



# Real Estate Strategy: Option 2a - Traditional

## Considerations :

- Funding required to bridge finance – subject to TB approval
- Public tender for Broker services (project becomes public)
- Broker fees (5%)
- May require lease-back if sale of Chancery has to proceed ahead of new site completed
- Sale of property may lag
- Numerous interlocutors
- Numerous contracts
- 2-3 Treasury Board submissions
- Prolonged schedule

# Real Estate Strategy: Option 2a - Traditional

## Procurement requirements:

- Real estate lawyer/Realty advisor (tender by invitation)

## Major contracts to be public tendered:

- Broker
- Design and Quality Assurance (A&E) Services
- Construction contract
- BET (technical -France)
- SPS (health and safety -France)
- Implementation oversight (Project Management team)
- Construction economics (QS services)

## Risks:

- Market conditions
- Regulatory
- Delays in TB approvals
- Delays in procurement processes
- Delays, claims, disputes, accountabilities associated with design and construction
- Political changes over prolonged schedule (local, mission, government)



# Real Estate Strategy: Option 2b - Real Estate Exchange

## Considerations :

- Self-financed
- No broker fees; financing fees may apply
- Most risks borne by developer
- Incentive to expedite delivery of new site
- Incentive to provide excellent quality
- Flexibility in range of solutions; market thoroughly searched
- Less interlocutors, few contracts and approvals
- 1 TB approval: Once a solution has been agreed to and costs confirmed, TB submission requesting full contracting, transaction and expenditure authority.

# Real Estate Strategy: Option 2b

## Procurement requirements:

Real estate lawyer/Realty advisor (tender by invitation)

Major contracts to be public-tendered:

- Implementation oversight (Project management team/TSPS)
- Quality Assurance (A&E)
- Construction economics (QS services)

## Risks: most borne by Developer

- Market fluctuations
- Financial
- Regulatory
- Schedule
- Procurement
- Project Management
- Design and construction risks
- Tenants



# Real Estate Strategy: Exchange Option and Project Phases

- **Real Estate Exchange Strategy for the relocation of the Paris Chancery endorsed by Governance Committee**
- **Six major phases required to finalize the relocation of the Paris Chancery within the real estate exchange strategy:**
  1. Request for Expressions of Interest
  2. Expressions of interest evaluation and selection of one or more priority options
  3. Consultation with the Minister and the Prime Minister
  4. Treasury Board Approval
  5. Negotiations with priority proponent
  6. Design and construction period

# Real Estate Strategy: Exchange Phase 1

## Request for Expressions of Interest Phase:

- Governance Committee endorsement of Business Case
  - Consolidation of Cultural Centre into embassy premises
  - OECD and UNESCO missions to remain
- Development of the *Cahier des Charges*; 3 sections:
  - Qualitative: Vision
  - Administrative:
    - Financial: current value and re-zoned value
    - Legal framework: Main agreement (*Accord d'Échange* with 2 sub-agreements (*Acte de Réalisation et Acte de Transfert*))
  - Technical and functional requirements
- Legal team invited 100+ firms with interest in real estate (developers, owners, contractors, portfolio mgrs) (Embassy and project not identified)
  - Teams with financial and technical track record
  - Screening and shortlist of potential proponents
  - Endorsement of shortlist by Governance Committee

# Real Estate Strategy: Exchange Phase 2

## Expressions of interest evaluation and selection of one or more priority options

- 18 candidates/teams pre-qualified based on their capacity to deliver (financial, commercial, technical and management capabilities).
- Candidates were provided with the statement of requirements (*Cahier des charges*)
  - Less than 3 months to provide solutions
- E of I document (*Cahier des Charges*) and the Evaluation was supported by third party team of local advisors and experts
  - financial and real estate
  - legal and notary
  - cost and construction management
  - architectural / urban planning
- 40+ buildings/sites were screened of which 32 did not meet the criteria set out in the *Cahier des charges* (location, space requirements, technical requirements, etc.).



# Real Estate Strategy: Exchange Phase 2

## Expressions of interest evaluation and selection of one or more priority options

- 8 formal expressions were received and evaluated
  - Program requirements and security considerations
  - Financial offers and costs
  - Legal framework
  - Vision of future Paris embassy (reduced space, flexibility, image)
  - Location and visibility
- Proposed solutions were presented by the proponents to the Governance Committee following site visits
- Two options deemed as fully meeting requirements by Governance Committee

# Real Estate Strategy: Exchange Phases 3 & 4

## Consultation with the Minister and the Prime Minister

- The two proposed options were in line with mandate letter, vision and project objectives:
  - location, image and vision
  - space right sized
  - programs consolidated
  - operational and capital savings
- One preferred option retained and endorsed to seek TB approval

## Treasury Board Approval (December 4th 2014)

- Real Estate Exchange Strategy does not “fit” within policies
  - Expression of Interest vs proposal
  - Oversight and risk mitigation
- One submission for Project, Expenditure and Transaction authorities

# Real Estate Strategy: Exchange Phase 5

## Negotiations with preferred option proponent

- Negotiations with proponent to review legal and financial framework within authorities provided
- Exchange agreement signed (December 12<sup>th</sup> 2014) following Treasury Board Approval





# Retained Option : 130 rue du Faubourg Saint-Honoré, Paris

## ▪ Highlights:

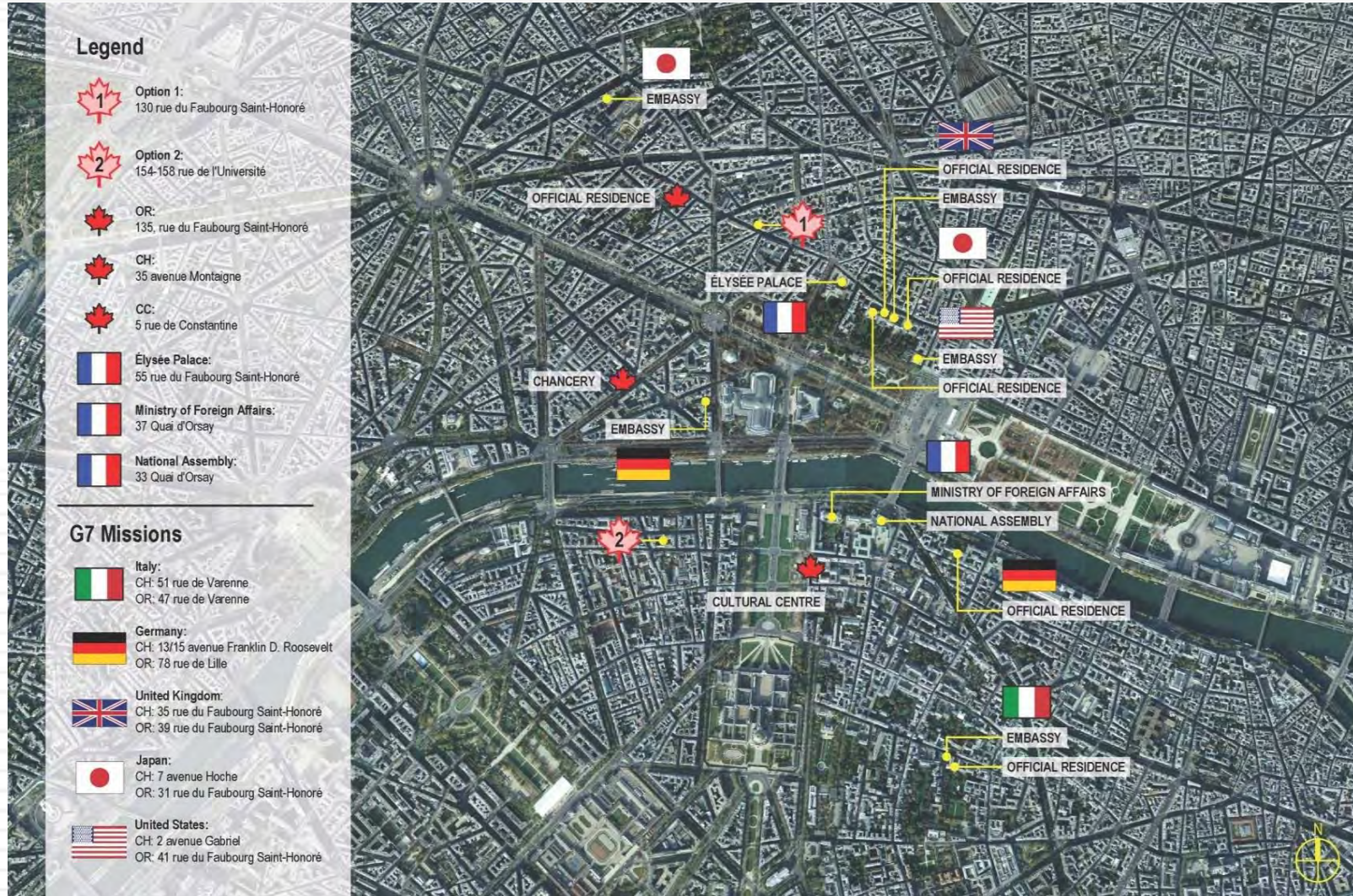
- Retrofit / Renovation
- Reduced footprint (from 11,000m<sup>2</sup> to 7,300m<sup>2</sup>) - workplace 2.0
- Integration of Cultural Centre
- Prestigious address with good visibility
- Reasonable flexibility but limited possibilities to alter heritage façade
- Proximity to Palais de l'Élysée and US, UK embassies
- Proximity to Canadian Official Residence

## ▪ Financial Proposal:

- Offer for current properties (Chancery and Cultural Centre) well above market value
- Specialized works financed through proceeds (\$ 30M: physical security, IT, QA and oversight, taxes)
- Significant additional revenue to Government



# Retained Option : 130 rue du Faubourg Saint-Honoré, Paris in relation to G7





# 130 rue du Faubourg Saint Honoré



Typical Haussmann architecture and layout





# 130 rue du Faubourg Saint Honoré – Façade



Future Chancery  
and Cultural  
Centre with  
modernized  
façade

Cultural Centre entrance

Chancery entrance





# 130 rue du Faubourg Saint Honoré – Exhibition Gallery



VUE DE LA SALLE D'EXPOSITION SOUS LA VERRIERE CENTRALE

PROJET DE CHANCELLERIE CANADIENNE A PARIS

JEAN-PAUL VIGUIER ET ASSOCIES  
Architecture et Urbanisme



Affaires étrangères, Commerce  
et Développement Canada

Foreign Affairs, Trade and  
Development Canada

# Real Estate Exchange Strategy: Lessons Learned

## Current project status

- Construction Permit obtained and construction tender package complete
- *Acte de Réalisation* to be signed December 1 2015
- January 5 2016: construction start
- Transfer of Titles occur once move of Embassy and Cultural Centre is complete in 2017

## Lessons learned

- Manage public sector expectations
- Manage private sector perceptions
- Detail definition of technical performance requirements and functional parameters
- Oversight committee to endorse key decisions and documents
- Third party support and review
- Robust legal agreement: Assignment, Purview over design and quality, Process for changes, Guarantees and insurances, Schedule
- Discussion with TB analysts at the onset



# Questions?

