

Transforming The Choice Properties Office Portfolio

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Allied was known initially for its leading role in the emergence of Class I workspace, a format created through the adaptive re-use of light industrial structures in urban neighbourhoods. This format typically features high ceilings, abundant natural light, exposed structural frames, interior brick and hardwood floors. When restored and retrofitted to high standards, Class I workspace can satisfy the needs of the most demanding office and retail users. When operated in a coordinated manner, this workspace becomes a vital part of the urban fabric and contributes meaningfully to a sense of community.

Allied's experience over time, along with advances in building, furniture and communications technology, contributed meaningfully to the evolution of workspace in Canada. Neighbourhood amenities also made a critical contribution by enabling people to live, work, play and learn in a relatively compact, safe and resilient urban environment. Allied achieved amenity-richness by concentrating its buildings in mixed-use, urban neighbourhoods.

Allied's experience increased its sensitivity to design. Design now matters, and design now pays. The workspace Allied created seven years ago at QRC West in Toronto illustrates this well. Allied devised a creative and beautiful way to build a new office tower above two fully-restored heritage buildings. Although the design entailed additional cost, the ultimate economic and social return on the investment was exceptional.

Finally, Allied's experience put it at the forefront of creating workspace for knowledge-based organizations. This led Allied to place ever-greater emphasis on the ongoing relationship between the user and provider of workspace. Put differently, it led Allied to understand the need for a collaborative relationship between itself and workspace users.

I. ALLIED'S EVOLUTION

Allied focused initially on the Class I format and continues to do so on a large scale in major urban centres in Canada. More recently, Allied expanded its focus to include hybrid structures like QRC West and King Portland Centre in Toronto, The Breithaupt Block in Kitchener and 425 Viger West in Montréal, where heritage buildings were integrated with new structures in a way that resonated meaningfully with leading knowledge-based organizations.



Exterior Photograph of QRC West, Toronto



Interior Photograph of QRC West, Toronto

As it evolved, Allied was defined not by the specific workspace format it operates, but rather by the users it serves. If a particular format enables Allied to serve a wider range of knowledge-based organizations better and more profitably, Allied will adopt it and, to the extent necessary, adapt it. The Well in Toronto is an excellent example. The workspace component is a high-rise tower with no heritage element at all. However, because of its architecture, performance attributes and location within a mixed-use, amenity-rich urban neighbourhood, it has attracted numerous outstanding knowledge-based organizations. As construction nears completion, the office tower is as represented in the rendering below.



Rendering of The Well, Toronto

Allied's acquisition of 1001 Boulevard Robert-Bourassa in Montréal three years ago is another excellent example. Superficially, the building is a conventional high-rise tower completed in the early-1980s with no heritage element at all. However, with very large floor plates, high ceilings, good column spacing and an amenity-rich urban location, the property is evolving into a compelling workspace for knowledge-based organizations.

When Allied's business is defined by the users it serves, the actual format becomes less important and the specific building attributes and neighbourhood amenities take on paramount importance. Accordingly, if a conventional office tower or other megastructure can be transformed to provide the attributes and amenities favoured by knowledge-based organizations, it falls squarely within Allied's investment and operating focus.

II. EARLY USER-FOCUSED TRANSFORMATION

In 2011, Allied acquired 5455 de Gaspé in Montréal's Mile-End neighbourhood. The following year it acquired the adjacent property to the south, 5445 de Gaspé. At the time, the buildings were connected underground and on three levels above grade. From the outside, the buildings were unsightly concrete megastructures.

The buildings were unsightly on the inside as well, but they had the essential attributes that appeal to knowledge-based organizations. One building rose 10 storeys and the other 11 storeys. Each building had over 500,000 square feet of leasable area with 50,000 floor plates. Ceiling heights were also exceptional, 12 feet from floor to ceiling. Finally, column spacing was rational, facilitating open planning in a big way.

Allied's vision was to transform the properties for use by knowledge-based organizations. The transformation was influenced by local artists in the Mile-End neighbourhood. They were deeply concerned about being displaced by ongoing commercialization, and their concern was rapidly politicized. Allied's leaders met with the artists and the municipal authorities and earned their support by agreeing to lease over 200,000 square feet, including gallery space at grade, to an artists' collective for 30 years on favourable financial terms. Not only did this address an important social issue, it made the properties decidedly more appealing to the knowledge-based organizations Allied serves.

The transformation and lease-up that followed did not occur overnight, but it was steady, with Attraction Media, Ubisoft, Framestore and SunLife Financial committing to large amounts of workspace over time. Allied improved the appearance of the building from the outside to the extent possible and the workspace conditions on the inside by stripping everything back to bare walls and replacing all the windows throughout the building. This had significant impact, as evident from the photo below.



Allied also completely transformed the ground-floor corridor connecting the two properties. Inhospitable at the time of acquisition, this integrated corridor has become a unifying and vitalizing element with galleries and amenities on each side. This also had significant impact, as evident from the photos below.



With the new users, Allied transformed the large floor plates into open-plan workspace with high ceilings and abundant natural light. The photos below illustrate the transformation achieved with Ubisoft and Sun Life Financial.



A final element of transformation involved connecting the two properties well above grade. This allowed Ubisoft to have 100,000 square feet of contiguous space on the ninth floor of both buildings. Allied can, in time, make additional above-grade connections if it suits the workspace users. The photos below illustrate the connection.



Allied's de Gaspé properties are an excellent example of unlikely transformation in a mixed-use, amenity-rich urban neighbourhood. They also inform Allied's vision for transforming other properties in a manner that will enable it to serve knowledge-based organization better and more profitably.

III. CURRENT USER-FOCUSED TRANSFORMATION

In 2019, Allied acquired 1001 Boulevard Robert-Bourassa in the southeastern portion of Montréal's core, close to 425 Viger Avenue West, a property that Allied expanded and retrofitted in large part for Google. Completed in 1983 for Bell Canada, the building is comprised of 935,866 square feet of rentable area and 693 underground parking spaces. It has large floor plates (34,000 square feet), excellent floor-to-ceiling height (12.5 to 14 feet) and favourable column spacing, all of which favours the open planning required for contemporary urban workspace.

Allied is working with existing and future users to execute a comprehensive workspace transformation and to revitalize the extensive public and common areas, all with a view to creating a comprehensively distinctive urban workspace environment for knowledge-based organizations. In effect, Allied is completing on a vertical plane the kind of building transformation it completed on a more horizontal plane with its de Gaspé properties.

Despite covering an area in excess of 30,000 square feet, the original ground level repelled rather than attracted people. Once within the building, people were effectively drowned in massive bland surfaces and drawn into multiple dead-ends, tainting the experience of the building even before reaching the workspace.

With Gensler and Moment Factory, Allied comprehensively re-designed the ground level of the building and is now creating a large, open, textured and inviting environment for people. The intention is to facilitate arrival, working, breaking, gathering and departing in an uplifting manner. The ultimate intention is to enhance human engagement, not restrict it. The entrances are being rationalized, the dead-ends eliminated and different gathering areas firmly established, all with the nearby Mount Royal and its immediate ecosystem as the overriding design inspiration.

Allied will curate the “experiential layer” of the public areas with a view to enhancing connectivity among the users of the building, other users of Allied’s Montréal portfolio and the surrounding community. The renderings below illustrate this well.



For the most part, the original workspace in the building was diminished by drop-ceilings, heavy partitioning, natural-light entrapment and a drywall-encapsulated structural frame. In many respects, the beauty of the base-building was distorted by the commoditized and regimented nature of the leasehold improvements.

With Gensler and Moment Factory, Allied comprehensively re-designed a typical office floor, removing drop ceilings, liberating natural light and exposing a beautiful structural-steel frame. The photos below illustrate this well.



1001 Boulevard Robert-Bourassa, Montréal – Model Suite from Exterior



1001 Boulevard Robert-Bourassa, Montréal – Model Suite from Interior



1001 Boulevard Robert-Bourassa, Montréal – Transformed Base Building

While the transformation of 1001 Robert-Bourassa is not complete, Allied is implementing the essential elements of the vision now. Like the de Gaspé properties, this property will become an excellent example of unlikely transformation in a mixed-use, amenity-rich urban neighbourhood.

IV. USER-FOCUSED TRANSFORMATION OF THE CHOICE PROPERTIES OFFICE PORTFOLIO

Allied acquired the following six urban office properties from Choice Properties on March 31, 2022:

Property	GLA @ Share	Parking	Certification	Key Tenant
1010 Sherbrooke Street West, Montréal (100% Freehold)	328,399	276	BOMA Best Silver	McGill
110 Yonge Street, Toronto (Managing 50% Freehold)	80,353	72	BOMA Best Silver	S.I. Systems
525 University Avenue, Toronto (100% Freehold)	202,111	178	BOMA Best Gold	SickKids
175 Bloor Street East, Toronto (Managing 50% Freehold)	307,067	264	LEED O+M Gold	Klick
1508 West Broadway, Vancouver (100% Leasehold)	146,474	265	BOMA Best Gold	Nicola Wealth
1185 West Georgia Street, Vancouver (100% Freehold)	165,290	157	BOMA Best Gold	Fluor Canada
TOTAL	1,229,694	1,212		

Allied's overriding objective in making this acquisition was to expand its operating capability in Montréal, Toronto and Vancouver. In particular, the acquisition expanded Allied's ability to serve biotech and life-sciences, education and TAMI users. It also furthered Allied's objective of becoming a leading provider of distinctive urban workspace in Vancouver. Allied will integrate 1010 Sherbrooke into its Montréal portfolio, increasing the portfolio to 32 properties with over 7 million square feet of GLA. Allied will integrate 110 Yonge, 525 University and 175 Bloor East into its Toronto portfolio, increasing the portfolio to 108 properties with 5.4 million square feet of GLA. Allied will integrate 1508 West Broadway and 1185 West Georgia into its Vancouver portfolio, increasing the portfolio to 15 properties with just over 1 million square feet of GLA.

1. 1010 SHERBROOKE WEST, MONTRÉAL—TRANSFORM FUNDAMENTALLY

Educational users represent a significant element of ongoing demand for Allied's distinctive urban workspace. George Brown College has occupied 73,542 square feet of space at Allied's 230 Richmond Street East in Toronto since 2007. Farleigh Dickenson University has occupied 37,075 square feet of GLA in Allied's 840 Cambie Street in Vancouver since 2007. A leading American university has pre-leased all of the leasable area at Allied's QRC West, Phase II, in Toronto (estimated to be 93,134 square feet). McGill University occupies 22% of 1010 Sherbrooke West.

A TAMI user at the property has already transformed a single floor into outstanding workspace. Allied intends to accelerate this transformation for the benefit of existing and future users. Allied also intends to operate the property in coordination with 1001 Robert-Bourassa, with a view to serving educational users, TAMI users and related business accelerators and incubators more fully. A possibility exists to activate approximately 20,000 square feet of additional rentable area by revitalizing the first level below grade, which Allied will explore with existing and future users.

2. 110 YONGE, TORONTO—TRANSFORM FUNDAMENTALLY

110 Yonge is generally looked upon as a second-tier “bank tower”. While understandable from a conventional real-estate perspective, this is a wholly deficient perspective in today’s urban environment. The right way to look upon the building is as a potential top-tier environment for knowledge-based organizations. With essentially column-free floor plates, abundant natural light and direct access to Toronto’s PATH network, 110 Yonge is particularly well suited to TAMI users. Perkins & Will has already transformed a single floor into an outstanding workspace, as illustrated in the photos below.



Subject to the concurrence of its co-owner, Allied intends to accelerate the transformation initiated by Choice Properties and Perkins & Will. The goal is to create an ecosystem that will enable Allied to serve single-floor or multi-floor users across a broad spectrum of knowledge-based activity. Allied has served TAMI users successfully since going public in 2003. According to Cushman & Wakefield, Allied completed 29% of all leasing transactions (by area) with “tech” users in Toronto’s downtown market between March 1, 2020, and January 31, 2022, even though Allied owned 5% of Toronto’s downtown office inventory during that timeframe.

3. 525 UNIVERSITY AND 175 BLOOR EAST, TORONTO— ACCELERATE AND PREPARE FOR POTENTIAL INTENSIFICATION

Allied signaled its intention to serve biotech and life-sciences users in August of 2021 as part of its acquisition of the office component of Place Gare Viger in Montréal. 525 University and 175 Bloor East will enable Allied to begin serving biotech and life-sciences users in Toronto, just as the acquisition of Place Gare Viger did in Montréal. The Hospital for Sick Children occupies 60% of 525 University, while Klick occupies 25% of 175 Bloor East. Among other things, Klick is the world’s largest independent commercialization partner for life sciences, focusing on developing, launching and supporting life-sciences brands to maximize their full market potential.

525 University is nearly full. With surplus land to the rear of the site, Allied sees a significant opportunity to intensify this property and will initiate rezoning later this year. Given the extraordinary location for bio-tech and life sciences users, significant intensification is feasible.

Allied intends to increase occupancy in the near term at 175 Bloor East. The building includes a gracious, expansive lobby that connects two high-rise towers. Subject to the concurrence of its co-owner, Allied intends to curate an “experiential layer” in the lobby with a view to enhancing connectivity among the users of the building, other users of Allied’s Toronto portfolio and the surrounding community, much as it is currently doing at 1001 Robert-Bourassa. The intention will be to facilitate arrival, working, breaking, gathering and departing in as uplifting a manner as possible. The ultimate intention will be to enhance human engagement for users of the building.

4. 1508 WEST BROADWAY, VANCOUVER—FILL AND PREPARE FOR POTENTIAL INTENSIFICATION

In 2017, as Downtown Vancouver was transforming into a primary Canadian office market, Allied made it part of its mission to become a leading provider of distinctive urban workspace in that city. Allied’s portfolio has grown from five properties comprising 285,476 square feet of rentable area at the end of 2016 to 13 properties comprising 714,113 square feet of rentable area at the end of 2021. With the acquisition of 1508 West Broadway and 1185 West Georgia, Allied’s portfolio will grow to 15 properties comprising 1,025,877 square feet of rentable area.

The building is 95% leased, and Allied is poised to fill it in short order. Unlike the other buildings in the portfolio, this property has a significant amount of retail area (64,183 square feet) in relation to office area (82,291 square feet). The intersection of West Broadway and Granville is intensifying significantly in response to the easing of height restrictions in the area. Coupled with the possible acquisition of the fee-simple interest, this could afford significant intensification opportunity going forward, especially as over half the site is covered by a two-storey retail extension to the main building. Allied intends to fill the property in the near term with a view to expanding its ability to serve a broad range of contemporary users in an evolving and intensifying part of urban Vancouver through intensification going forward.

5. 1185 WEST GEORGIA, VANCOUVER—FILL AND TRANSFORM FROM THE BOTTOM UPWARD

The building is 91% leased, and Allied intends to fill it with appropriate users. A possibility exists to activate approximately 10,000 square feet of additional rentable area by expanding the floor plate at grade and on the second level. Allied intends to transform the occupancy of the building from the seventh floor downward initially (aided by near-term expiries) and from the eighth floor upward in time (due to longer-term expiries). The building is well situated in a mixed-use, amenity-rich downtown neighbourhood in Vancouver and can evolve much as Allied expects 110 Yonge in Toronto to evolve over time.

V. SUMMARY

Allied's business is providing knowledge-based organizations with distinctive urban environments for creativity and connectivity. Initially, Allied achieved this through the Class I format and continues to do so on a large scale. More recently, Allied achieved this through hybrid structures, where heritage buildings were integrated with new structures in a way that resonated meaningfully with knowledge-based organizations. Allied has also achieved this through new construction and the transformation of the traditional mega-structures, which are beginning to evolve in a way that brings them closer to the Class I format, especially in terms of amenities and the provision of open and creative workspace.

The Choice Properties Office Portfolio is a good example of a traditional office portfolio in the early stages of transformation, and Allied intends to use its expertise to accelerate and complete the transformation. Allied also intends to pursue potential intensification of 525 University and 1508 West Broadway.

March 31, 2022

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This commentary contains forward-looking information, including statements about the possible transformation of urban office properties Allied has acquired. Although the forward-looking information is based on what the writer in his capacity as President & Chief Executive Officer of Allied believes are reasonable assumptions, including continued re-opening of Canada's cities over the remainder of 2022 and beyond, there can be no assurance that this information will prove to be accurate. Material areas of uncertainty include the fact that no person or entity can predict with certainty how office users and consumers will respond as authorities lift or relax physical-distancing measures across Canada. This commentary reflects perspectives and beliefs as of March 31, 2022, and Allied undertakes no obligation to update forward-looking information, except as required by law. Allied cautions the reader not to place undue reliance on this information.