

Move or renovate?

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Trish Wheaton faced one tough question: Should she stay or should she go?

As president of advertising agency Wunderman Canada, she had to decide whether to uproot her 220 employees from their office in downtown Toronto, or renew the lease and undergo a massive, potentially distracting renovation.

“We grew more than 40 per cent in 2006, with 40 new hires, and we were at a point where there were about two to three people per cubicle,” Ms. Wheaton says. Whenever space became available in the building, Wunderman moved in, scattering pockets of employees throughout its 15 storeys. “We want to get everybody back together again.”

Not only that, Wunderman's layout was at least 10 years outdated – private offices and cubicles instead of the now-more-desirable open work environment – and the fixtures and furniture had become decrepit. “You can only get by with having duct tape patching the carpet for so long before it reflects really, really badly on the company,” she says.

In tight markets such as Toronto, Calgary and Vancouver, 75 per cent of tenants will renew their lease and renovate instead of relocating, says John O'Toole, executive vice-president at of commercial real estate company CB Richard Ellis in Toronto. “It's especially difficult for large companies such as Wunderman to find suitable space that is large enough and can accommodate future growth.”

But it's an expensive proposition: Renovation costs in Toronto are up about 25 per cent from 2004, and even higher in Calgary where labour is in short supply. “You're looking at between \$35 to \$40 a square foot for a basic turnkey renovation,” Mr. O'Toole says. Companies requiring more elaborate space designs, such as law or media firms, pay between \$50 to \$70 a square foot.

Choosing to relocate or renovate is about much more than decrepit carpets and outdated layout, however.

“Typically, the decision is driven by three key factors,” says Jeff Flemington, vice-president of client advisory services at J.J. Barnicke Ltd. in Mississauga. There might be a need to expand or downsize, or a desire to change the organization's culture by making it more efficient or replacing private offices with shared space for collaborative work.

“Both of these factors hinge on the lease expiry, because it doesn't make sense to undergo a major renovation if you might be moving in four years,” Mr. Flemington says.

And then there's location. "If the client decides to renovate, it's usually because the location is convenient for clients and employees," he says.

For Wunderman, its Bloor Street West address was key. "Neighbourhood factored heavily into our decision," Ms. Wheaton says. "Downtown is central for just about every client, many of whom arrange their day so they can take in downtown amenities after work or at lunch."

From an employee perspective, handy access to Toronto's subway was critical – 68 per cent of Wunderman's workers take public transportation to work, she says. "We need a work environment that is consistent with an organization whose product is creative ideas. In the war for talent, you need many different weapons in your arsenal."

Some industries can move away from the core without it affecting their acumen, but some companies – advertising, arts, media – require a downtown address.

In older cities such as Toronto, one option is to turn an old warehouse into office space with so-called "brick and beam" design – brick walls and high, open ceilings. But such "coolness" costs – up to \$20 more a square foot compared with traditional office buildings, Mr. O'Toole says.

"The infrastructure costs are higher with these converted warehouses. Your typical office building comes equipped with lighting and air handling [systems], which aren't normally included in brick-and-beam buildings. You might get the space at a lower lease rate, but your construction costs will be higher."

Wunderman considered such a move but nothing could accommodate its size. "These buildings also pose problems as far as future expansion is concerned," Ms. Wheaton says. "While there is a wealth of condos being built, there isn't a lot of new office space."

Location and lack of desirable office space in Toronto led Ms. Wheaton to her decision: renovate and, while they're at it, expand Wunderman's area to 34,380 square feet from the current 20,415.

This wasn't an overnight decision. "It took us 10 months of deliberation, viewing other properties, building business cases with realtors and designers," says Ms. Wheaton who, along with Wunderman's holding company, WPP Group PLC, put together a team that analyzed cost, budget and how much space was required.

Preparing a business case gives a clear sense of cost, and also of potential disruption. "We do an analysis of existing space and figure out how to make it more efficient," says Mike Ellis, president of Toronto space-planning company Britacan Facilities Management Group, which has helped companies such as Telus Corp. and Manulife Financial Corp. find and plan office space. "We find other buildings in the area that fit the space requirements, and figure out the costs."

If it costs more to move than to renovate, the tenant usually stays, Mr. Ellis says. “Renovating avoids downtime, and, as I’ve heard many times, moving an entire IT network scares the hell out of people.”

The process of making a business case is time-consuming but it ensures that a right decision, Mr. O’Toole says. “You need to start the process at least two years before your lease expires, and earlier still if you’re a large tenant. It also shows your landlord that you’re aware of what’s out there, and so it gives you leverage when negotiating the terms of the lease.”

Fifteen months later, contractors and builders mingle with copywriters and art directors as Wunderman begins its renovation.

“Our new space will be quite different,” Ms. Wheaton says. Discarding the old office-and-cubicle maze common in the 1990s, the new design will be “more of an open concept with more attractive common areas so people can work collectively and in teams.”

Before the renovations began, Wunderman held a staff meeting to discuss changes. “We’re asking people to change the way they work, and office space can be a very emotional topic,” Ms. Wheaton says.

As the construction crews tear down walls, Wunderman employees will shift into swing space, share offices and try to ignore the noise and disruptive atmosphere. “I’ve had many contractors tell me if you’re renovating more than 50 per cent of the space, it’s better to move,” Mr. O’Toole says, “but if you can isolate the renovation from the rest of the space, it makes it a lot easier.”

The project has been given a title for staff the rally around – Wunderman Space Odyssey 2007 – complete with posters that borrow from the Stanley Kubrick film. The project should be done by October. To kick things off, Wunderman is hosting a demolition party where employees can swing hammers and break down walls. “It’s all about collaboration,” Ms. Wheaton says.

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