Attachment 2 – Confidential Information – made public on December 11, 2009

Union Station Head Lessee – Supplementary Report

Date:	July 29, 2009
To:	City Council
From:	City Manager Deputy City Manager and Chief Financial Officer

CONFIDENTIAL INFORMATION

Financial Impact

Forecast Impact

As discussed in earlier staff reports, the objective behind the creation of the additional retail area in the station is to generate revenue that will help to fund in part the overall station revitalization.

The Union Station Revitalization Implementation report currently before Council forecasts that the overall project will have a total capital cost of $640 million which will be partially offset by an estimated $336 - $367 million in contributions from GO Transit, VIA, and the Federal and Provincial governments. At the time of drafting that report, the contribution amount from these sources was expressed as a range insofar as the amount of the Federal contribution had yet to be determined.

With the announcement of the Federal contribution, Table 1 provides a summary of the updated project funding. As illustrated in Table 1, the Provincial, Federal and VIA funding contributions have been confirmed at $336 million. This results in an estimated $279 million, after drawing $25 million from the Capital Financing Reserve Fund, which will be funded by debenture debt issued upon completion of the project in 2015.

Table 1 Summary of Union Station Estimated Revitalization Funding ($ millions)		
Gross 2009-2015 Expenditures		640
Less contributions from:		
• GO Transit	172	
• Federal Government	139	
• VIA Rail	25	
Sub-total	336	336
Less: Amount from Capital Financing Reserve Fund		25
Net Cost to be Debt Financed		279
Less: Debt Approved in 2009-2018 Capital Plan		148
Remaining Debt Financing Required		131

City Council has already approved an allocation of $148 million in debt issuance as part of the 2009-2018 Capital Plan and Estimates. Table 2 presents a forecast of the debenture payment amounts for the remaining $131 million in debt required based on the assumption that this remaining debt will be repaid over a thirty-year period.

Table 2 also presents a forecast prepared by Deloitte of the lease revenues that will be received from the head lessee of the retail area during the debenture repayment period. As shown in Table 2, the forecast lease revenues during the 30-year debenture repayment period (with a 2015 present value of $110 million) from the retail head lessee together with the lease revenues received from the East Wing (currently the Bank of Nova Scotia), the separate retail areas within the GO Concourse, the VIA Panorama Lounge, and the Air Rail Link area will exceed the debenture payments by $34.8 million in 2015 present value terms.

Table 2
Union Station 30-Year Post Redevelopment Cash Flow
($000's)

	Present Value 2015	1 **2016**	2 **2017**	3 **2018**	4 **2019**	5 **2020**	**Years 6-30 Total**	**30-Year Total**
Debenture Payments for repayment of required $131 million in debt	(131,000)	(9,014)	(9,014)	(9,014)	(9,014)	(9,014)	(225,338)	(270,405)
Forecast Retail Area Revenues (Recoverable Debt)	110,044	12,688	5,473	5,610	5,750	5,894	206,356	241,771
Bank of Nova Scotia Rental Revenue (Recoverable Debt)	40,224	2,185	2,185	2,185	2,185	2,185	80,299	91,224
GO Concourse Rental Revenue (Recoverable debt)	8,794	469	481	493	505	518	18,129	20,595
VIA Panorama Lounge Rental Rever (Recoverable debt)	3,648	198	198	198	198	198	7,283	8,274
Air Rail Link Rental Revenue (Recoverable debt)	3,111	169	169	169	169	169	6,211	7,056
Net Cash Flow	34,821	6,695	(507)	(358)	(206)	(49)	92,940	98,515

Table 3 provides the total amounts that Deloitte has estimated will be paid by the head lessee over the first twenty-five years and the minimum (50 years) and maximum (75 years) total lengths of the proposed lease in nominal and present value terms. This table provides a breakdown of the composition of the lease revenue expected over the term of the lease. This revenue consists of both a guaranteed income stream and a participation in the revenues generated from the retail space.

Table 3
Summary of Total Forecast Lease Payments from Head Lessee
($millions - nominal and 2015 present values)

	25 Years		50 Years		75 Years	
	Nominal	2015 PV	Nominal	2015 PV	Nominal	2015 PV
Guaranteed	63.7	41.6	63.7	41.6	63.7	41.6
Participation	126.0	56.8	464.2	101.3	1,091	122.9
Total	189.7	98.4	527.9	142.9	1,155	164.5

As illustrated above, the lease with the proponent will result in total guaranteed lease revenue of $42 million (2015 present value). This will be sufficient to cover the estimated incremental $30.1 million cost of creating the new retail space in the station.

Risks

Lower-than-Forecast Retail Rents

As discussed above, the proponent's offer includes a minimum guaranteed rent with a 2015 present value of $42 million. This will more than offset the estimated incremental cost of creating the new retail area as long as this area can be built at the forecast cost.

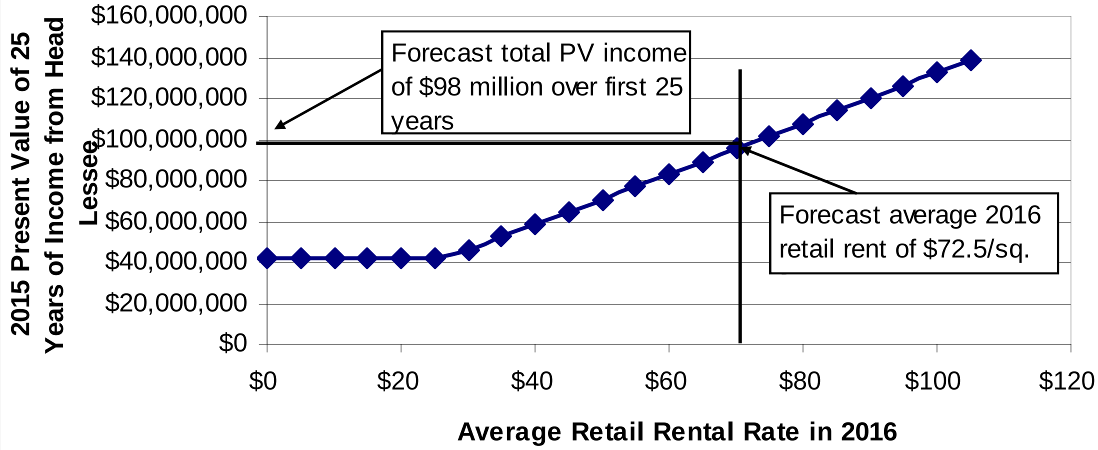
However, the objective behind the creation of the new retail area is to provide funding support for the overall revitalization. Success in achieving this objective will depend on the participation rent received from the head lessee. The participation rent is tied directly to the actual rents collected in the station from retail tenants. Retail rental rates will depend on the head lessee's success in making the shopping concourse into a shopping destination that draws a broad cross-section of potential shoppers from the lower downtown. They will also depend on actual GO passenger volumes and on overall economic conditions.

Figure 1 provides a sensitivity analysis that assesses the overall impact of average retail rents in the station on total revenues received by the City over the first twenty-five years of the lease. If the average retail rental rate of $72.50/sq. ft. (in $2016) forecast by Deloitte is realized, the total rental revenues over the first tweny-five years will have a present value in 2015 of $98 million.

However, under a pessimistic scenario, if the actual average retail rent is only $50/sq. ft. (30% less than forecast), total revenues during the first twenty-five years would fall to $71 million, or $27 million short of the forecast amount. Conversely under a more optimistic scenario, if average retail rent is 30% higher than forecast (i.e. $94/sq. ft.), the present value of the total revenue over the 25-year period would increase to $126 million or $28 million higher than forecast.

A more likely scenario, where average rents vary by ± 10% (i.e. $65 - $80/sq.ft.), the value of the revenue stream over the first 25 years of the lease would range from $89 million to $107 million as compared to the projected estimate of $98 million.

Figure 1 - Impact of Retail Rental Rates on Income to the City
Over the First 25 Years of the Lease



Head Lessee Default

An additional risk faced by the City is that the Head Lessee will default in undertaking its improvements to the commercial space or in making rental payments to the City. According to the offer submitted by the Osmington group, the head lessee will be a newly created, special-purpose subsidiary of Osmington Inc., but its responsibilities under the lease will be backed by a $35 million guarantee and indemnity from Osmington Inc. covering the period running to the end of the second year following the commencement date of the term of the Head Lease. This is the critical period when the Head Lessee will incur approximately $25 million in leasehold improvement expenditures and will have to pay the City an initial $10 million rent payment.

Osmington is one of Canada's largest private real estate companies with in excess of $1 billion in assets. Its wholly-owned subsidiary, Redcliff Realty Advisors Inc., currently manages a portfolio of office, retail, industrial and multi-residential properties with a total value that is said by the company to be in excess of $3.3 billion. These properties are managed on behalf of a variety of pension fund and other institutional and other clients.

Osmington has a development portfolio of properties, at various stages of planning and construction, with a total built-out area of 5 million square feet. Redcliff’s property management arm manages more than 25 million square feet of retail, office, and industrial properties across Canada.