

375 University Avenue – New Lease Agreement

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| Date: | June 9, 2010 |
| To: | Government Management Committee |
| From: | Chief Corporate Officer |
| Wards: | Ward 27 – Toronto Centre – Rosedale |
| Reference Number: | P:\2010\Internal Services\RE\GM10052re (AFS #12321) |

SUMMARY

The purpose of this report is to obtain authority to enter into a new Lease Agreement with The Manufacturers Life Insurance Company, as Landlord, to lease approximately 10,567 square feet of rentable area located on a portion of the second (2nd) floor of the building municipally known as 375 University Avenue, and to have the leased premises designated as a Municipal Capital Facility.

RECOMMENDATIONS

The Chief Corporate Officer recommends that:

1. City Council authorize a Lease Agreement with The Manufacturers Life Insurance Company for the lease of approximately 10,567 square feet of rentable area on a portion of the second (2nd) floor of the building (the “Building”) known municipally as 375 University Avenue (the “Leased Premises”) substantially on the terms and conditions as set out in Appendix “A” attached hereto and on such other terms and conditions as approved by the Chief Corporate Officer, or his or her designate, and in a form acceptable to the City Solicitor.
2. City Council authorize the Chief Corporate Officer to administer and manage the Lease Agreement including the provision of any consents, approvals, notices and notices of termination provided that the Chief Corporate Officer may, at any time, refer consideration of such matters (including their content) to City Council for its determination and direction.

3. City Council pass a by-law pursuant to section 252 of the City of Toronto Act, 2006 providing authority to:
 - (a) enter into a municipal capital facility agreement with The Manufacturers Life Insurance Company in respect of the Leased Premises; and
 - (b) exempt the Leased Premises from taxation for municipal and school purposes, which tax exemption is to be effective from the latest of (i) the date the municipal capital facility agreement is signed and (ii) the date the tax exemption by-law is enacted.
4. City Council direct the City Clerk to give written notice of the by-law to the Minister of Education, the Municipal Property Assessment Corporation, the Toronto District School Board, the Toronto Catholic District School Board, the Conseil Scolaire de District du Centre-Sud-Ouest and the Conseil Scolaire de District du Catholique Centre-Sud.
5. City Council authorize the introduction of the necessary bills to give effect thereto.

Financial Impact

Annual Lease Payments

The proposed Lease Agreement provides for a stepped-up average annual basic rent of \$22.00 per square foot of rentable area (10,567 square feet) over the ten (10) year term, commencing on December 1st, 2010. Throughout the term, the City will also be responsible for additional rent for operating costs and property taxes, which are estimated at an annual rate of \$18.93 (\$6.54 of this represents property taxes) per square foot (subject to annual adjustments). The resulting annual rents are outlined in the following chart:

| Lease Term | Annual Basic Rent | Additional Rent (estimated) | Parking | Total Annual Rent |
|-------------------|--------------------------|------------------------------------|----------------|--------------------------|
| Year 1 | \$221,907 | \$200,033 | \$10,080 | \$432,020 |
| Year 2 | \$221,907 | \$200,003 | \$10,080 | \$432,020 |
| Year 3 | \$221,907 | \$200,033 | \$10,080 | \$432,020 |
| Year 4 | \$221,907 | \$200,033 | \$10,080 | \$432,020 |
| Year 5 | \$221,907 | \$200,033 | \$10,080 | \$432,020 |
| Year 6 | \$243,041 | \$200,033 | \$10,080 | \$453,154 |
| Year 7 | \$243,041 | \$200,033 | \$10,080 | \$453,154 |

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| Year 8 | \$243,041 | \$200,003 | \$10,080 | \$453,154 |
| Year 9 | \$243,041 | \$200,033 | \$10,080 | \$453,154 |
| Year 10 | \$243,041 | \$200,033 | \$10,080 | \$453,154 |
| Total For Term | \$2,324,740 | \$2,000,330 | \$100,800 | \$4,425,870 |

The Accountability Officers are currently located at 112 Elizabeth Street and annual lease payments are provided in the approved annual operating budgets for Facilities and Real Estate. In total, lease payments at 112 Elizabeth Street are \$757,554 annually. Current tenants include the Accountability Offices, Information and Technology, SSHA and Fire Services. The annual lease payments at 375 University Avenue will be accommodated within the current and future year operating budgets for Facilities and Real Estate, with no net impact on the City's budget. The other tenants will be relocated. It is anticipated that any additional funding requirements will be accommodated from within the current annual funding provision.

Leasehold Improvements

Leasehold Improvements must also be completed to the Leased Premises in accordance with the final floor plan approved by the City which, after determining with the respective Divisions the unique fit-up and furniture requirements surrounding privacy and file security, such costs have been estimated by DCAP at \$200 per square foot of usable area \$1,600,000 (8,000 square feet of usable area @ \$200 psf). The final cost of Leasehold Improvements will be determined by both the Landlord and the City and the Landlord will contribute \$50.00 per square foot (\$528,350) based on the approximate rentable area of 10,567 square feet towards the cost of these improvements, leaving a net capital cost to the City of \$1,071,650. Funding can be accommodated within the 2010 Approved Capital Budget for Facilities and Real Estate. It has been determined that the total funding provided for the Yards Consolidation Project will not be spent in 2010. This funding will be deferred and included in the 2011 capital budget submission for Facilities and Real Estate. This funding can be reallocated to fund the leasehold improvements at 375 University Avenue. This reallocation request will be included as part of the City's 2nd quarter capital variance report.

Property/Education Tax Impact

The annual property taxes for the leased premises are estimated to be approximately \$69,108 in total, comprised of a municipal portion of \$37,175 and a provincial education portion of \$31,933, based on 2008 Current Value Assessment (CVA) and 2010 tax rates, including all capping adjustments. The designation of the Leased Premises as a municipal capital facility would eliminate the property tax component of additional rent.

Exemption of the leased space will result in a reduction in municipal tax revenue of approximately \$37,175 per year (i.e., the municipal portion of taxes that will no longer be received by the City). Overall, the net savings to the City will be approximately \$31,933 per year, representing the education portion of taxes that will no longer be payable to the Province once the exemption takes effect.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

In a letter dated January 5, 2010 from Toronto Community Housing Corporation, the City was given notice terminating its tenancy and to vacate the premises located at 112 Elizabeth Street. The result of this notice was the displacement of a number of City divisions including the: Lobbyist, Ombudsman and Integrity Commissioner's offices; Fire Services; I&T Web Design Group; and Streets to Home program, and the need for space accommodation for these various divisions. Pursuant to the notice, the Lobbyist, Ombudsman and Integrity Commissioner's offices are to be relocated out of 112 Elizabeth Street by January 2011.

ISSUE BACKGROUND

There is no space available in existing City buildings to accommodate the Lobbyist, Ombudsman and Integrity Commissioner's offices together with the planned staffing growth and expansion of the Ombudsman's offices. As a result, Real Estate Services has undertaken to identify and secure easily accessible office space in continued close proximity to City Hall. After identifying and reviewing suitable location options, Real Estate Services staff have completed negotiations for a ten (10) year term at 375 University Avenue, commencing December 1, 2010.

COMMENTS

The Lobbyist, Ombudsman and Integrity Commissioner's offices are satisfied with the proposed lease arrangement, as the location is easily accessible and provides convenient proximity to City Hall and public transit. The space is currently in an empty shell condition, thus allowing it to be designed and configured in unique manner as required by these Accountability offices, where privacy is paramount. The term of the proposed Lease has allowed Real Estate Services to negotiate in a significant Landlord leasehold improvement contribution that will save the City capital investment money and significant construction time since it is the responsibility of the Landlord to complete such work. The majority of furniture and equipment costs are in addition to leasing costs outlined in this report, and will be determined in consultation with Facilities Management.

Real Estate Services staff consider the terms and conditions of the proposed Lease Agreement to be fair and reasonable, and at market rates.

CONTACT

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SIGNATURE

Bruce Bowes, P. Eng.
Chief Corporate Officer

ATTACHMENTS

Appendix “A” Summary of Lease Terms
Appendix “B” Location Map