

TORONTO AND REGION CONSERVATION AUTHORITY BRIEFING NOTE

PROJECT FOR ACQUISITION OF OFFICE SPACE

The Issue

Toronto and Region Conservation Authority (TRCA) has been seeking a solution to its long term office accommodation needs since 2007. The need for updated and additional office space was demonstrated in a business case analysis completed in 2008. In summary, the analysis concluded that about 80,000 square feet was needed to accommodate the various head office functions of TRCA. This reflected existing uses, additional meeting room and common space and modest growth over the next 10 to 20 years.

The business case also looked at ways to achieve the needed space. Options considered included:

- Build new space either as a separate structure or as an addition to an existing office
- Lease space
- Buy space in a building in a suitable location

Staff of TRCA advised the Authority of the findings and opportunities. A Long Term Office Accommodation Working Group consisting of members of the Authority including the Chair was formed to advise staff.

The Working Group and staff concluded that the best location to serve TRCA head office interests would be in the vicinity of the existing head office at 5 Shoreham Drive. This was based on the geography of TRCA's area of jurisdiction, the desire to stay within the City of Toronto, the availability of transit including the planned subway extension to Steeles and Jane and beyond, proximity to major highways such as #407 and #400 and the relationship with York University and Black Creek Pioneer Village. With respect to Black Creek Pioneer Village, there exists an opportunity to enhance the Village amenities and experience as part of any solution to the TRCA office accommodation requirements utilizing the parking lot at 5 Shoreham Drive.

The optimal long term solution to TRCA office accommodation is a revitalization of the lands at 5 Shoreham Drive and the parking lot at Black Creek pioneer Village to include LEED platinum office space for TRCA. Revitalization of the parking lot lands is most likely to have currency in terms of market conditions in 10 to 15 years when the subway to York University and Vaughan is fully completed and planned development of the Steeles corridor and lands north of Steeles creates demand throughout the Jane/Steeles area.

The interim solution is to take advantage of the existing commercial real estate market and buy available office space in the vicinity of Jane/Steeles. At Executive Committee Meeting #3/10, held May 7, 2010, Resolution #B41/10, was approved as follows:

THAT Toronto and Region Conservation Authority (TRCA) staff be directed to pursue acquisition of suitable office accommodation and report to the Authority at the earliest opportunity.

TRCA staff has investigated and researched a number of opportunities and in June, 2010, began negotiations with the owners of 1235 Ormont Drive. The property is geographically situated some four kilometres west of TRCA's current Head Office location, near Weston Road and Steeles Avenue West. The building comprises 177,935 square feet (combines a 66,577 two storey structure originally built in 1985 and a 111,358 three storey addition that was constructed in 2000 by Orlando Corporation) and is sited on 6.95 acres. The building is well served with over 165,000 square feet of office area, coupled with over 500 surface parking stalls, a loading dock and an area of approximate 11,000 square foot for warehousing/storage.

At its meeting #9/10, held on November 26, 2010, the Authority considered in private session a report from staff that provided details on the proposed acquisition of the property at 1235 Ormont Drive. Following extensive discussion, by recorded vote the Authority unanimously adopted the following resolution

WHEREAS the current office accommodation of Toronto and Region Conservation Authority's (TRCA) Head Office at 5 Shoreham Drive is sub-standard;

AND WHEREAS staff that perform core "head office" activities are currently housed in multiple locations that add to the operating costs and result in inefficiencies in operations;

AND WHEREAS the current market assessment is that it will be more economical for TRCA to reduce the amount of rental accommodation for staff;

AND WHEREAS the current market condition provides the opportunity to acquire property at a reduced cost as compared to previous years;

AND WHEREAS the project to acquire consolidated office space cannot proceed without funding support of TRCA's participating municipalities;

THEREFORE LET IT BE RESOLVED THAT the Project for Acquisition of Office Space be approved;

THAT staff be directed to seek approval of the Project for Acquisition of Office Space by the member municipalities;

THAT total funding for the Project of \$14,000,000 be levied from Toronto and Region Conservation Authority's participating municipalities on the basis of the modified current value assessment formula;

THAT staff be directed to finalize an acceptable purchase and sale agreement with representatives of ING Inc. for acquisition of the property at 1235 Ormont Drive, City of Toronto, on terms and conditions acceptable to TRCA and its solicitors, perform such due diligence as is required and report to the Authority no later than March 25, 2011, with a recommendation on the purchase and sale agreement;

AND FURTHER THAT authorized TRCA officials be directed to take action necessary to implement the project including obtaining any necessary approvals and the signing and execution of documents.

RATIONALE

1235 Ormont Drive

At Long Term Office Accommodation Working Group Meeting #4/10, held on October 29, 2010, a status report from staff on negotiations for the acquisition of 1235 Ormont Drive was received. The key terms and conditions of the proposed purchase and sale agreement are:

- purchase price to be \$12,125,000;
- offer is all cash;
- initial refundable deposit of \$200,000 to be provided by TRCA upon execution of the agreement;
- vendor to provide TRCA with relevant materials and property access to permit TRCA to do its due diligence;
- TRCA shall have 30 days to complete due diligence. Upon waiver of due diligence conditions, TRCA to provide second, refundable deposit of \$325,000;
- approval of the purchase and sale agreement to be at the sole discretion of the Authority on or before March 31, 2011, failing which all deposits shall be returned in full;
- closing to April 29, 2011;
- TRCA shall refrain from any transfer or assignment of the proposed Agreement of Purchase and Sale until after the closing date unless said transfer is to an affiliated party;
- TRCA may enter into a conditional leasing agreement with a third party for a portion of the property prior to closing date.

TRCA's solicitor and its advisors, CB Richard Ellis, have reviewed the terms and conditions of the proposed agreement and are working with staff toward a final version. The Working Group has been advised of the terms and conditions.

Staff has concluded that the price and terms and conditions are fair and reasonable given the location and current market conditions. The proposed date for Authority approval would be March 25, 2011, with a closing date of April 29, 2011.

Cost per square foot would be about \$69 which includes land (6.95 acres) valued at \$750,000 per acre. Excluding land value, the office space itself is priced at less than \$40 per square foot. This compares with the cost to construct new space at a cost of \$300 to 400 per square foot.

FINANCIAL DETAILS

Capital Project Funding Arrangements (Asset Acquisition)

Staff has included in the 2011-2020 preliminary capital budget approved by the Authority on September 21, 2010, for each of the City of Toronto and the regions of Peel, York and Durham, the capital funding requests for this project. Assuming the \$14 million total project cost is financed over 10 years at \$1.4 million annually, costs (rounded numbers) could be apportioned on the basis of current value assessment (CVA) as follows: Toronto - \$922,000; Peel - \$161,000; York - \$275,000; Durham - \$42,000. These costs have been discussed informally with municipal staff. The \$14 million includes an allowance for improvements to the building. Also, for each jurisdiction, payment of the apportioned share need not start in 2011. As long as the total funding commitment is approved, each municipality could choose to make the payments over a different time frame. Total funding requirements based on modified current value assessment (CVA) are as follows:

	2010 Modified CVA	Project Costs
City of Toronto	0.65833	\$9,216,620
Region of York	0.19679	\$2,755,060
Region of Durham	0.02985	\$417,900
Region of Peel	0.11486	\$1,608,040
Town of Mono	0.00009	\$1,260
Township of Adjala-Tosorontio	0.00008	\$1,120
Project Total Cost		\$14,000,000

TRCA has sufficient cash flow to carry the initial purchase cost. At the moment, TRCA has \$12 to \$13 million invested. These funds are held for future projects and the amount has been consistent in recent years. Also, TRCA has discussed and received a term sheet for a \$10 million line of credit with the Royal Bank (RBC). The term sheet from RBC has favourable interest rate and other terms. There is always risk of a run-up in interest rates in later years but this risk would be mitigated by the capital payments from the partners.

Operating Costs

A key aspect to the project is payment of the operating costs estimated at \$10 per sq. ft. or about \$1,800,000 annually. TRCA has immediate need for only 66,000 square feet of the building so 110,000 sq. ft. could be leased. Attached as Table 1 is a schedule illustrating the estimated costs and revenues associated with a commercial lease of this space. Major assumptions are that it would take two years to have such a lease in place and that the gross lease rate would be \$17 per sq. ft. inflating over 10 years.

A second option which staff is exploring is to have the City of Toronto lease space in the building. Specifically, the City has need of a cultural artifact storage centre. The proposed office space and warehouse area would serve this purpose well. City staff has visited the building and indicated the option is being considered. Assuming such an arrangement could be finalized, TRCA would propose to lease to the City space at a discounted market rate, about \$10/square foot, a discount of 40%. This assumes the City has agreed to fund their share of the capital project. Attached as Table 2 is a schedule setting out how the cash flow might work. Table 2 is based entirely on assumptions by TRCA staff and has not been considered by City of Toronto staff.

Offset Revenue/Costs

5 Shoreham Drive

TRCA's existing Head Office accommodates approximately 160 staff in approximately 23,810 square feet (main building - 20,160 sq. ft. / modular structures - 3,650 sq. ft.). Lease of the building to a third party tenant is feasible but demand for the subject property on a leased basis is low due to its functional utility and size. It could take 12 to 18 months to find a tenant. The building could generate an annual net income of approximately \$200,000 (based on analysis for 5 Shoreham Drive by CB Richard Ellis Limited) per year, subject to the appropriate municipal planning and zoning regulations. TRCA historically leased a number of its properties. TRCA has, in the past, leased property to Ontario Power Generation and is currently leasing property to Wild Water Kingdom. Given that the preferred long term plan is to construct a new head office adjacent to Black Creek Pioneer Village, it may be preferable to maintain some operations at the 5 Shoreham Drive location depending on leasing prospects for the other properties.

70 Canuck Avenue - Downsview Park

TRCA currently leases 18,119 square feet of office space, which houses about 70 staff in the Watershed Management Division, Marketing and Communications, Conservation Land Planning and Source Water Protection sections.

Although the location of the building is not a common destination for office tenants, the existing space is in good condition so there should not be a need for remediation of the space to accommodate a sub tenant. It is estimated that a deal to sublet the space could be done in the \$16.00 per square foot gross range (based on analysis for 70 Canuck Avenue by CB Richard Ellis Limited) representing a recovery of approximately 66% of the outstanding rental obligation. However, if the remaining lease obligation could be extended by TRCA beyond August 2014 (expiry date of current lease) by way of renewal (for a further five year lease term) making this space more opportunistic for potential sub tenants, a \$20.00 per square foot gross range could be achieved. Parc Downsview Park has indicated a willingness to extend the existing lease. A marketing period of 12 months is considered in order to secure a sub tenant for this facility.

Current Combined Operating Costs for 5 Shoreham Drive and 70 Canuck Avenue

Total operating expenses for 2010 are estimated at \$775,000, which includes a current \$355,000 facility charge (rental expense) for the Downsview Office. Application of these combined offset revenues to the pro forma models illustrated in Tables 1 and 2 shows the impact on the cost of operations.

When the existing, combined operating costs are factored into the operating cost analysis of the 1235 Ormont building, under either a commercial scenario (Table 1) or a City scenario (Table 2), the costs can be funded by TRCA without additional municipal levy. TRCA has funds set aside as part of the office accommodation project sufficient to cover the operating costs of the building in 2011 and 2012 until the leases are in place.

Property Taxes

The property taxes on 1235 Ormont are about \$1.10 per square foot. This is based on existing use of the building and there is some indication the valuation is low. Typical property taxes for structures such as this would be in the \$3 to \$4 per square foot range. If the City is a partner in the project, the building could be exempt from property taxes.

Residual Value of the 1235 Ormont Property

Estimated gross resale value of the 1235 Ormont property in 2021 is \$18.9 million. Based on an analysis by CBRE taking into account fees and inducements and depending on conditions of sale, net resale value could be between \$12.5 and \$15.0 million. This is of course very speculative and takes into account the fact that 6.95 acres of industrial zoned land is involved. The proceeds of the sale of the property would be used toward the redevelopment of parking area lands at Black Creek Pioneer Village and the property at 5 Shoreham Drive to create office space for TRCA.

Added Value of Consolidated Office Space

In the initial business case for updated office space, needs to be met included:

- Aging infrastructure: 5 Shoreham is more than 35 years old; leased space at Parc Downsview was built in 1970; TRCA's "Boyd Centre", a converted residential field centre is more than 75 years old.
- Bringing staff to one location will yield gains in productivity through reduced travel time as well as real cost savings
- Meeting and collaboration space in the proposed new office will be greatly enhanced over existing, limited meeting space improving customer service opportunities and internal productivity
- New space presents the opportunity to reduce the cost of outside storage systems and added productivity from having ready access to central filing now stored off site.
- Partnership opportunities are critical to TRCA's future success and the proposed building offers exciting opportunities to house at reasonable cost new ventures aligned with TRCA's vision and mandate.
- TRCA has unique knowledge in many areas and is actively seeking opportunities to share that knowledge through training and certification programs but needs efficient conference and meeting space to do so.

SUMMARY AND CONCLUSIONS

Approval of the project for acquisition of office space by the Authority enables staff to apply formally to the participating municipal funding partners for their respective shares of the cost of the project as part of the 2011 - 2020 capital budget process. If the funding partners do not approve their respective shares of the capital cost, the project cannot proceed. Staff will report to the Authority no later than the meeting scheduled for March 25, 2011, on results of discussions with the participating municipalities.

Further, staff have until the Authority meeting on March 25, 2011, to complete due diligence on the Ormont property and determine if suitable lease arrangements can be made that will enable

staff to finalize the cost estimates in the pro forma statements. Assuming that the feasibility analysis is positive and that capital project funding approval of the municipal partners is received, staff would recommend to the Authority that the acquisition proceed. If the Authority decides on March 25, 2011, not to proceed, all deposits are fully refundable.

If the project does not proceed, staff will make recommendations for further capital investments in 5 Shoreham Drive to better accommodate the staff based at that location, extension of the lease at Downsview Park for a further five years and/or investments in leased space as necessary in locations yet to be determined. The long term strategy continues to be construction of a new head office adjacent to Black Creek Pioneer Village as part of a comprehensive plan to realize the potential value of TRCA lands at a scale appropriate to their location close to the new subway and its associated development.

January 11, 2011

Attachment 1

Table 1

FORECASTED OPERATING COSTS - COMMERCIAL LEASE MODEL

	2011 [^]	2012	2013	2014	2015	2016	2017	2018	2019	2020
Common Area Costs (Per Consultant)	1,560,000	2,142,400	2,206,672	2,272,872	2,341,058	2,411,290	2,483,628	2,558,137	2,634,881	2,713,928
Rental Revenue Recovery* (\$17.00/SF X 110,000 SF)	-	-	1,870,000	1,870,000	1,870,000	1,870,000	1,870,000	1,926,100	1,983,883	2,043,400
Projected Operating Cost	1,560,000	2,142,400	336,672	402,872	471,058	541,290	613,628	632,037	650,998	670,528
LESS - Offset Revenue ~	-	400,000	500,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000
Net Operating Cost (Revenue)	1,560,000	1,742,400	(163,328)	(247,128)	(178,942)	(108,710)	(36,372)	(17,963)	998	20,528

- Forecasted Operating Costs on 177,935 square foot building.
- Common Area Costs (CAC's) include a stabilized management fee of \$100,000 per annum , annual reserve/structural allowance for building and parking, contingency @ 10% & inflation adjusted @ 3%.
- [^] Pro-rated to reflect April 1, 2011 occupancy.
- * For this model rental revenue has been adjusted for inflation @ 3% for years 6, 7 and 8 of lease term.
- ~ Denotes combined annual cost savings/rental recoveries for PDP office and 5 Shoreham Drive.

Table 2

FORECASTED OPERATING COSTS - CITY OF TORONTO MODEL

	2011 [^]	2012	2013	2014	2015	2016	2017	2018	2019	2020
Common Area Costs (Per Consultant) *	1,560,000	1,586,200	1,633,786	1,682,800	1,733,284	1,785,282	1,838,840	1,894,005	1,950,825	2,009,350
Rental Revenue Recovery # (\$10.00/SF X 110,000 SF)	-	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060
Projected Operating Costs	1,560,000	486,200	533,786	582,800	633,284	685,282	705,840	727,015	748,825	771,290
LESS - Offset Revenue ~	-	400,000	500,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000
Net Operating Cost (Revenue)	1,560,000	86,200	33,786	(67,200)	(16,716)	35,282	55,840	77,015	98,825	121,290

- Forecasted Operating Costs on 177,935 square foot building.
- * For the purpose of this exercise property taxes are considered to be exempt for years 2 through 10 (2012 - 2020) as a result of the City of Toronto's involvement in the facility.
- Common Area Costs (CAC's) include a stabilized management fee of \$100,000 per annum , annual reserve/structural allowance for building and parking, contingency @ 10% & inflation adjusted @ 3%.
- [^] Pro-rated to reflect April 1, 2011 occupancy.
- # For this model rental revenue has been adjusted for inflation @ 3% for years 6, 7, 8 and 9 of lease term.
- ~ Denotes combined annual cost savings/rental recoveries for PDP office and 5 Shoreham Drive.