



STAFF REPORT ACTION REQUIRED

Below Market Rent Lease Agreement with University Health Network at 524 Oakwood Avenue

Date:	March 23, 2015
To:	Government Management Committee
From:	Chief Corporate Officer and Acting Executive Director, Social Development, Finance and Administration
Wards:	Ward 15 – Eglinton - Lawrence
Reference Number:	P:/2015/Internal Services/RE/Gm15011re (AFS 20844)

SUMMARY

The purpose of this report is to obtain authority for a Below Market Rent (BMR) lease agreements with University Health Network (UHN) for approximately 7,069 square feet of space, located on the first floor of 524 Oakwood Avenue in Ward 15 Eglinton - Lawrence.

RECOMMENDATIONS

The Chief Corporate Officer and Acting Executive Director, Social Development, Finance & Administration (SDFA) recommend that:

1. City Council grant an exemption from the City's Below Market Rent eligibility criteria restricting organizations with a mandate that is the sole responsibility of senior levels of government.
2. City Council grant an exemption from the Return on Investment (ROI) requirement, under the Below Market Rent Policy, as this tool is under development with Social Development, Finance and Administration Division.

3. City Council authorize a new Below Market Rent lease agreement with University Health Network for a ten (10) year term, substantially based on the terms set out in the attached Appendix "A", with such revisions thereto, and such other terms and conditions acceptable to the Chief Corporate Officer, or her designate, and in a form acceptable to the City Solicitor.
4. City Council authorize the Chief Corporate Officer, or designate, 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.
5. City Council authorize the City Solicitor to complete the Below Market Rent lease referred to in Recommendation #2 above, deliver any notices, pay expenses and amend the commencement and other dates to such earlier or late date(s), on such terms and conditions, as she may, from time to time, determine.

FINANCIAL IMPACT

The proposed agreement will provide UHN with approximately 7,069 square feet of space for a nominal net rent consideration. UHN will assume all operating costs related to the building occupancy (currently estimated at \$77,759 per year based at a rate of \$11 per square foot plus \$5,000 - \$20,700 per year of estimated property taxes based on a rate between \$0.71 to \$2.93 per square foot), resulting in no operating costs to the City as long as tenant pays on time.

The building condition assessment has just been completed and results indicate that the City will need to spend approximately \$400,000 over the next 10 years to maintain the state of good repair at 524 Oakwood Avenue. As UHN will occupy approximately half of the building, its share of these repairs is estimated to be \$200,000. Normally the City will recover capital costs from "at market" tenants through basic rent, whereas under the BMR policy, the City as owner bears such costs. The funding requirements for such capital repairs on this City-owned asset will be included in the 10 Year Capital Plan for Facilities, Real Estate, Environment & Energy (FREEE) through the budget process in future years.

In accordance with the City's Policy on City-Owned Space Provided at Below-Market Rent, the opportunity costs of entering into this lease agreement must be determined and reported to City Council. Research indicates that the total opportunity cost of the UHN lease agreement over the course of a 10-year lease term is approximately \$851,000.

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

DECISION HISTORY

At its meeting on October 1, 2, and 3, 2002, Council adopted “A Policy for City-Owned Space Provided at Below-Market Rent” as the first step in rationalizing how City-owned space is provided to community and cultural organizations.

(<http://www.toronto.ca/legdocs/2002/agendas/council/cc021001/pof13rpt/cl001.pdf>)

At its meeting on November 27 2012, City Council directed the Executive Director, Social Development, Finance and Administration to develop a measure of "Return on Investment" (ROI) for the City Space at Below Market-Rent Program (BMR). This is currently under development with SDF

(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX25.7>)

At its meeting on May 7, 2013, City Council authorized a 10-year BMR lease agreement with NIA Centre for the Arts and a 5-year BMR lease agreement with METRAC at 524 Oakwood Avenue.

(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.GM21.12>)

The Below-Market Rent Policy establishes a framework for the leasing of City-owned space to non-profit community organizations at below-market rent where these organizations further the delivery of Council priorities. The proposed lease agreement is consistent with this framework.

On August 25, 2014, City Council directed the Executive Director, Social Development, Finance and Administration to report to the Community Development and Recreation Committee with recommendations for an "Oakwood Vaughan Strategy" to revitalize the Oakwood and Vaughan community.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.CD31.7>

ISSUE BACKGROUND

524 Oakwood is a City owned building that had been operating under Toronto Public Health Division since December 1994. Due to operational demands, Toronto Public Health relocated their services from the building on March 14th, 2013. As a result, the building was circulated through the Property Management Committee process (PMC), led by Real Estate Services, for consideration for other City purposes.

No City Division expressed interest in occupancy of the 14,139 square feet two storey building. Accordingly, City staff conducted a Request for Expressions of Interest (REOI) process to select appropriate non-profit tenants. A multi-service hub model was requested in the REOI process due to the lack of services available within the ward. Demographical data and service analysis indicate that the surrounding Vaughan-Oakwood community is under-represented in a number of important community services.

Demographical data, service analysis and Councillor's community consultations were revisited to determine a suitable use for the vacant first floor BMR space and one able to partner with NIA. The City's Social Development, Finance and Administration Division (SDF), NIA, community partner organizations and the ward Councillor have convened several discussions since June 2013 to determine possible solutions. In August 2014, City Council directed staff to develop an Oakwood Vaughan Strategy to increase service provision within the community, including health-related services.

City Staff issued a REOI to select a tenant that would support the use of 524 Oakwood Avenue as a Youth Art Services Hub with the addition of health to create a holistic approach to servicing youth (in addition to children and families).

University Health Network is the most viable candidate to tenant the first floor at 524 Oakwood.

COMMENTS

University Health Network is a registered charitable organization operating to deliver community based after care and preventative health services to Toronto. Since 1999, UHN has expanded their program to address social determinants of health and focus on marginalized populations.

UHN operates eight sites in Toronto to service at risk or marginalized communities within the health sector.

While UHN falls under the mandate of the Provincial Government, the applicant is a strong fit with the other BMR criteria. All services and programs operating out of 524 Oakwood are operated in the city of Toronto, with a strong focus on the Oakwood-Vaughan community. The Oakwood-Vaughan community lacks access to health services and according to the applicant, has one of the lowest rates of family physicians per population in the city. The creation of a family health team in this space is aligned to the City's priority of establishing community health services and is consistent with Council directives under the Oakwood Vaughan Strategy. 524 Oakwood Avenue will provide an underserved neighbourhood primary and preventive health care clinic tailored to families, youth and children.

This new space will allow UHN to develop programs targeted for children, youth and families. UHN's tenancy in the space will act as a strong complement to existing programming in the building and will address the overall needs of disadvantaged youth in Oakwood-Vaughan.

UHN has applied for funding from Ministry of Health to develop programs specifically at 524 Oakwood. The expected date of occupancy is June of 2015 and UHN will invest \$1.5 M in capital funding to renovate the property at 524 Oakwood Ave. As such, this report recommends a 10 year BMR lease.

Immediate occupancy will leverage the City's financial obligation associated with a vacant property. Two previous REOIs have not resulted in the selection of a suitable tenant for the property. Social Development, Finance and Administration staff have reviewed the applications submitted and have determined that UHN is the best fit under the Below-Market Rent Policy.

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SIGNATURE

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ATTACHMENTS

Appendix "A" – Major Terms and Conditions
Appendix "B" – Location Map