



## STAFF REPORT ACTION REQUIRED

### Extension of Sublease Agreement at 1751 Sheppard Avenue East with Hong Fook Mental Health Association For Below Market Rent

<b>Date:</b>	May 24, 2016
<b>To:</b>	Government Management Committee
<b>From:</b>	Chief Corporate Officer and Executive Director, Social Development, Finance and Administration
<b>Wards:</b>	Ward 33 – Don Valley East
<b>Reference Number:</b>	P:\2016\Internal Services\RE\Gm16019re (AFS # 22193)

#### SUMMARY

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The purpose of this report is to obtain City Council authority to extend the term of a Below-Market Rent (BMR) sublease agreement with Hong Fook Mental Health Association for an additional five (5) year term for approximately 4,330 square feet of space located at 1751 Sheppard Avenue East in Ward 33 Don Valley East.

#### RECOMMENDATIONS

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

1. City Council authorize the extension of the Sublease under the Below Market Rent Policy with Hong Fook Mental Health Association for a five (5) year term, substantially based on the terms and conditions set out in Appendix “A”, and on such other terms and conditions acceptable to Chief Corporate Officer, or his or her designate and in a form acceptable to the City Solicitor.
2. City Council authorize the City Solicitor to complete the extension of the Sublease, requested in Recommendation No. 1, and all related documentation as required, and to deliver any notices, pay expenses and amend the commencement, termination and other dates to such earlier or later date(s), on such terms and conditions, as the City Solicitor, or her designate, may from time to time, determine.

3. City Council authorize the Chief Corporate Officer and the Director of Real Estate to severally execute such documents required to complete the extension of the Sublease requested in Recommendation No. 1, and all related documentation as required.
4. City Council authorize the Chief Corporate Officer to administer and manage the Sublease 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.

### **Financial Impact**

The extension of the sublease will provide Hong Fook Mental Health Association with approximately 4,330 square feet of community space for nominal consideration. All operating and maintenance costs related to the building occupancy will be paid by Hong Fook Mental Health Association, resulting in no operating costs to the City of Toronto subject to there being full tenancy.

In accordance with the City's Policy on City-Owned space provided at Below-Market Rent, the opportunity costs of entering into this agreement must be determined and reported to City Council. Using a 2.5% escalation rate, the opportunity cost of the sublease is estimated at \$33.00 per square foot per year (approximately \$142,890 per year), for a total of \$743,605 over the 5-year term.

Hong Fook Mental Health Association's operating budget for the space at 1751 Sheppard Avenue is \$1,382,575. For the term of extension of the sublease, Hong Fook Mental Health Association will devote a total estimate of over \$6 million into their program and services as investment in the community. Hong Fook Mental Health Association is also proposing an interior renovation to the sublease premises at their cost of an estimated \$31,500.

SDFA is developing a measure of Return on Investment (ROI) for the city space at Below Market-rent. This tool will consider the cost of investment in the BMR program made by the City and the value of the investment made by BMR tenants that accrues to the City.

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

### **DECISION HISTORY**

At its meeting on August, 25, 26 and 27, 2010 City Council authorized BMR sublease agreements with the following agencies at 1751 and 1761 Sheppard Avenue East for separate five (5) year terms: a) Harriet Tubman Community Organization Inc. b) AWIC Community and Social Services and c) Hong Fook Mental Health Association. (<http://www.toronto.ca/legdocs/mmis/2010/gm/bgrd/backgroundfile-32744.pdf>)

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>

Through subsequent reports, Council has refined the BMR policy framework. The most recent report adopted by City Council was on November 19-20, 2007 titled “Providing City-Owned Space to Community Organizations at Below-Market Rent”.

<http://www.toronto.ca/legdocs/mmis/2007/cc/decisions/2007-11-19-cc14-dd.pdf>

## **ISSUE BACKGROUND**

On May 27, 2011, to implement the community benefits of an agreement made pursuant to section 37 of the Planning Act, the City entered into a Lease Agreement with 2229845 Ontario Inc. (the former landlord) to obtain lease the premises within 1751 Sheppard Avenue East at nominal consideration for a twenty five (25) year term with options to renew for an additional seventy four (74) years.

On June 1, 2011, the City entered into the Sublease Agreement with Hong Fook Mental Health Association for premises within 1751 Sheppard Avenue East. The sublease agreement expires July 31, 2016, and the organization is interested in extending the term of the sublease. Hong Fook Mental Health Association has also secured \$31,500 in funding to renovate their indoor space that entails demolition, drywall partition, and painting work for the ease of operations.

The current landlord of 1751 Sheppard Ave East, Homestead Land Holdings Limited, has consented to the extension of the Sublease and the proposed interior renovations.

## **COMMENTS**

An eligibility review by Social Development, Finance and Administration has deemed Hong Fook Mental Health Association eligible under the Below Market Rent policy. The BMR eligibility criteria includes:

- non-profit status;
- programs and services aligned with a city division mandate;
- programs and services provided primarily to residents of the City of Toronto;
- a mandate that is not the sole responsibility of senior levels of government;
- demonstrated financial viability to maintain allocated space and operating costs for the duration of lease.

Hong Fook Mental Health Association is a community-based organization that provides mental health support, prevention and advocacy services to Asian communities of the City of Toronto. Services include: case management, counseling, advocacy, workshops, support groups, community building, English as a Second Language, and public education. Hong Fook Mental Health Association programs and services are in alignment with the City of Toronto Newcomer Strategy and the Strong Neighbourhoods Strategy 2020.

## **CONTACT**

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## **SIGNATURE**

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Josie Scioli  
Chief Corporate Officer

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Chris Brillinger  
Executive Director  
Social Development, Finance &  
Administration

## **ATTACHMENTS**

Appendix “A” – Major Terms and Conditions  
Appendix “B” – Location Map

## **Appendix “A” – Major Terms and Conditions**

**Landlord:**

Homestead Land Holdings Limited

**Tenant:**

City of Toronto

**Sub-Tenant:**

Hong Fook Mental Health Association

**Sub-Leased Premises:**

4,330 square feet of office space

**Commencement Date:**

August 1, 2016

**Extended Term:**

Five (5) years from the Commencement Date.

**Annual Net Rent:**

Basic rent of \$2.00 per annum.

**Net Sub-Lease:**

The Sub-Lease shall be entirely net to the City. During the term or any extension thereafter Sub-Tenant shall be responsible for their proportionate share of all applicable costs, taxes, charges, expenses and outlays of any nature whatsoever arising from or relating to their use and occupancy of the Sub-Leased Premises, including all applicable operating costs.

**Use:**

The Sub-Leased Premises shall be used for providing programs and services as set out in each Sub-Tenant’s Service Agreement with the City.

**Early Termination:**

At any time during the Extended Term, the City shall have the right to terminate the Sub-Lease for any purpose at any time during the Extended Term(s) and any renewal/extension thereafter upon providing the Sub-Tenant with sixty (60) day’s prior written notice.

**Standard Sub-Lease Extension Agreement:**

The City’s solicitor shall draft the Sub-Lease extension agreement which shall contain such further revisions and other terms and conditions as may be satisfactory to the Chief Corporate Officer, all in form acceptable to the City Solicitor.

**Insurance:**

The Sub-Tenant is to provide, prior to the commencement of the Extended Term, and on an annual basis, proof of insurance in accordance with the City’s insurance requirements outlined in the Sub-Lease.



## Appendix “B” – Location Map

