



## STAFF REPORT ACTION REQUIRED

### 3660 Kingston Road – New Lease for Toronto Employment & Social Services Office

<b>Date:</b>	May 30, 2016
<b>To:</b>	Government Management Committee
<b>From:</b>	Chief Corporate Officer
<b>Wards:</b>	Ward 36 – Scarborough Southwest
<b>Reference Number:</b>	P:\2016\Internal Services\RE\GM16024re (AFS # 23218)

#### SUMMARY

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The purpose of this report is to obtain authority to enter into a Lease with RRVP Markington Inc., as landlord, for 24,991 square feet of space at 3660 Kingston Road, for the use by Toronto Employment and Social Services. The Lease is for a ten (10) year term.

In addition, this report seeks Council's authority for the adoption of necessary by-laws to designate as a municipal capital facility the premises occupied by staff of Toronto Employment and Social Services (TESS) located at 3660 Kingston Road, and to provide a property tax exemption for municipal and education purposes. The municipal capital facility agreement will provide an exemption for approximately 24,991 square feet of space that will be leased for a ten year period commencing September 1, 2018.

#### RECOMMENDATIONS

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1. City Council authorize the City to enter into a Lease with RRVP Markington Inc as landlord, for a ten (10) year term commencing September 1, 2018 and expiring on August 31, 2028, substantially on the terms and conditions as set out in Appendix "A" attached hereto, and on such other terms and conditions as may be acceptable to the Chief Corporate Office, 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, 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 authorize the City Solicitor to complete the transactions(s) on behalf of the City, including making payment of any necessary expenses and amending any relevant dates to such earlier or later date(s) and on such terms and conditions as she may from time to time consider reasonable.
4. 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 RRVP Markington Inc., owners of the property known as 3660 Kingston Road, or its successors or assigns with respect to approximately 24,991 square feet of rentable area (the "Leased Premises") leased by the City of Toronto for the purposes of providing a municipal capital facility related to the provision of social and health services; and
  - b. Exempt the Lease Premises from taxation for municipal and school purposes, which tax exemption is to be effective from the latest of (i) the commencement date of the Lease, (ii) the date the municipal capital facility agreement is signed and (iii) the date the tax exemption by-law is enacted.
5. 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 due Catholique Centre-Sud.

### Financial Impact

The lease costs for the ten (10) year term are approximately \$6,015,958.48 net of taxes based on an annual Basic Rental rate of \$12.75 per square foot for the first 5 years, \$16.75 for the next 5 years. Additional Rent is estimated to be approximately \$9.96 per square foot in 2016.

Year	Net Rent (Annual)	Additional Rent (Annual)[3]	Total Rent (Annual)	Free Rent [1]	Total Rent [2] (per period)
1 – 5	\$ 318,635	\$ 248,910	\$ 567,545	\$ 159,317	\$ 2,678,410
6 - 10	\$ 418,599	\$ 248,910	\$ 667,509	-	\$ 3,337,548
<b>Total</b>	<b>\$3,686,172</b>	<b>\$2,489,103</b>	<b>\$6,175,276</b>	<b>\$ 159,317</b>	<b>\$ 6,015,958</b>

[1] 6 months basic rent free during the 1st year of the term

[2] Does not include Leasehold Improvement inducements to the City of \$749,730.00/\$30 per square foot

[3] This calculation is based on the assumption that Additional Rent will remain at the rate of \$9.96/sqft/month throughout the Lease term

In the 2018 - 2028 lease term the City will be paying Basic Rent at an average rate of \$14.75 per square foot. RES has reviewed comparable spaces and rates in the area are at a least \$15.00 per square foot.

The Lease will include a Basic Rent free period for the first six (6) months of the 1st year of the ten (10) year lease term. The value of this rent free period is \$159,317.

In addition, the Landlord will provide as an inducement a Leasehold Improvement Allowance of approximately \$749,730, to be applied for upgrading/renovations. Excess funds not used after completion of the upgrades and renovations will be applied to Basic Rent and Additional Rent as they become due.

Funding requirements for 2018 - 2027 will be included in the respective years' Operating Budget submission for TESS and will be accommodated within approved operating budget targets.

The annual property taxes on the 24,991 square feet of space (currently taxable) that is expected to be leased by TESS located at 3660 Kingston Road are estimated at approximately \$181,564, comprised of a municipal portion of \$99,507 and a provincial education portion of \$82,057, based on 2016 Current Value Assessment (CVA) and 2016 tax rates.

Providing a property tax exemption for the 24,991 square feet of space will result in net savings to the City of approximately \$82,057 representing the provincial education portion of property taxes that will no longer be payable once the exemption for this portion takes effect, as shown in Table 1 below.

**Table 1**  
**Net Savings due to Property Tax Exemption – 3660 Kingston Road**

	Municipal Taxes	+ Education Taxes	= Total Budget Requirement for Property Taxes
Amounts Payable if Taxable (annual)	\$99,507	\$82,057	\$181,564
Amounts Payable if Exempt	\$0	\$0	\$0
Gross Savings due to exemption:			\$181,564
Less Reduction in Municipal Tax Revenues:			-\$99,507
Total Net Savings:			\$82,057

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

## **DECISION HISTORY**

Since 1992 TESS has been operating from a leased site at 1225 Kennedy Road to service parts of Scarborough.. The lease at this site will expire on February 28, 2019.

At the request of TESS, Real Estate Staff conducted an extensive market search of properties to that would enable TESS to expand their service area. The service area of the current location at 1225 Kennedy Road was already being covered by other locations at 1880 Eglinton Avenue East, 325 Milner Avenue and 100 Consilium Place. TESS is satisfied that proposed new site at 3660 Kingston Road is in an ideal location for expansion of its service base into the south western part of Scarborough.

## **ISSUE BACKGROUND**

The proposed lease site at 3660 Kingston Road is capable of serving a large and underserved geographic area for services offered by TESS.

The rent and other terms and conditions of the Lease reflect current market value according to market research and valuation conducted by Real Estate Services staff.

## **COMMENTS**

Properties “owned” and “occupied” by a municipality or local board are exempt from taxation pursuant to section 3 of the *Assessment Act*. However, where a municipality or local board “leases” property that would normally be subject to taxation, this exemption does not apply.

Given that the space in question at 3660 Kingston Road will be leased by staff of TESS, as opposed to owned, the leased premises used by city staff would otherwise be subject to taxation at commercial rates. Designating the portion of the property leased by TESS as a municipal capital facility and providing an exemption from taxes will reduce the monthly rental amount paid by TESS.

The property tax exemption on the space leased TESS will not apply unless City Council agrees to provide a tax exemption, by way of a municipal capital facility agreement under section 252 of the *City of Toronto Act, 2006*.

## **Legislation Regarding Municipal Capital Facilities**

Section 252 of the *City of Toronto Act, 2006* allows the City to enter into agreements with any person for the provision of municipal capital facilities, and allows City Council to exempt from taxation for municipal and school purposes, land or a portion of land, on which municipal capital facilities are or will be located.

Ontario Regulation 598/06 prescribes “facilities used for the general administration of the City” as eligible municipal capital facilities for the purpose of section 252. Under Section 252 of the *City of Toronto Act*, the legislation requires:

- (a) that the property owner and the City enter into an agreement for the provision of a municipal capital facility for the space being leased; and
- (b) that a by-law be passed by Council permitting the City to enter into the agreement, and to exempt the property to which the municipal capital facility agreement applies from taxation for municipal and school purposes.

Upon the passing of this by-law, the City Clerk must give written notice of the by-law to the Minister of Education. For the tax exemption, the City Clerk must also provide a written notice of the contents of the by-law to the Municipal Property Assessment Corporation and the Secretary of any affected school board(s).

## **CONTACT**

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## **SIGNATURE**

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Josie Scioli  
Chief Corporate Officer

## **ATTACHMENTS**

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

APPENDIX "A"  
Major Terms and Conditions  
Lease of 3660 Kingston Road

1. Lease Premises: 24,991 square feet known as Unit K1 at 3660 Kingston Road
2. Term: Ten (10) years, commencing on September 1, 2018, and ending on August 31, 2028
3. Option To Extend: Two (2) options to Extend the Lease for terms of 5 years each at the fair market Basic Rent
4. Basic Rent:  
Years 1-5: \$12.75 per square foot per year (\$318,635.25 per year) plus HST  
Years 6-10: \$16.75 per square foot per year (\$418,599.25 per year), plus HST
5. Additional Rent: For 2015, estimated at a rate of Nine dollars and ninety six cents (\$9.96) per square foot per year, plus HST
6. Basic Rent Free Period: The City is not required to pay Basic Rent for the first six (6) months of the Lease.
7. Municipal Capital Facilities Tax Exemption: Application for tax exemption for the premises is being submitted.
8. Leasehold Improvement Allowance: As an inducement to the City, the Landlord has agreed to provide a leasehold improvement allowance of \$30.00 per square feet, equalling \$749,730.00 for costs of fitting up the Leased Premises according to the City's requirements. The parties have agreed that the Allowance may be applied to both improvements and to reasonable professional fees, permits, design and supervision costs of the Landlord. Any excess funds not used after completion of the work shall be applied to the City's Basic Rent and Additional Rent obligations as they fall due.
9. Use of Leased Premises: The City has agreed to restrict its use of the premises to operating offices for the general administration of the business of the City (TESS) including delivery of employment and social services to members of the public.
10. Landlord's Right to Redevelop: The Landlord has reserved the right to terminate the Lease during the first 10 year term, on 15 months' notice to the City, if the Landlord determines that it would like to carry out material redevelopment of the property. The parties have agreed on a sliding scale of compensation that the City will receive from the Landlord if the Lease is so terminated.

APPENDIX "B"  
LOCATION MAP

