



**STAFF REPORT
ACTION REQUIRED
with Confidential Attachment**

**1 Yorkgate Boulevard, North York – New Lease for
Toronto Employment & Social Services Office**

Date:	October 27, 2016
To:	Government Management Committee
From:	Chief Corporate Officer
Wards:	Ward 8 – York West
Reason for Confidential Information:	This report is about: a) a proposed or pending land acquisition by the City or one of its agencies, boards, and commissions and b) labour relations or employee negotiations.
Reference Number:	P:\2016\Internal Services\RE\Gm160048re (AFS #23939)

SUMMARY

The purpose of this report is to obtain authority to enter into a lease with 7506473 Canada Inc., as landlord, for 43,434 square feet of space at 1 Yorkgate Boulevard, North York, for use by Toronto Employment and Social Services ("TESS") and a sublease with the subtenant described in Confidential Attachment 1 hereto for approximately 16,568 square feet of the Premises. The proposed lease is for a ten (10) year term, and the proposed sublease is for a ten (10) year coterminous term.

RECOMMENDATIONS

The Chief Corporate Officer recommends that:

1. City Council authorize the City to enter into a lease (the "Lease") with 7506473 Canada Inc. (the "Landlord") as landlord, for 43,464 square feet of space at 1 Yorkgate Boulevard, North York (the "Premises") for a ten (10) year term (the "Term") commencing December 1, 2017 and expiring on November 30, 2027, 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 Officer, or her designate, and in a form acceptable to the City Solicitor.

2. City Council authorize the City to enter into a sublease (the "Sublease") with the sub-tenant (the "Subtenant") set out in Confidential Attachment 1 attached hereto for a ten (10) year term coterminous with the Term, 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 Officer, or her designate, and in a form acceptable to the City Solicitor.
3. City Council authorize the Chief Corporate Officer to administer and manage the Lease and the Sublease, including the provision of any consents, approvals, notice 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.
4. Council authorize the public release of the confidential information in Confidential Attachment 1 following the commencement of the Term.

Financial Impact

The basic rent for the Term will be \$5,637,441 exclusive of HST, or based on an annual basic rental rate of \$12.00 per square foot for the first 5 years and \$13.00 for the last 5 years. Factoring in the non-recoverable portion of HST, the total rental fees will be \$5,736,660. Additional rent is estimated to be approximately \$9.00 per square foot in 2016. With the Sublease, the City will expect to recover 37% of all the costs related to the Lease. Rent payable pursuant to the Lease and Sublease is more particularly set out as follows:

Year	Net Rent (Annual)	Additional Rent (Annual)[3]	Total Rent (Annual)	Free Rent [1]	Total Rent [2] (per period)	Amortization of Leasehold Improvements	Total Estimated Costs
1	\$328,394	\$246,296	\$574,690	\$246,296	\$ 328,394	\$ 109,464	\$437,859
2	\$328,394	\$246,296	\$574,690		\$ 574,690	\$ 109,464	\$684,155
3	\$328,394	\$246,296	\$574,690		\$ 574,690	\$ 109,464	\$684,155
4	\$328,394	\$246,296	\$574,690		\$ 574,690	\$ 109,464	\$684,155
5	\$328,394	\$246,296	\$574,690		\$ 574,690	\$ 109,464	\$684,155
6	\$355,760	\$246,296	\$602,056		\$ 602,056	\$ 109,464	\$711,521
7	\$355,760	\$246,296	\$602,056		\$ 602,056	\$ 109,464	\$711,521
8	\$355,760	\$246,296	\$602,056		\$ 602,056	\$ 109,464	\$711,521
9	\$355,760	\$246,296	\$602,056		\$ 602,056	\$ 109,464	\$711,521
10	\$355,760	\$246,296	\$602,056		\$ 602,056	\$ 109,464	\$711,521
Total	\$3,420,777	\$2,462,960	\$5,883,737	\$246,296	\$ 5,637,441	\$ 1,094,648	\$6,732,090

[1] 9 months basic rent free during the 1st year of the term, 63% will be used by the City & 37% will be used by the sub-tenant

[2] Does not include leasehold improvement inducements to the City of \$1,567,300.00/\$35 per square foot

[3] This calculation is based on the assumption that Additional Rent will remain at the rate of \$9.00/sqft/month throughout the Term

RES has reviewed comparable spaces, and rental rates of the Premises are in line with the market.

As set out above, the Lease will include a basic rent free period for the first nine (9) months of the first year of the Term. The value of this rent free period is \$246,296 which represents approximately 63% of the whole rent free period. The remaining 37% of the value of the rent free period will be attributed to the Subtenant.

As also set out above, the Lease will provide as an inducement a leasehold improvement allowance of approximately \$1,567,300, or \$35.00 per square foot, to be applied for upgrading and renovations. It is estimated that the total costs for leasehold improvements will be \$75.00 per square foot. The additional \$40.00 per square foot worth of work will be paid through a combination of a lump sum and amortization over the course of the Term. The City will elect to have its share of the leasehold improvements amortized, at an interest at the rate of 7.5%, resulting in an additional \$1,094,648 over the course of the term, or an additional \$2.52 per square foot. Total estimated costs over the term will be \$6,732,090 exclusive of HST, including basic rent, additional rent, and estimated leasehold improvements costs, or factoring in the non-recoverable portion of HST, the total will be \$6,850,575.

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 2017-2027 will be included in the respective years' Operating Budget submission for TESS and will be accommodated within approved operating budget targets.

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

DECISION HISTORY

Since 1995, TESS has been servicing parts of North York from a leased site at 1117 Finch Avenue East. The subject lease (for 19,000 square feet of space) was renewed in December of 2000, 2005 and 2010, and will expire on December 31, 2017.

At the request of TESS, Real Estate Services Staff conducted an extensive market search of properties within the Jane and Finch area that would allow TESS to have a stronger presence within the area than TESS currently has. TESS is satisfied that the location of the Premises is ideal for expansion of its service base into the north eastern part of Etobicoke.

ISSUE BACKGROUND

The location of the Premises is capable of serving a large and historically underserved geographic area for TESS and would allow service integration with the Subtenant by offering the services provided by TESS and the Subtenant in a centralized location. The proposed arrangement would incorporate the standards set by Office Modernization and, including the staff of the Subtenant, will have approximately 150 staff utilizing the reception area, community rooms and back office space.

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.

CONTACT

Joe Casali, Director, Real Estate Services, Tel: (416) 392-7202 jcasali@toronto.ca

SIGNATURE

Josie Scioli
Chief Corporate Officer

ATTACHMENTS

- Appendix A – Major Terms and Conditions
- Confidential Attachment 1 – Sublease Particulars and Expanded Decision History
- Appendix B – Location Map

APPENDIX "A"
Major Terms and Conditions
Lease of 1 Yorkgate Boulevard, North York

1. Premises: 43,464 square feet known as Unit No. 1108B at 1 Yorkgate Boulevard, North York
2. Term: Ten (10) years, commencing on December 1, 2017, and ending on November 30, 2027
3. Option To Extend: Two (2) options to extend the Lease for a term of five (5) years each at the then fair market basic rent rate.
4. Basic Rent:
Years 1: \$12.00 per square foot per year (\$521,569 per year) plus HST
Years 2: \$12.00 per square foot per year (\$521,569 per year), plus HST
Years 3: \$12.00 per square foot per year (\$521,569 per year) plus HST
Years 4: \$12.00 per square foot per year (\$521,569 per year), plus HST
Years 5: \$12.00 per square foot per year (\$521,569 per year) plus HST
Years 6: \$13.00 per square foot per year (\$565,032 per year), plus HST
Years 7: \$13.00 per square foot per year (\$565,032 per year) plus HST
Years 8: \$13.00 per square foot per year (\$565,032 per year), plus HST
Years 9: \$13.00 per square foot per year (\$565,032 per year) plus HST
Years 10: \$13.00 per square foot per year (\$565,032 per year), plus HST
5. Additional Rent: For 2016, estimated at a rate of nine dollars (\$9.00) 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 will be submitted.
8. Leasehold Improvement Allowance: As an inducement to the City, the Landlord has agreed to provide a leasehold improvement allowance of \$35.00 per square feet, equalling \$1,567,300 for costs associated with fitting up the 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 Premises: General administration of the business of the City (TESS) including delivery of employment and social services to members of the public.

Appendix B
Location Map

