Confidential Attachment 1 - Redevelopment of TTC Lands at Yonge-Eglinton

Date: April 11, 2018

Reason for Confidential Information

This report is about a proposed or pending land acquisition or disposition of land for municipal or local board purposes.

Confidential Recommendations

It is recommended that:

1. The Board approve the reallocation and deferral of $25 million in capital funding from the 2018 Service Planning Projects budget, cash flowed in 2023 to Other Buildings and Structures budget.

Confidential Information or advice

Financial Impact

This report recommends that the TTC enter into an amended lease agreement that will enable the comprehensive redevelopment of the Lands as a mixed-use transit-oriented hub in order to realize a number of important city-building objectives.

Under the proposed transaction, the principal risk is that build out of the proposed Master Plan of new towers may not be realized or that this build out will be slower than anticipated because of unfavourable market conditions. This could have a substantial impact on the rental revenues received by the TTC.

As summarized in Table 1, the TTC/City would face financial risks under each scenario which are difficult to quantify. Under the status quo, the rent adjustments at renewal dates are not based on clear formulas and are subject to potentially lengthy negotiations and dispute resolution mechanisms.

Table 1 – Comparison of Risks		
	Proposed	**Status Quo**
Ground Lease Payments	Renewal adjustments tied to actual rate of building by Tenant of new towers – market conditions may delay build out and negatively impact payment amounts to City.	Renewal adjustments based on existing densities and use, are subject to negotiations and dispute resolution mechanisms.
Property Maintenance/Reinvestment	Provisions require redevelopment to be maintained to Class A standard.	Provisions in existing leases are limited to basic structural maintenance, which creates risk that buildings will deteriorate.
City-Building Redevelopment	The term of the lease is sufficient to justify investment in redevelopment of the property.	The terms remaining in existing leases are not sufficient to justify large-scale redevelopment.

Commercial Transaction

Based on financial terms in the Term Sheet (Confidential Appendix 3), the NPV of the ground lease rent payments results in a total of $161,400,000, based on the financial evaluation undertaken by Brookfield Financial (BFIN) on behalf of CreateTO, City and TTC. This exceeds the value of the City's appraisal of $160,100,000, achieving one of the governing principles of the business transaction.

Approval of the recommended comprehensive redevelopment of the lands at Yonge-Eglinton is anticipated to result in one-time capital costs associated with a TTC contribution towards a permanent 7 bay bus terminal; one-time operating costs for consultants retained by CreateTO to support negotiations; as well as increases in TTC lease revenue following completion of the first phase of the development.

The amended lease will result in a continuation of the current annual lease revenues of approximately $2 million that is included in TTC's operating budget until such time as the first phase of development is completed (expected in 2025) with rent increasing to $2.18 million. Once the full development plan is complete, rent will be recalculated and is expected to increase to approximately $5.6 million annually, with rent resets increasing the rent under the terms identified in Confidential Appendix 3. The changes in annual lease revenue will be incorporated in the TTC's operating budget as part of future budget processes.

Consultant Advisor Costs

The one-time operating cost of consultants retained to assist the TTC and City throughout the negotiations include funding for appraisers, financial advisors, lawyers and cost consultants and surveyors. These costs are expected to total about $2 million and are directly related to negotiation of the transaction with the Tenant. This requirement will be funded through the 2018 Operating Budget.

TTC Infrastructure Costs

As part of the redevelopment of the Lands, a new bus terminal (“New Bus Terminal) and two modified entrances will be incorporated along with concourse modifications relating to the associated subway connection. This work has been estimated by the Tenant to cost approximately $36 million. This includes $25 million for the New Bus Terminal and $11 million for the two modified entrances and concourse modifications. These costs have been isolated as separate capital costs and are not part of the rent calculation.

Funding for $25 million Capped Contribution Towards New Bus Terminal

There is a TTC capital contribution required to build a permanent 7 bay bus terminal as part of the first phase of development, capped at $25 million. The recommended funding source for this contribution is through the reallocation and subsequent deferral from the 2018 TTC Capital Budget of works within Other Servicing Planning projects, towards the Other Buildings and Structures projects cash flowed in 2023, subject to adjustments in annual cash flows through the future budget process, as required based on negotiated timing of contributions.

Funding for Reconstruction of Subway Entrances and Concourse Modifications

There is an additional cost of $11 million identified as a Tenant’s cost for the reconstruction of two subway entrances and concourse modifications. The $11 million cost is based on the current estimate provided by the Tenant for those improvements based on its review of the TTC requirements. In the event that the costs increase above the $11 million, staff and the Tenant will review the specifications/requirements for the improvements to determine any potential costs savings, failing which the parties will re-negotiate the cost contribution amount. Should TTC or City be responsible to contribute to the costs for the improvements (above the $11 million amount), such cost contribution will be addressed through the budget process.

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

Discussion

Create TO (formerly Build Toronto) has been negotiating in conjunction with the TTC, Real Estate Services (City of Toronto), and City Planning with the Tenant (led by Oxford) over the past 17 months. For the purpose of this report, reference to “City” includes CreateTO, TTC, and City of Toronto. Negotiations have included exploring five potential options for the structure of a transaction.

The five structures explored were:

1. The City sells all parcels of land to the lessees ("Tenant");

2. The City enters into a new ground lease with Tenant for the Eglinton Parcel (Part 2) and leaves the existing three ground leases in place (Parts 1, 3 & 4);

3. The City enters into a new ground lease(s) for all parcels versus outright sale;

4. The City enters into a joint venture/profit sharing arrangement with the Tenant; or

5. Combination of the options above:
   i) Sale of lands for residential only;
   ii) Long term ground lease for commercial lands only; and
   iii) Participation payments during completion of key development milestones.

The negotiated and agreed upon structure is a hybrid of the fifth option noted above, which evolved over the period of negotiation. It incorporates a long term ground lease with the option for the Tenant to purchase residential land for potential future development of condominiums. Currently, the Tenant is proposing purpose-built residential rental units, which will include an affordable housing component.

The overriding premise of a business transaction with the Tenant is that the City and the Tenant must be better off after the redevelopment than before. Accordingly, it is a requirement that the Net Present Value (NPV) of the ground rent payments over the term of any new or modified lease, plus the terminal value of such lands at the end of the lease terms, must be greater than and or equal to the appraised value of the TTC's freehold interest in the Lands. The freehold interest reflects the value of the Canada Square Lands encumbered by the existing ground lease arrangement plus the existing land value of the unencumbered land along Eglinton Avenue West. CBRE, the appraiser that undertook the appraisal on behalf of the City, has valued the freehold interest in the Lands at $160.1 million, which takes into consideration all of the lands and the site-specific premium costs (the "Enabling Costs") that are required to undertake the development on the Lands. In the case of this appraisal, the Enabling Costs amount to $25 million (which is a separate cost from the new bus terminal construction). These costs relate to premiums for constructing over the transit infrastructure, as determined by the Tenant's general contractor Ellis Don, and substantiated by a third party cost consultant, Finnegan Marshall, which was retained by the City.

Appraised Value of TTC Lands

On behalf of the City, the appraiser undertook a comprehensive valuation of the Lands (Parts 1-4) including, but not limited to, the following considerations:

- Status and nature of ground leases, including renewal options, expiration dates and expected rents;

- Metrolinx land requirements – both permanent and temporary interests for the planned LRT station;
- TTC infrastructure above and below grade;
- Various easements, strata interests and other encumbrances on title;
- Official Plan, Secondary Plan, zoning and planning context for the area;
- Development potential, considering 'highest and best use' principles; and
- Market demand and forecasts for a variety of proposed uses.

The projected property value, including NPV of ground rents based on existing leases, is $160.1M.

Proposed Development

The proposed business transaction is based on a Master Plan consisting of 2.7 million square feet of mixed uses. Should the gross floor area of the Master Plan be increased for any reason, then the ground rent would be adjusted accordingly. The current proposal is based on the as-of-right density per the current Official Plan and Zoning By-law, which is capped at 7 times density.

The cornerstone of the Master Plan will be a new Canadian Tire Corporation (CTC) head office tower at the north-east corner of the TTC Lands site along Eglinton Avenue West. Phase 1 of the development is expected to commence in 2022, once the site is released by Metrolinx after completion of the Crosstown LRT project. The master plan, at full build-out, contemplates the following uses:

- Residential - 1,590,000 square feet (including purpose built rental);
- Retail - 110,000 square feet;
- Office - 990,000 square feet;
- TTC facilities – rebuilding of two entrances, new TTC bus terminal (7 bays) plus subway concourse modifications; and
- Public space – 2 major public spaces, one public plaza at corner of Yonge-Eglinton, and a major public park, mid-block south of the new office tower.

Discussion of Lease Provisions

The ground rent for the new development is based on the same formula as the original ground lease. This formula consists of the Fair Market Value of the Land (FMVL) for each land use, multiplied by the density built, multiplied by the agreed upon Rental Rate. The FMVL forms the basis for determining the ground rent payable. The agreed upon Rental Rate is a 20-Year Government of Canada ("GoC") bond plus a fixed spread of 175 basis points (bps). The resulting rate can be viewed as similar to a bond yield reflecting the credit risk of the Tenant. This equated to 4.25% at the time the Term Sheet was agreed to by the parties. The GoC bond yield is to be capped at 2.5% to provide protection to the Tenant in terms of its commitment going forward.

The initial term of the lease is for 99 years with an option for an additional 99 years, subject to the Tenant making investments in the complex and maintaining the development to the standard of a Class A office building or, in the case of residential development, a first class rental building.

The Tenant will continue to pay a minimum rent of $2 million/annum during the initial development period, while the increased base rent for each of the four phases of the Master Plan shall be phased-in at a date six months after completion of each phase. Under the terms of the lease amendment, the reset of rent under the leases will not occur in 2021.

The initial development period has been set at a maximum of 20 years commencing in 2022, once the new LRT station is completed and Metrolinx has vacated the old bus terminal lands (Part 2), which it is using for staging and construction for the ECLRT. The Term Sheet provides for interim rent adjustments (“Interim Rent Resets”) every 20 years during the term of the lease versus every 24-30 years per the original ground lease, resulting in earlier and more frequent increases in base rent over the term.

The initial Interim Rent Reset on the twentieth anniversary of the lease commencement date, after the development is fully completed, is based on the contractual increases in the lease with CTC in the case of their office space, and the Consumer Price Index (“CPI”) in the case of all other commercial uses. The rent increase for the residential component will be based on the Province’s Rent Increase Guideline. The adjustments to base rent will be measured from the date of completion of each respective phase, and adjusted based on the applicable growth rates for each use. Subsequent Interim Rent Resets will be based on 85% of the cumulative growth in Net Operating Income (NOI) for all uses. This provides protection to both parties in case of significant swings in interest rates and in CPI, and aligns growth in ground rent with growth in property revenue – the determinant of property value. In the event that the option for the extension term is exercised, the FMVL shall be determined based on the appraised market value of the Lands, based on the uses and densities on the site at the time the option is exercised.

As part of the redevelopment of the Lands, a new bus terminal (“New Bus Terminal) and two modified entrances will be incorporated along with concourse modifications relating to the associated subway connection. This work has been estimated by the Tenant to cost approximately $36 million. This includes $25 million for the New Bus Terminal and $11 million for the two modified entrances and concourse modifications. These costs have been isolated as separate capital costs and are not part of the rent calculation.

The $25 million for the New Bus Terminal is the maximum cost contribution from the TTC towards the New Bus Terminal unless there is change in scope to the New Bus Terminal, as requested by the TTC. Details relating to the timing of payment for the New Bus Terminal and the related work will need to be negotiated in a separate agreement with the Tenant.

The Tenant has further agreed to provide $11 million towards the upgraded entrances and concourse modifications based on its current estimate, which is based on the requirements provided by the TTC. In the event that the costs increase above the $11 million, staff and the Tenant will review the specifications/requirements for the improvement to determine any potential costs savings, failing which the parties will re-negotiate the cost contribution amount. Should TTC or City be responsible to contribute to the costs for the improvements (above the $11 million amount), such cost contribution will be addressed through the budget process.

Based on the forgoing details and financial terms in the Term Sheet (Confidential Appendix 2), the NPV of the ground lease rent payments results in a total of $161,400,000, based on the financial evaluation undertaken by Brookfield Financial (BFIN) on behalf of CreateTO, City and TTC. This exceeds the value of the appraisal of $160,100,000, achieving one of the governing principles of the business transaction.

Ground Rent Summary – Current Oxford Rent Proposal

Overview of Current Proposal and Financial Assumptions		
Lease Term		
Initial Term	99 Years	
Extension Term	99 Years	
Determination of Ground Rent		
FMLV – Residential	$85 / SF	
Adjustment to FMVL	($25)/ SF	Adjustment is intended to account for the impact of suite mix and affordable housing requirements in the Yonge Eglinton Secondary Plan.
Adjusted Residential FMLV	$60 / SF	
FMLV – Office	$55 / SF	
FMLV – Retail	$55 / SF	
Deduction for Enabling Costs	($25,000,000)	
Ground Lease Rental Rate	4.25%	20-Year GOC + 175 BPS (GoC rate up to a maximum of 2.5%).
Basis for Interim Resets		
Interim Reset Frequency	20 Years	
First Interim Reset	CTC Lease for CT Office CPI for Commercial Rental Guideline for Residential	Adjustment will be measured from the date of completion of each respective phase based on the rates applicable to each use.
Subsequent Interim Resets	85% of Cumulative Growth in NOI	
TTC Infrastructure		
Reimbursement for TTC Bus Terminal	$25,000,000	City to reimburse Tenant up to a maximum amount.
Reconstruction of Station Entrances & Concourse modifications	$11,000,000	Tenant to pay this amount.
Rate Assumptions		
CPI Inflation	1.9%	
Historical Rental Guideline	2.2%	
Blended Growth Rate for Initial Reset	2.1%	
NOI Growth Rate	2.8%	
Valuation Measures		
NPV of Lease Payments (99 Years)	**$161,400,000**	
CBRE Valuation of City's Freehold Interest	**$160,100,000**	

Comparison of "Status Quo" and New Ground Lease Revenue Streams

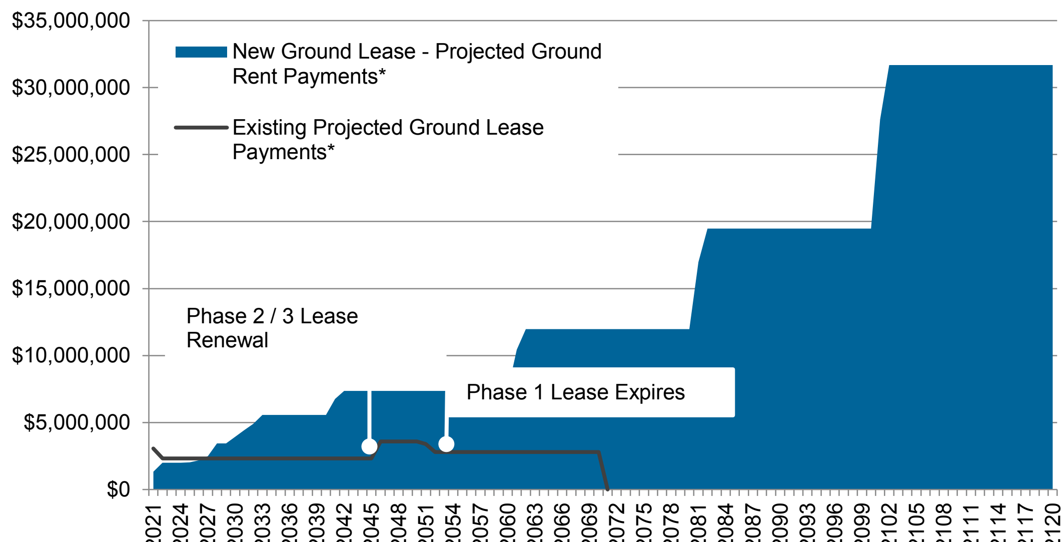
The chart below illustrates the difference in revenue streams between the existing ground leases and the proposed amended ground leases. The proposed ground lease arrangement (the "Proposed Ground Lease") as contemplated in the Term Sheet (Confidential Appendix 3) reflects negotiations with Oxford Properties on behalf of the Tenant, with the Freehold Value as determined by CBRE. In both cases, the basis for valuation is the net present value (NPV) of projected cash flows.

The key differences in the two scenarios are as follows:

- The NPV of the Proposed Ground Lease ($161.4 million) reflects the NPV of projected lease payments over the Initial Term of the lease. The value reflects assumptions regarding the timing of development and corresponding incremental lease revenue for each phase, and rent adjustments associated with Interim Resets which occur at the 20th, 40th, 60th and 80th anniversary of Ground Lease Commencement.

- The Freehold Value of $160.1 million reflects the "status quo" where the Canada Square Lands are valued as encumbered, assuming the renewal options contemplated in the existing leases are exercised, and the Bus Terminal lands, which are not encumbered by the lease, are valued assuming they can be developed to their highest and best use.

One difference in methodology between the two valuations is that the valuation of the Proposed Ground Lease reflects only the NPV of the lease payments and does not include a terminal value. Given the length of the period (99 years), the terminal value is difficult to project with any level of accuracy.



* Excludes reversionary values upon expiry. In the case of the existing ground lease, expiries and reversionary values, expressed in nominal and Present Value (PV), are as follows: 2041 for the Phase 1 Pavilion Lands ($9.8m nominal, $3.6m PV), 2051 for the Phase 1 Lands ($121.8m nominal, $29.6m PV), and 2071 for the Phase 2 ($40.0m nominal, $4.4m PV) and 3 Lands ($312.1m nominal, $34.4m PV).

TTC Requirements Protected

At the outset of negotiations, TTC staff prepared a TTC Requirements document to provide the Tenant and their technical experts with details of TTC needs in order to protect existing assets, identify areas requiring special protection during design and construction, requirements for a new bus terminal, and modifications to TTC facilities. TTC staff met on numerous occasions with the Tenant and their experts in order to review proposed options and provide technical feedback. TTC staff will continue to meet with the Tenant throughout the development of these lands through its normal technical review process.

City Building Initiatives and Economic, Social & Fiscal Benefits

There are significant city building benefits as a result of a redevelopment on the Lands including, but not limited to:

- Excellent urban design and architecture - incorporation of City's Urban Design Guidelines of 2009;
- A sustainable design with defined sustainability outcomes;
- A new TTC bus terminal with direct access to subway and ECLRT;
- Densification of a major transit node;
- Significant employment creation;
- A significant affordable housing component;
- Increased open space, and improved streetscapes and public realm; and
- A new public park and plaza at the corner of the intersection.

There are also significant economic and fiscal benefits over the initial term which will result from the intensification and concentration of mixed-uses at this important transit node most of which will accrue to the City:

- $59.8 million in Development Charges;
- $6.3 million in application and building permit fees;
- $19.2 million of annual property taxes (an increase of existing $11.4 million);
- $462 million in tax revenue to the three levels of government (~$53 million available to the City);
- $900 million in labour income (~$762 million in Toronto); and
- $1.4 billion in value added to the economy (~$1.2 billion in Toronto).

Yonge and Eglinton is a major transportation node in the City and will become even more important with the completion of the new ECLRT station in 2021. An agreement with the Tenant's final offer will facilitate retention of the new CTC Head Office, activate the first office development at Yonge and Eglinton in over 30 years to retain an employment base, and solidify Yonge and Eglinton as an employment node.

Fairness Opinion regarding Proposed Ground Lease

BFIN has provided an opinion with respect to the terms of the ground lease, which in summary concludes that "based on our review of the proposed Term Sheet and analysis of the project, we conclude that the financial terms contained in the Term Sheet will provide the City, as lessor, with a fair and reasonable consideration for the lease of the Property over the term contemplated. It is our opinion that the methodology, FMVL, for determining ground rent is adequately supported by market evidence, as concluded by CBRE, and the adjustments accurately reflect site-specific costs of development as concluded by Finnegan Marshall."

Appendices

Confidential Appendix 3 – Major Terms and conditions around Lease Amendment

Appendix 3

Major Terms and Conditions - Ground Lease Amendment

Confidential Information or advice

1.	**Parties:**	Cansquare (Canada 8) LP, CT Reit LP and OPG Investment Holdings LP (which are subsidiaries of Northam Realty, CT Reit and Oxford Properties)
2.	**Leased Lands:**	All lands owned by the TTC on the block to be Leased to the Tenant, initially through amendments to extend the term of the current leases and ultimately, under a single consolidated amended and restated Lease Agreement. For further clarity, the “Leased Lands” include the current Phase I, II, III and Phase I Pavilion Leases and TTC Development Lands (the “Bus Lands”, 2.2 acres) less strata lands required for transit operations to be retained by the TTC or transferred to Metrolinx. [NB: Such strata lands to be further specified in the Lease] TTC shall have a right to modify the Leased Lands during the term to accommodate necessary changes to TTC infrastructure and operations from time to time subject to consultation with the Tenant, acting reasonably.
3.	**Term:**	Initial term of 99 years
3b.	**Extension Term:**	For the Tenant to be eligible to exercise its option to extend the Term for a further 99 years (the “Extension Term”), Tenant shall be required to re-invest in and maintain all buildings within the complex in accordance with items 6 and 7, to the standard of a Class A office building and a first class apartment rental building such as exist surrounding the Yonge Street and Eglinton Avenue intersection and along the Yonge subway line south of Eglinton, and that have been constructed no earlier than 20 years prior to commencement of the Extension Term. The Tenant’s right to the Extension Term shall be conditional upon the confirmation by a jointly appointed third party consultant that the Tenant has materially satisfied this requirement and is not then in default of the Lease.
4	**Commencement Dates:**	The earlier of (i) construction commencement of the first phase of development (“Phase 1”) in connection with the Tenant’s Master Development Plan (the “Master Development Plan”), or (ii) the completion by Metrolinx of its construction activity on the Bus Lands and the release of its temporary easements required for construction (the “Commencement Date”).

4a.	**Base Rent payable during first 20 years of the term:**	**Up to the Commencement Date:** Until the Commencement Date, Base Rent payable for the Leased Lands will remain the ground rent currently payable under the current leases (2180, 2190 and 2200 Yonge Street) (approximately $2 million per year). **At the Commencement Date:** Subject to a minimum Base Rent of $2 million per annum throughout the initial 20-year Term, the annual Base Rent payments will be recalculated going forward on the date that is six (6) months after substantial completion of each building or phase of the Master Development Plan and the annual Base Rent will be based on the Gross Floor Area (GFA) of such building or phase and all other income producing buildings on the Leased Lands, based on the following: **Calculation of Initial FMVL:** The initial Term Fair Market Value of the Land ("Initial FMVL") will be calculated by multiplying GFA, as defined in the Zoning Bylaw 569-2013, as it exists on the Leased Lands throughout the initial term, by the following unit rates, as applicable: Residential (Market) $85 PSF Office $55 PSF Retail $55 PSF Residential unit rates will be adjusted to reflect the affordable housing requirements and corresponding credits associated with the Master Development Plan. The parties agree that the adjustment for the impact of the requirements related to affordable housing and suite mix contained in the Proposed Yonge-Eglinton Secondary Plan Update will be $25.00 PSF and will be deducted from the Residential (Market) FMVL. **Calculation of Adjusted Initial FMVL:** The adjusted Initial FMVL will be calculated by deducting the pro rata share of $25 million in enabling costs from the Initial FMVL ("Adjusted Initial FMVL"). For example, the pro rata share will be calculated based on the new GFA constructed in Phase 1 as a percent of total GFA contemplated in the Master Development Plan. **Calculation of Ground Rent:** Annual Base Rent payments at the Commencement Date will be calculated by multiplying the Adjusted Initial FMVL by the Rental Rate, where the "Rental Rate" shall be the sum of twenty (20) year Government of Canada Bond Yield for the period plus 175 bps. The twenty (20) year Government of Canada Bond Yield will be subject to a cap of 2.50% at the Commencement Date and each subsequent delivery date of the phases during the development period. **At Completion of Subsequent Phases:** On the day that is six (6) months post substantial completion of each development phase, the Adjusted Initial FMVL will be recalculated going forward, in accordance with the methodology described above, to reflect the then existing GFA and uses on the Leased Lands.

4b.	**Interim Resets every 20 years during the initial Term and any extension term:**	Base Rent during each interim reset period (commencing on every 20th anniversary of the Commencement Date or, if applicable, the Extension Term Commencement date ("Reset Date")) during the Term of the Lease, shall be established as follows: **1. First Reset Period (Year 21 to Year 40):** a. The Base Rent for the First Reset Period shall be calculated as the most recent Base Rent multiplied by: i. In the case of the residential buildings, one plus the cumulative percent increase in the Ontario residential Rent Increase Guideline rate measured from the date of completion of the buildings to the Reset Date; ii. In the case of office and retail components, one plus the cumulative percent increase in the Consumer Price Index (CPI), (Ontario, All Items) as published by Statistics Canada measured from the date of completion of each building to the Reset Date; and in the case of Canadian Tire Corporation space, one plus the cumulative percent increase in the annual rent based on contractual rent steps in the lease. **2. Subsequent Reset Period (Year 41 and beyond):** a. The Base Rent for each 20-year period subsequent to the First Reset Period shall be calculated as the most recent Base Rent multiplied by: i. One plus 85% of the 20-year cumulative percent change in net operating income (NOI) as determined on a building by building basis. For example, if the cumulative NOI growth over the 20-year period is 160%, the calculation is as follows: 1 + [85% x ((1.60 -1))] = 1.51 (or 151%). Beginning in the 21st year post the Commencement Date, the Tenant will provide the annual net operating income for the prior year with the associated management prepared accounting statements. The City may, at its discretion, require such statements be audited by a third party accounting firm appointed jointly by the Landlord and the Tenant.
4c.	**Rent Reset if Fee Purchase Option is exercised:**	The primary intent is to pursue the development of rental residential, however, if in the future the "Fee Purchase Option" is exercised to purchase land for condominium development, the Base Rent will be adjusted, if required, to reflect the decrease in density, if any, on the leasehold property in accordance with the methodology set out in items above.

4d.	**Rent Reset if Extension Option is Exercised:**	In the event that, at the end of the initial 99-year Term, the Tenant exercises its option for the Extension Term, the FMVL for the Extension Term shall be determined as follows: 1. The FMVL shall be based on the market land value per sq.ft. of GFA for each use (specifically office, retail and rental residential (allowing for any affordable residential component, if any)) multiplied by the GFA of each use existing as of the date which is six (6) months prior to the Extension Term Commencement Date; 2. To determine the market land values, each party shall appoint an appraiser who shall determine the market land value per sq.ft. of GFA for each use. In the event that the difference in the FMVL of each appraisal is 10% or less, the initial FMVL for the Extension Term shall be the average of the two appraisals; and 3. In the event the difference in the FMVL of each appraisal is greater than 10%, the appraisers shall jointly choose a third appraiser. The Third Appraiser shall render an opinion as to the FMVL, which shall be final and binding on both parties. 4. In determining Base Rent payable by the Tenant for the Extension Term, no adjustments will be made to FMVL for Enabling Costs. 5. The Rent for the first twenty (20) years of the Extension Term shall be the FMVL times the “Rental Rate” which shall be calculated as the sum of twenty (20) year Government of Canada Bond Yield for the period plus 175 bps. 6. Rent during each twenty (20) year Rent Reset period of the Extension Term shall be increased in accordance with item 4.b) above.
5.	**Additional Rent:**	As per existing lease.
6.	**Use:**	As per existing lease.
7.	**Approvals / Consent:**	Landlord consent requirements for modifications to development scheme if it materially deviates from the approved Master Development Plan and, in particular, the Landlord reserves the right to approve material increases in height or density and other matters to be more fully described in the Lease. Nothing in the Lease shall derogate from the authority of the City as the applicable planning authority to review and approve any particular proposed development on the property.
8.	**General & Capital Repairs & Maintenance:**	Tenant to maintain the property to a Class A office building and a first class apartment rental building standard and bear all costs associated with maintenance during the Term. This includes major repairs and replacements to elevators, roofs, exterior windows and cladding, parking structures, chillers, boilers, etc.

9.	**Major Capital Improvements:**	Tenant commits to “Major Capital Reinvestment” such as renovations or redevelopments of the property throughout the Term to maintain it to the standard of a Class A office building and a first class apartment rental building. [NB: Definition of “Major Capital Reinvestment” to be agreed upon.]
10.	**TTC Infrastructure:**	There are new TTC–related infrastructure improvements which are estimated at $36 million to be constructed. Landlord commits to finance any costs related to the construction of the New Bus Terminal which is capped at $25 million. The Tenant agrees to finance costs for two modified entrances and concourse alterations up to $11 million. Substantial completion dates to be agreed to by the Landlord prior to the signing of the lease: 1. Permanent Bus Terminal including concourse integration - $25 Million (funding to be provided through TTC) 2. Permanent Station Entrances & Concourse Alterations - $11 Million (funding by Tenant) In the event that the TTC subsequently initiates changes to the agreed upon final scope of work for the Permanent Bus Terminal, the construction costs will be amended accordingly as agreed to by the parties
11.	**Landlord's Reserved Easements/ Easements to be Granted by the Tenant:**	Landlord and Tenant to enter into new agreement to deal with access and support easements, maintenance of common areas, and protection of transit infrastructure etc. in respect of new development.
12.	**Subway Interference:**	Lease to include standard TTC and Metrolinx language, subject to reasonable negotiation, whereby Tenant grants an easement in favour of the TTC and Metrolinx in respect of noise, vibration, emissions, emi, etc., from TTC’s and or Metrolinx’s transit operations and indemnifies Landlord during the Term of the Lease in respect of claims relating to noise, disruption, emissions, interference, etc., from TTC’s or Metrolinx’s transit operations.
13.	**Subleases, Assignments and Purchase Options:**	No assignment by Tenant without Landlord consent, acting reasonably. Tenant may only assign to Qualified Transferee. Landlord shall be permitted to withhold consent to an assignment in its sole discretion during the construction of any phase of the development except to a Qualified Transferee. Transfers where either Oxford and/or CT REIT are increasing their ownership are permitted without Landlord consent. Landlord to provide Tenant with a one-time right of first offer (“ROFO”) in the event that the Landlord wishes to sell all or any part of the property. For greater certainty, the Tenant shall be entitled to exercise the ROFO on each and every part of the property that the Landlord wishes to sell, the first time that the Landlord wishes to sell such part or parts thereof, and the Landlord shall thereafter be free to sell the property at any time.

14.	**Fee Purchase Option:**	Tenant, or its affiliate, shall have the right during the initial 20 year period for the completion of the Master Development Plan (as same may be extended in accordance with section 11, below) to purchase any land (on the portion of the Leased Land to be defined) to facilitate development of certain residential condominiums in accordance with the Master Development Plan. The Tenant, or its affiliate, shall submit to the Landlord written notice of its intent to exercise the fee purchase option which will clearly delineate the extent of the lands to be purchased (a “Purchase Notice”) no more than six months prior to the purchase date. The lands purchased pursuant to the fee purchase option shall account for (i) no more than one third (33.3%) of the total density in the Master Development Plan in aggregate, and (ii) shall not be located over TTC or Metrolinx infrastructure. Purchase price to be based on the market value of the land to be purchased at the time the Tenant submits its Purchase Notice (the “Land Value”), where the Land Value shall be established as follows: Each party shall appoint an appraiser to determine the Land Value based on the GFA that is intended to be constructed on the lands which are the subject of the Purchase Notice. In the event that the difference in the Land Value of each appraisal is 10% or less, the Land Value shall be the average of the two appraisals; and In the event the difference in the Land Value of each appraisal is greater than 10%, the appraisers shall jointly choose a third appraiser. The third appraiser shall render an opinion as to the Land Value which shall be final and binding on both parties.

15.	**Tenant Covenant to Complete Master Development Plan:**	Covenant for Tenant to complete the agreed upon Master Development Plan within the 20th anniversary of the Commencement Date, subject to force majeure. The Tenant will provide a development schedule to complete the Master Development Plan and if all phases contemplated in the Master Development Plan have not been constructed within the 20 year term, the Tenant shall pay to the Landlord a $10 million extension fee. The Tenant will be entitled to obtain an extension right of the period to complete the Master Development Plan for a further period of 10 years (the "10 year Extension Period"), subject to force majeure during the 10 year Extension Period. If, subject to force majeure, all phases of the Master Development Plan have not been completed at the end of the 10 Year Extension Period, the Landlord shall have the right to terminate the Lease solely in respect of any portion of the Leased Lands that have not been substantially developed in accordance with the Master Development Plan, excluding easements or the strata properties that are required to provide servicing, access or support for completed portions of the Master Development Plan.
16.	**Performance Security for Construction Obligations:**	The Tenant acknowledges that the Landlord requires assurances, in the form of a completion guarantee from a creditworthy entity, a performance bond, letter of credit, insurance or other form of performance security, or some combination thereof (collectively, "Performance Security"), during the construction of each phase of the development, for the performance of the Tenant's construction obligations and the completion of such phase. The Landlord acknowledges that the Tenant is subject to restrictions that limit the amount and nature of the Performance Security that it can provide. The Landlord and Tenant agree to work together to find a solution which will satisfy the needs of the Landlord, acting reasonably, on a basis acceptable to the Tenant, acting reasonably, it being agreed that the Performance Security ultimately provided by the Tenant shall be on a several basis for each entity comprising the Tenant. The Landlord acknowledges that under no circumstances will the Ontario Municipal Employees Retirement System ("OMERS") be required to provide any such Performance Security as a guarantee. The Performance Security for each phase shall be delivered to the Landlord prior to the earlier of the Tenant commencing demolition of any existing buildings or improvements on the lands for such phase or excavation for any phase of the development and shall remain in place until such phase is fully completed.
17.	**No-Subordination and Ground Lease Acknowledgment Agreement:**	Lease shall not be subordinated by Landlord to Tenant's secured financing; however, in the event that the Tenant finances the Property, the Landlord shall, upon request of the Tenant and its Lender, enter into a ground lease acknowledgment agreement (in a form to be negotiated and attached to the Lease).

18.	**Leasehold Mortgages / Loans:**	Leasehold Mortgages permitted without Landlord Consent but subject to certain leverage ratios and customary lease provisions with respect to the granting of leasehold mortgages, subject to reasonable negotiation when such lenders may be involved in financing the project.
19.	**Non-Disturbance and Attornment Agreement:**	Non-Disturbance agreements to be provided in favour of sub-tenants in the complex as long as the sub-tenants agree to attorn to the Landlord.
20.	**Condition of Premises:**	Tenant to surrender Premises to Landlord in good order, condition and repair, apart from reasonable wear and tear consistent with the building age, maintained to a Class A office building and a first class apartment rental building standard and equivalent standard for multi-family residential complex given location of the complex.
21.	**Environmental:**	Lease to include City's standard confirmation and release language, subject to reasonable negotiation, regarding environmental claims.
22.	**Default:**	As per existing lease.
23.	**Indemnity:**	As per existing lease.
24.	**Insurance Trust Agreement:**	Landlord, Tenant and Tenant's lenders to enter into Insurance Trust Agreement to address use of insurance proceeds in case of damage or destruction, subject to agreement on thresholds and lender approval.
25.	**Condition:**	The Landlord's obligation to enter into the new lease is conditional upon Tenant receiving all appropriate regulatory approvals for the Master Development Plan and City Council approval of the business terms of the new lease. The Tenant agrees it will not appeal any City Planning decisions with respect to the Master Development Plan or any components thereof without the consent of the Landlord.
26.	**Dispute Resolution:**	Disputes between the parties as to calculation of Base Rent shall be resolved by a dispute resolution process set out in a schedule to the Leases.
27.	**Administration and Management of Leases:**	TTC's Chief Capital Officer, or successor/designate, shall administer and manage the Lease, including the provisions of any consents, approvals, notices, notices of termination, provided the CCO may refer consideration of such matter to TTC Board for determination.