

## **Toronto Employment and Social Services Lease at 3660 Kingston Road, Unit K1**

**Date:** December 28, 2018

**To:** General Government and Licensing Committee

**From:** Director, Real Estate Services

**Wards:** 24 - Scarborough - Guildwood

### **SUMMARY**

---

In May 2016, the City and RRVP Markington Inc. (the "Landlord") entered into a conditional lease proposal dated February 22, 2016, (the "Lease Proposal") for space at 3660 Kingston Road, Unit K1 (the "Premises"), which was later authorized at July 12, 13, 14, and 15, 2016 City Council.

Subsequently in the Lease Proposal, the City and the Landlord negotiated further amendments to the lease, and the Landlord agreed to perform the leasehold improvement work at the City's cost provided that the City pay the Landlord's supervision and overhead cost.

This report seeks approval to incorporate the new negotiated terms into the Lease, including the Landlord's agreement to construct the leasehold improvements, the Landlord's supervision and overhead cost and the methodology for paying the cost of leasehold improvements, amongst other negotiated changes.

### **RECOMMENDATIONS**

---

The Director of Real Estate Services recommends that:

1. City Council authorize the City to enter into a Lease with RRVP Markington Inc. for a ten (10) year term, substantially on the terms and conditions as set out in Appendix "B" and on such other or amended terms and conditions as may be acceptable to the Deputy City Manager, Corporate Services or his or her designate and in a form acceptable to the City Solicitor.

2. City Council authorize the Deputy City Manager, Corporate Services (the "DCM") or designate to administer and manage the Lease, including the provision of any consents, approvals, waivers, notices, and notices of termination, provided the DCM may, at any time, refer consideration of such matters to City Council for its determination and direction.

## **FINANCIAL IMPACT**

---

In Toronto Employment and Social Services' (TESS) past transactions, TESS often had the landlord perform the fit-up and reimbursed the landlord through a combination of lump sum payment and/or amortized the payment over the term of the lease as it is often more economical and efficient.

The estimated cost of the leasehold improvements is \$4.8 million, with the Landlord's leasehold improvement allowance of \$30.00 per square foot covering the first \$754,290.00.

The Landlord's supervision and overhead fee is \$100,000.00 plus HST. Given the magnitude of the fit-up and the amount of time spent or expected to be spent by the Landlord, Real Estate Services/Facilities Management/TESS are of the view that the supervision and overhead costs are commercially reasonable and in line with industry standards.

As TESS has sufficient funds available, paying the Landlord upfront will avoid the \$2.4 million in interest payments that would accrue if the costs were amortized over the term of the Lease at an interest rate of 10%.

Therefore, the total cost to the City over a term of ten (10) years is \$10,298,830.68 plus HST (\$10,480,090.09 net of HST recoveries). If the two (2) options to extend for five (5) years each were exercised, the total cost to the City over a term of twenty (20) years will be \$17,416,323.70 (net of HST recoveries). See Appendix "C" attached for details on annual cost to the City.

Funding is available in the 2018 Council Approved Operating Budget for Toronto Employment and Social Services under cost centre C01204. Future year expenditures will be referred to future year Budget Process.

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

## **DECISION HISTORY**

---

On July 12, 13, 14 and 15 2016 City Council authorized the City to enter into a Lease with RRVP Markington Inc. as landlord for a ten (10) year term, substantially on the terms and conditions as set out in Appendix "A" attached thereto.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM13.19>

On December 4, 5, and 13 2018 City Council approved the budget adjustments and any associated complement changes detailed in Appendix F attached thereto to amend the 2018 Approved Operating Budget, such adjustments to have no impact on the 2018 Approved Net Operating Budget to the City.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.CC1.7>

## **COMMENTS**

---

The Premises will be utilized by TESS to serve a large and underserved area in Scarborough.

On or around May 25, 2016, the City and the Landlord entered into the conditional Lease Proposal.

On July 12, 2016, City Council adopted GM13.19 which authorized the City to enter into the Lease substantially on the terms and conditions as set out in Appendix "A" thereto.

It was initially anticipated that the Landlord would perform the Leasehold improvement work, but agreement of the terms and conditions of the work was finalized subsequent to GM13.19.

The Landlord has been constructing the leasehold improvements based on TESS's requirements and has and will be seeking reimbursement of the costs from the Tenant.

On December 4, 5, and 13, 2018 City Council approved the budget adjustments and any complement changes detailed in Appendix F attached thereto. This included adjusting the 2018 Operating Budget for TESS as it relates to the leasehold improvement costs associated with 3660 Kingston Road.

## **CONTACT**

---

Daran Somas  
Acting Manager  
Real Estate Services  
Tel: (416) 397-7671  
[Daran.Somas@toronto.ca](mailto:Daran.Somas@toronto.ca)

## **SIGNATURE**

---

---

Tim Park  
Acting Director  
Real Estate Services

## **ATTACHMENTS**

---

Appendix "A" – Location Map  
Appendix "B" – Major Terms and Conditions  
Appendix "C" – Financial Impact

**APPENDIX "A"**  
**Location Map**



## **APPENDIX "B"**

### **Major Terms and Conditions**

1. Lease Premises:  
25,143 square feet known as Unit K1 at 3660 Kingston Road, Toronto.
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 five (5) years each at the then fair market value; provided that the Minimum Rent shall not be less than the Minimum Rent payable under the Lease for the immediately preceding 12 month period, and provided that the Tenant is the City or a Permitted Transferee and not then in monetary or other material default.
4. Minimum Rent:  
Years 1-5: \$12.75 per square foot per year (\$320,573.25 per year) plus HST.  
Years 6-10: \$16.75 per square foot per year (\$421,145.25 per year) plus HST.
5. Additional Rent:  
Estimated at \$10.36 (plus HST) per square foot for operating costs and realty taxes. In addition, the Tenant is be responsible for the costs of the HVAC system serving the Leased Premises and the Landlord's cost of complying with the Indoor Air Quality requirements.
6. Basic Rent Free Period:  
The City is not required to pay Minimum Rent for the first six (6) months of the Lease.
7. Municipal Capital Facilities Tax Exemption:  
Application for tax exemption for the Leased Premises has been submitted.
8. Leasehold Improvement Allowance:  
The Landlord has agreed to provide a leasehold improvement allowance of \$30.00 per square foot plus HST, equalling \$754,290.00 plus HST (the "Allowance"), towards 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.

To the extent that the leasehold improvement work exceeds \$30.00 per square foot, the amount in excess shall be either: (i) applied so that the Tenant's Rent Free Period is reduced by the number of days required in order for the excess to be offset against the Minimum Rent credit, or (ii) the Tenant shall pay the Landlord the remaining excess within ten business days of the receipt by the Tenant of an invoice for same. The total estimated cost for the Leasehold improvements is \$4,800,000.00.

9. Landlord's Fee:

The Landlord has agreed to construct the leasehold improvements on the Tenant's behalf in respect of the Tenant initially opening for business in the Leased Premises. The parties agree that the Tenant shall pay the Landlord a flat fee of \$100,000.00 plus HST for the Landlord's reasonable overhead and supervision fees for the Landlord's performance of the Landlord and Tenant's leasehold improvement work. In the event that the Tenant requests the Landlord to perform further work beyond the initial fit-up, the Landlord will be entitled to charge a reasonable overhead and supervision fee.

10. Completion of Landlord's and Tenant's Leasehold Improvement Work:

If the Landlord's and Tenant's leasehold improvement work is not completed by the commencement date, the Lease shall not be void or voidable, and provided the delay is in no way attributable to the Tenant's delay, the parties agree that the commencement day will be deferred by the number of days equal to the delay.

Notwithstanding the above, the parties agree that due to construction delays and other unforeseen circumstances, the commencement date in the Lease will remain as September 1, 2019.

11. Fair Wage Policy Compliance

The Landlord shall comply with the Tenant's Fair Wage Policy and Labour Trades Contractual Obligations in the Construction Industry in the performance of the Landlord's and Tenant's Work.

12. Use of Lease Premises:

The City has agreed to restrict its use of the Leased 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.

13. Landlord's Right to Redevelop:

The Landlord has reserved the right to terminate the Lease during the first ten (10) year term, on 15 months' notice to the City, if the Landlord intends to demolish or redevelop 50% or more of the building in which the Leased Premises are located. The parties have agreed that the termination date shall not occur prior to the last day of the 5th year of the initial Term, and the Tenant shall be entitled to compensation on a sliding scale of compensation based on an amount equal to \$500,000.00 inclusive of HST, amortized on a straight line basis to zero, on a day by day basis, over the period commencing on the 1st day of the sixth year of the initial Term and ending on the last day of the tenth year of the initial Term.

14. Environmental Indemnity:

The Tenant shall indemnify and save harmless the Landlord and those for whom the Landlord is in law responsible, from any and all costs, claims, damages, losses, liabilities expense or injuries caused or contributed to by any hazardous substances which are located, stored or incorporated in any part of the Lease Premises by the Tenant or those for whom the Tenant is in law responsible.

15. Prohibited and Restrictive Uses:

The Tenant shall not allow or cause the use of any part of the Lease Premises for any use prohibited by the Landlord, acting reasonably, and the Tenant shall not breach any exclusive and restrictive covenants granted by the Landlord to other tenants in the complex.

16. "As is" Basis:

With the exception of the Landlord's Work, the Tenant will accept and lease the Premises on an "As is" basis.



**APPENDIX "C"**  
**Financial Impact**

Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
<b>Basic Rent</b>	106,857.75	320,573.25	320,573.25	320,573.25	320,573.25	354,097.25	421,145.25	421,145.25	421,145.25	421,145.25	280,763.50	3,708,592.50
<b>Op Costs</b>	40,731.66	122,194.98	122,194.98	122,194.98	122,194.98	122,194.98	122,194.98	122,194.98	122,194.98	122,194.98	81,463.32	1,221,949.80
<b>Realty Tax</b>	46,095.50	138,286.50	138,286.50	138,286.50	138,286.50	138,286.50	138,286.50	138,286.50	138,286.50	138,286.50	92,191.00	1,382,865.00
<b>Basic Rent Free</b>	- 106,857.75	- 53,428.88	-	-	-	-	-	-	-	-	-	- 160,286.63
<b>Landlord Contribution</b>	- 754,290.00	-	-	-	-	-	-	-	-	-	-	- 754,290.00
<b>Leasehold Improvement</b>	4,800,000.00	-	-	-	-	-	-	-	-	-	-	4,800,000.00
<b>Landlord Fee</b>	100,000.00	-	-	-	-	-	-	-	-	-	-	100,000.00
<b>Total Cost</b>	4,232,537.16	527,625.86	581,054.73	581,054.73	581,054.73	614,578.73	681,626.73	681,626.73	681,626.73	681,626.73	454,417.82	10,298,830.68
<b>Net of HST Recoveries</b>	4,307,029.81	536,912.07	591,281.29	591,281.29	591,281.29	625,395.32	693,623.36	693,623.36	693,623.36	693,623.36	462,415.57	10,480,090.09