



## REPORT FOR ACTION

**Toronto Employment and Social Services Lease at 900 Dufferin Street, Suite 219**

**Date:** February 24, 2020

**To:** General Government and Licensing Committee

**From:** Executive Director, Corporate Real Estate Management

**Wards:** Ward Number 9 – Davenport

**SUMMARY**

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This report seeks authority to enter into a new lease agreement with Dufferin Mall Holdings Inc., as landlord, for approximately 27,863 square feet of space at 900 Dufferin Street, Suite 219, Toronto (the "Premises"), for use by Toronto Employment and Social Services. The rentable area of the Premises is subject to the landlord's right to re-measure the Premises, provided that despite any increase in square footage as a result of such measurement, the tenant shall not be required to pay Minimum Rent or Additional Rent on an area greater than 28,699 square feet. The lease is for a term of fifteen (15) years. CreateTO has reviewed, and agrees that entering into the lease agreement is the most optimal approach to ensuring program delivery at this time.

**RECOMMENDATIONS**

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The Executive Director, Corporate Real Estate Management, recommends that:

1. City Council authorize the City of Toronto (the "City") to enter into a lease (the "Lease") with Dufferin Mall Holdings Inc. (the "Landlord") or its duly authorized property manager, for approximately 27,863 square feet of space, to a maximum of 28,699 square feet at 900 Dufferin Street, Toronto (the "Premises") for a fifteen (15) year term (the "Term") expected to commence on May 1, 2021 and expire on April 30, 2036, substantially on the major terms and conditions as set out in Appendix A, including such other terms and conditions as may be deemed appropriate by the Executive Director, Corporate Real Estate Management or their designate, and in a form acceptable to the City Solicitor.

## **FINANCIAL IMPACT**

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Based on the maximum square footage of 28,699 square feet, the total operating expenditure to the City for the fifteen (15) year term, inclusive of basic rent, operating costs and utilities (excluding property tax) is estimated to be \$17,032,398.86 (inclusive of Harmonized Sales Tax) or \$15,338,202.72 (net of Harmonized Sales Tax recoveries) as detailed in Appendix D. The City is also entitled to a six (6) month rent free fixturing period, during which time there is no minimum rent, operating costs, taxes or basic heating, ventilation, and air conditioning charge payable, but the City is required to comply with all other terms of the Lease including payment of utilities.

If the one (1) option to extend the Lease for five (5) years is exercised, the total cost over the twenty (20) year term will be approximately \$23,444,912.10 (inclusive of Harmonized Sales Tax) or \$21,112,869.52 (net of Harmonized Sales Tax recoveries).

Funding is included in the 2021 and 2022 Outlooks of the 2020 Council Approved Operating Budget for Toronto Employment and Social Services (under cost centres C01214/C01276) and will be included in the program's future year Operating Budget submissions within approved operating budget targets for Council consideration. Currently, lease costs are eligible for 50 percent funding from the Province of Ontario. It is anticipated that the Province will continue to cost share a portion of the leasing costs incurred by Toronto Employment and Social Services in providing its programming.

The estimated cost for leasehold improvements is \$3,435,494 (inclusive of Harmonized Sales Tax) or \$3,093,769 (net of Harmonized Sales Tax recoveries) after deducting the Landlord Leasehold Allowance. Funding for leasehold improvement costs is included in Toronto Employment and Social Services' 2020-2029 Council Approved Capital Budget and Plan.

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

## **DECISION HISTORY**

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This report presents a new initiative.

## **COMMENTS**

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Toronto Employment and Social Services currently occupies 25,680 square feet of leased space at 1900 Dundas Street West and 11,618 square feet of leased space at 2340 Dundas Street West (collectively, the "Existing Premises"). The lease for the premises located at 1900 Dundas Street West commenced on September 1, 1993 and expires on August 31, 2021. The lease for the premises located at 2340 Dundas Street West commenced on January 1, 2011 and expires on December 31, 2020. The current

use of the two Existing Premises is for client support services and other general office and ancillary uses.

At the request of Toronto Employment and Social Services, Corporate Real Estate Management staff conducted an extensive market search of properties in the area that met Toronto Employment and Social Services' requirements: proximity to clients, easy access to public transportation, and preferably sufficient space to operate on one floor. Toronto Employment and Social Services and Corporate Real Estate Management staff toured several potential locations and 900 Dufferin Street was deemed to best meet Toronto Employment and Social Services' requirements. Situated on the second floor, it provides easy access to the public from the mall. Toronto Employment and Social Services is satisfied that the proposed new site is in an ideal location from which to serve the Davenport community.

As the Premises is located in Dufferin Mall (see Appendix C for Location Map), this site is more accessible to Toronto Employment and Social Services clients by means of public transit than the Existing Premises, and has a smaller foot print by at least 9,435 square feet that is acceptable to consolidate both locations into one. Furthermore, the Premises is fully accessible and also has direct connection to the covered parking via a dedicated elevator which services the Premises on the second floor, the main level and the parking.

Moreover, as the Existing Premises are in close proximity to the Premises, there is potential to retain the existing client base and to provide services to new clients in this neighbourhood, as shown by the heat map in Appendix B, a tool used by Toronto Employment and Social Services to determine the areas of Toronto that are in most need of a Toronto Employment and Social Services client-facing office.

City staff will also seek to designate the Premises as a Municipal Capital Facility in order to exempt the Premises from realty taxation for municipal and school purposes. The rent and other terms and conditions of the Lease reflect current market value according to market research and valuation conducted by Corporate Real Estate Management staff. Overall, the structure of the transaction benefits the City, given that the length of the term of the lease amounts to lower rent to be paid.

CreateTO has reviewed the Lease in conjunction within the strategic framework outlined by ModernTO: City-Wide Real Estate Strategy and Office Portfolio Optimization and agrees that proceeding with the Lease is the most optimal route to ensure program delivery at this time. CreateTO has conducted the necessary analysis to see if there are any other options, including but not limited to: finding space within a City owned building, or acquiring properties to deliver the same programming. Based on the results of the analysis, it has been determined and there are no viable alternatives at this time. All Toronto Employment and Social Services occupied third-party buildings will be further reviewed by CreateTO and reported to City Council in the third quarter of 2020, wherein CreateTO will recommend the best course of action for the optimal use of City real estate assets, taking into consideration the City's existing leasehold interests, and ensuring Toronto Employment and Social Services' program delivery is maintained.

## **CONTACT**

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## **SIGNATURE**

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Patrick Matozzo  
Executive Director, Corporate Real Estate Management

## **ATTACHMENTS**

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Appendix A – Major Terms and Conditions  
Appendix B – Toronto Employment and Social Services Heat Map  
Appendix C – Location Map of 900 Dufferin Street  
Appendix D – Financial Impact Table

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

### **1. Premises:**

900 Dufferin Street, Toronto, Ontario, Suite 219, being approximately 27,863 square feet in rentable area being Suite 219 in the building known as Dufferin Mall, subject to re-measurement by the Landlord, and provided that in no event shall the rentable area exceed 28,699 square feet for the purposes of calculating rent.

### **2. Term:**

Fifteen (15) years, expected to commence on May 1, 2021 and ending on April 30, 2036. The Landlord and the City acknowledge that the dates may be altered to due to delays, such as construction delays.

### **3. Minimum Rent:**

Years 1-5: \$21.75 per square foot per year (\$606,020.25 per year) plus Harmonized Sales Tax.

Years 6-10: \$24.00 per square foot per year (\$668,712.00 per year) plus Harmonized Sales Tax.

Years 11-15: \$24.25 per square foot per year (\$675,677.75 per year) plus Harmonized Sales Tax.

### **4. Additional Rent (excluding taxes and utilities):**

Estimated for 2021 to be \$7.63 (plus Harmonized Sales Tax) per square foot for operating costs and following 2021 operating costs shall increase on a cumulative basis by two percent (2%) per calendar year. If the City finds that it is feasible to install a Building Automation System, the associated maintenance costs are to be added to the additional rent. The Building Automation System will be used exclusively for the Premises and will allow the City to control the internal temperature.

### **5. Option to Extend:**

One (1) option to extend the Lease for a term of five (5) years at the then fair market rate provided that the Tenant is the City or a Permitted Transferee (as such term is defined in the Lease) and is not in default under the terms of the Lease.

**6. Fixturing Period:** The City will receive a (6) six month basic rent free fixturing period commencing October 1, 2020 up to and including April 30, 2021 (the "Fixturing Period"). During the Fixturing Period, the city will be responsible for complying with all other terms of the Lease, including payment of the separately metered utilities and realty taxes.

### **7. Municipal Capital Facilities Tax Exemption:**

The Landlord acknowledges that the City has the right, in its discretion, to request the Council of the City of Toronto ("Council") to exempt the Premises from realty taxation for municipal and school purposes and if Council passes a bylaw for such exemption, the Landlord agrees to enter into a municipal capital facility agreement with the City and to pass the full benefit of such exemption on to the City during the entire period of any such exemption.

### **8. Tenant's Work and Tenant Allowance:**

The Landlord shall construct the Tenant's leasehold improvements (The "Tenant's Work"), estimated to be \$3,500,000.00 plus Harmonized Sales Tax or \$3,561,600.00 (net of Harmonized Sales Tax recoveries).

The Landlord will provide a leasehold improvement allowance (the "Tenant Allowance") of \$16.50 per square foot plus Harmonized Sales Tax, being approximately \$473,534.00 plus Harmonized Sales Tax or \$481,867.69 (net of Harmonized Sales Tax recoveries) along with the third payment payable at the time when substantial completion has been achieved as referenced below.

The City shall pay for the costs of the Tenant's Work in accordance with the following schedule:

Payment	Timing
\$10/square foot of the rentable area of the Premises (estimated at \$278,630.00)	Upon commencement of the Tenant's Work.
40 percent (40%) of the total costs of the Tenant's Work (estimated at \$1,200,000.00)	Upon completion of 40 percent (40%) of the Tenant's Work as determined by the Architect and the City's project manager.
30 percent (30%) of the total costs of the Tenant's Work (estimated at \$900,000.00)	Upon reaching substantial completion of the Tenant's Work as determined by the Architect and the City's project manager.
Balance	Upon completion of all deficiencies.

**9. Landlord Project Management Fee:**

The fee shall not exceed the lesser of ten percent (10%) of the costs of the Tenant's Work or \$75,000.00.

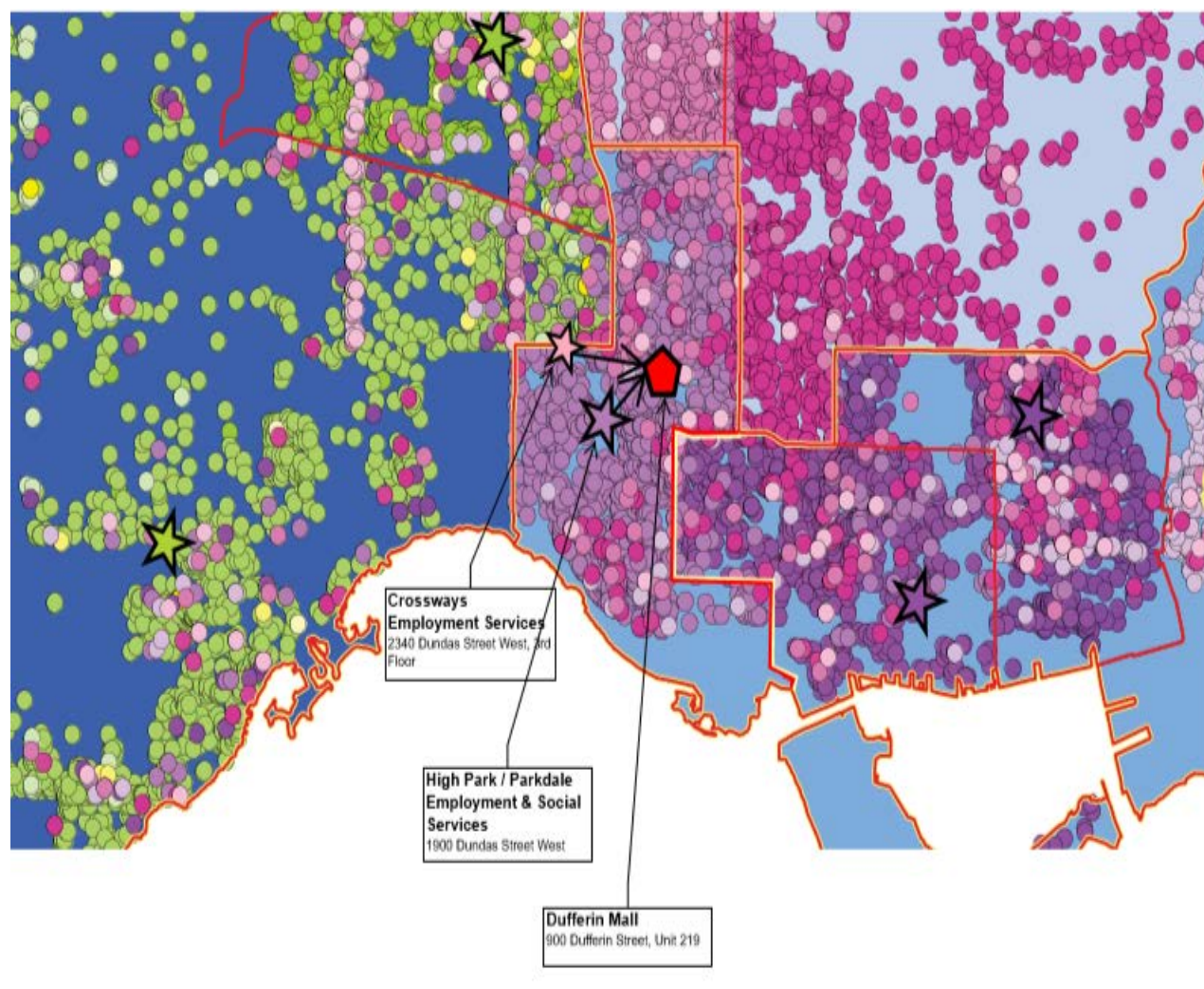
**10. Fair Wage Policy and Labour Trades Contractual Obligations:**

The Landlord agrees to perform the Tenant's Work in compliance with the Tenant's Fair Wage Policy and Labour Trades Contractual Obligations in the Construction Industry.

**11. Use of Premises:**

The Premises may be used for general office purposes, including client or customer support services and other general office ancillary use as permitted by law.

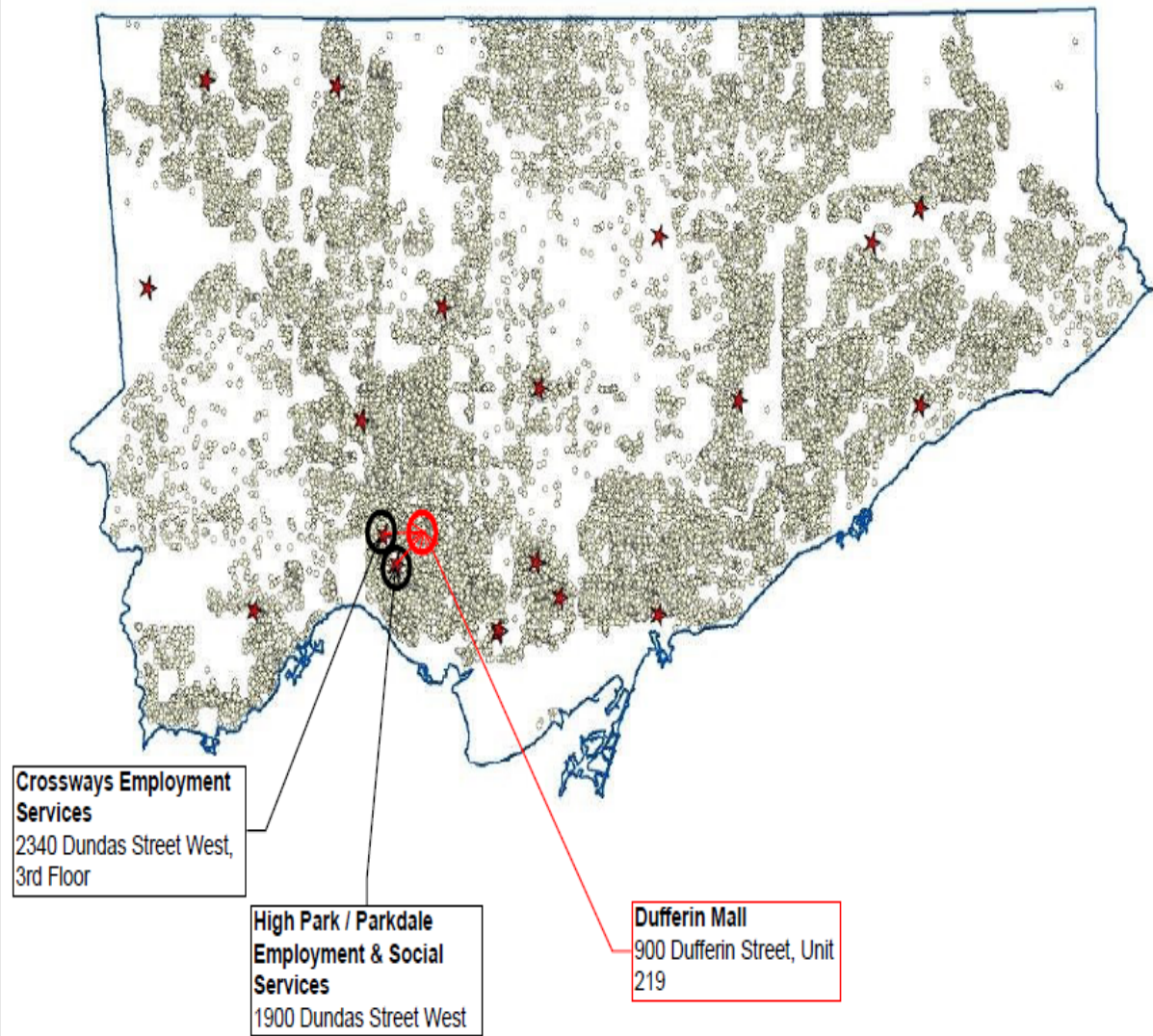
## Appendix B – Toronto Employment and Social Services Heat Map



**900 Dufferin Street  
(Dufferin Mall)**

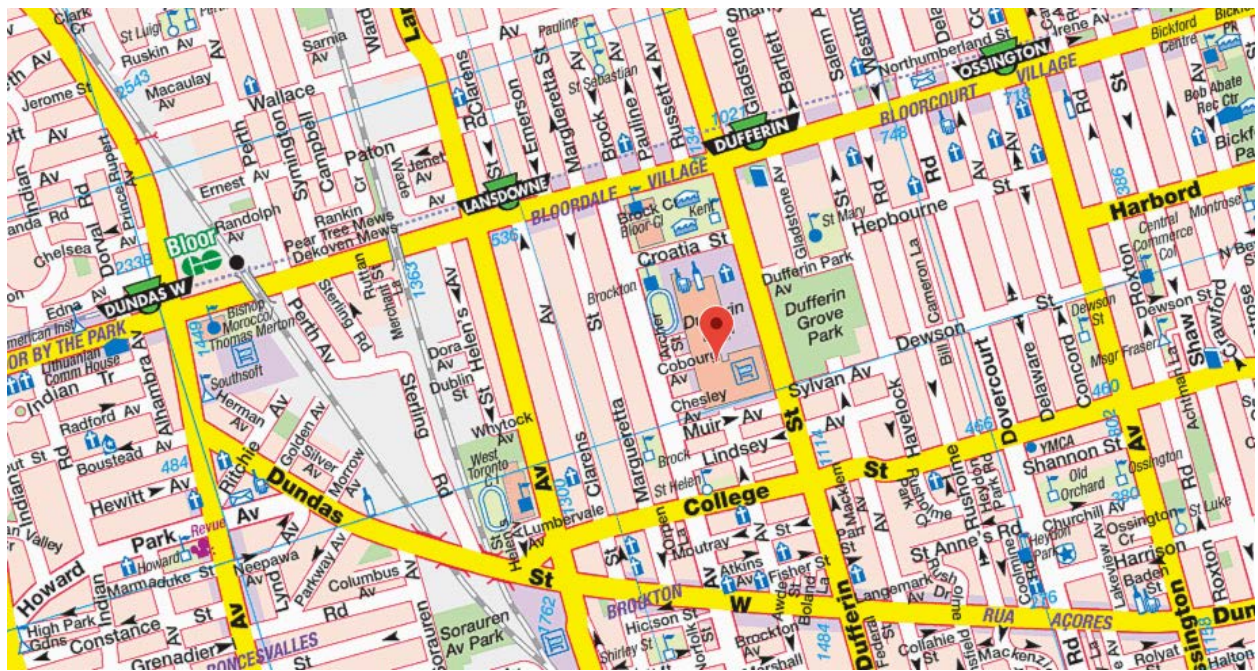
● ● ● = Toronto Employment and Social Services client locations







A map of the Bloor Collegiate Institute area in Toronto. The map shows a grid of streets including Bloor St W, Brook Ave, Marquett St, Emerson Ave, Lansdowne Ave, St Helens Ave, St Clarens Ave, Marquett St, Archer St, Muir Ave, Lindsey Ave, Dufferin St, Sylvan Ave, Gladstone Ave, Havelock St, Bill Cameron Lane, Hepbourne St, Dovercourt Rd, Delaware Ave, Dewson St, and College St. Key landmarks include Bloor Collegiate Institute, St. Mary Catholic Academy, Brockton Stadium, Dufferin Grove Park, and MacGregor Playground. A red location pin is placed on the map, indicating a specific location near the intersection of Brook Ave and Marquett St.



## Appendix D – Financial Impact Table

	Rental Cost (Net of Harmonized Sales Tax)	Cost (Inclusive of Harmonized Sales Tax)	Leasehold Costs (Net of Harmonized Sales Tax Recoveries)	Cost (Net of Harmonized Sales Tax Recoveries)
2021	\$ 600,383.08	\$ 678,432.88	\$3,093,769.00	\$ 3,690,682.13
2022	\$ 905,357.79	\$1,023,054.30	-	\$ 921,292.08
2023	\$ 912,819.53	\$1,031,486.07	-	\$ 928,885.15
2024	\$ 920,525.21	\$1,040,193.49	-	\$ 936,726.45
2025	\$ 928,386.58	\$1,049,076.84	-	\$ 944,726.19
2026	\$ 979,651.26	\$1,107,005.92	-	\$ 996,893.12
2027	\$1,009,659.00	\$1,140,914.67	-	\$ 1,027,429.00
2028	\$1,018,322.72	\$1,150,704.68	-	\$ 1,036,245.20
2029	\$1,027,367.02	\$1,160,924.73	-	\$ 1,045,448.68
2030	\$1,036,705.68	\$1,171,477.42	-	\$ 1,054,951.70
2031	\$1,051,036.16	\$1,187,670.86	-	\$ 1,069,534.39
2032	\$1,063,385.45	\$1,201,625.56	-	\$ 1,082,101.03
2033	\$1,073,668.85	\$1,213,245.80	-	\$ 1,092,565.42
2034	\$1,084,193.78	\$1,225,138.97	-	\$ 1,103,275.59
2035	\$1,095,163.64	\$1,237,534.92	-	\$ 1,114,438.52
2036	\$ 366,293.59	\$ 413,911.76	-	\$ 372,740.36
<b>Total</b>	<b>\$15,072,919.34</b>	<b>\$17,032,398.86</b>	-	<b>\$ 18,417,935.03</b>