



## REPORT FOR ACTION

### Toronto Employment and Social Services Lease at 5160 Yonge Street, Suite 200

**Date:** February 21, 2020

**To:** General Government and Licensing Committee

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

**Wards:** Ward 18 – Willowdale

#### SUMMARY

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This report seeks authority to enter into a new lease agreement with The Canada Life Assurance Company (the "Landlord") for a term of ten (10) years, for approximately 31,635 square feet of space at 5160 Yonge Street, Suite 200 (the "Leased Premises"), for use by Toronto Employment and Social Services, substantially on the terms and conditions as set out in Appendix C, with funding for the rental lease costs and the leasehold improvement costs included in the appropriate budgets as noted in the Financial Impact section. 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 an Offer to Lease followed by a Lease with The Canada Life Assurance Company for a ten (10) year term, substantially on the terms and conditions as set out in Appendix C attached hereto, and on such other or amended terms and conditions as may be acceptable to 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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The total cost to the City for the ten (10) year term, and three (3) months of early occupancy, inclusive of basic rent, operating costs and utilities (excluding property tax), is \$14,573,927.00 (inclusive of Harmonized Sales Tax) or \$13,124,273.00 (net of Harmonized Sales Tax recoveries).

If the two (2) options to extend for five (5) years each are exercised, the total rent cost over the twenty (20) year term (excluding property tax) is estimated to be approximately \$29,718,149.00 (inclusive of Harmonized Sales Tax) or \$26,762,114.00 (net of Harmonized Sales Tax recoveries). Funding for the lease costs is included in the 2020 Approved Operating Budget for Toronto Employment and Social Services (under cost centre C01203) and will be included in future year Operating Budget submissions within approved operating budget targets for Council consideration. Lease costs are eligible for 50 percent (50%) funding from the Province.

The estimated cost for leasehold improvements and furniture is \$4,848,689.00 (inclusive of Harmonized Sales Tax) or \$4,366,394.00 (net of Harmonized Sales Tax recoveries), which is equal to approximately \$4,062,243.00 (inclusive of Harmonized Sales Tax) or \$3,658,175.00 (net of Harmonized Sales Tax recoveries) after deducting the Leasehold Improvement Allowance. Funding for leasehold improvement costs and furniture is included in the 2020-2029 Council Approved Capital Budget and Plan for Toronto Employment and Social Services.

See Appendix D for further details on the annual cost to the City.

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 27,577 square feet of leased space at 20 Lesmill Road. The lease for the existing location commenced in 1993, and expires on January 31, 2021. Since leasing this space, Toronto Employment and Social Services' client base has changed significantly, and they are no longer in a position to provide optimal access to clients from the existing location. Additionally, renewal is not an option at 20 Lesmill Road as the landlord plans to include the land as part of a larger redevelopment project. This location currently serves a caseload of 5,500 clients. On average 3,500 clients visit the office each month.

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 and community partners such as the Toronto Public Library, access to public transportation, first or second floor space, 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 the location at 5160 Yonge Street was deemed to best meet Toronto Employment and Social Services' requirements. The building provides excellent transit accessibility, being directly connected to the Yonge Subway

Line, and is located centrally to the bulk of Toronto Employment and Social Services' client base, as illustrated by the client location map in Appendix B. Situated on the second floor of the building, this space provides easy access to the public from Yonge Street as well as the North York Centre Subway Station, and the mall that is located within the building. Toronto Employment and Social Services is satisfied that the proposed new site is an ideal location from which to serve the North York area of the city. Among other benefits of this location, a branch of the Toronto Public Library is located within the same complex.

Toronto Employment and Social Services confirms that the Leased Premises are a service requirement and supports the City in entering into the Agreement.

Corporate Real Estate Management staff consider the terms and conditions of the Agreement to be fair and reasonable and at fair market value.

CreateTO has reviewed this Offer in conjunction within the strategic framework outlined by ModernTO: City-Wide Real Estate Strategy and Office Portfolio Optimization and agrees that proceeding with this Offer 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. The Landlord is agreeable to including a Tenant Termination Provision to assist in meeting the City's long term strategies.

## **CONTACT**

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Nick Simos, Acting Director, Real Estate Services, Corporate Real Estate Management, 416-392-7223, [Nick.Simos@toronto.ca](mailto:Nick.Simos@toronto.ca)

## **SIGNATURE**

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Patrick Matozzo  
Executive Director, Corporate Real Estate Management

## **ATTACHMENTS**

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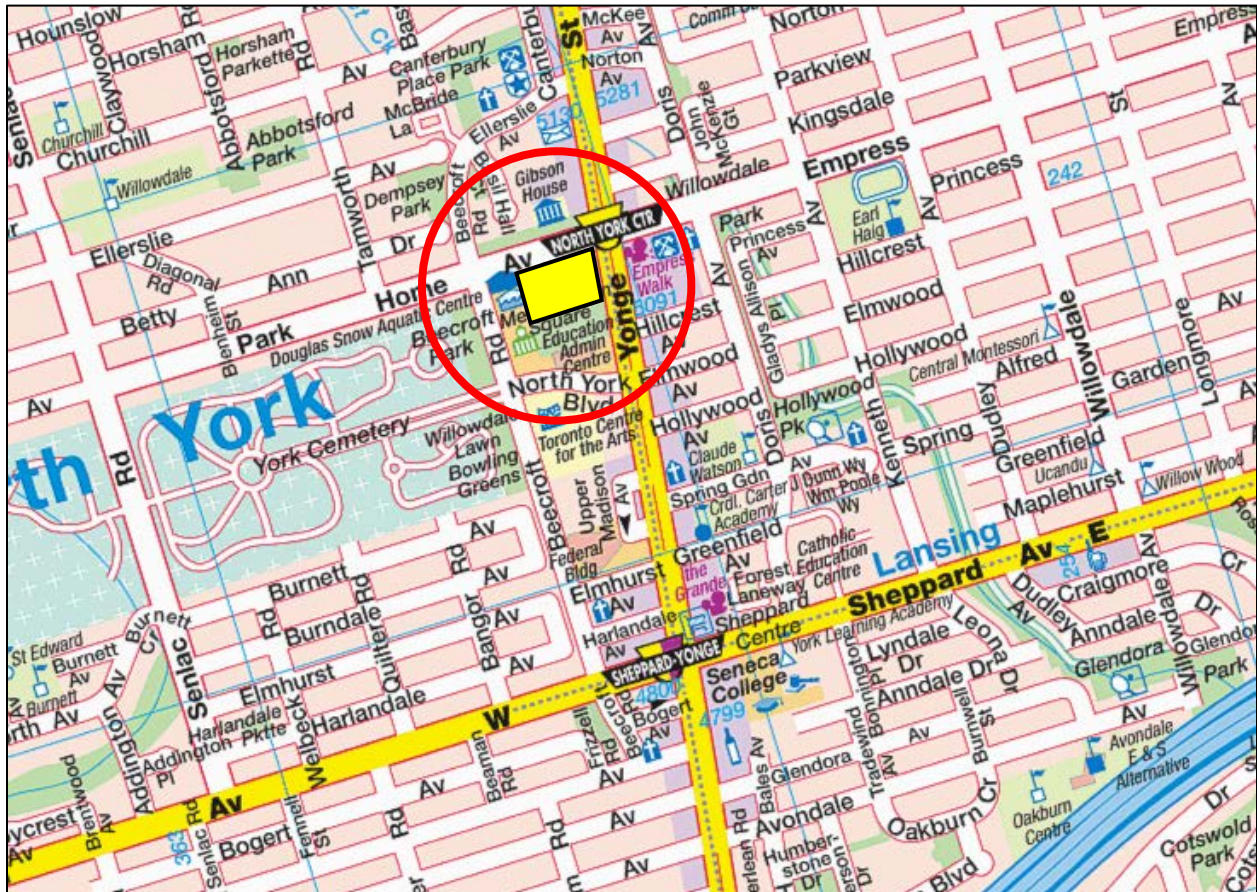
Appendix A – Location Map

Appendix B – Toronto Employment and Social Services Client Location Map

Appendix C – Major Terms and Conditions

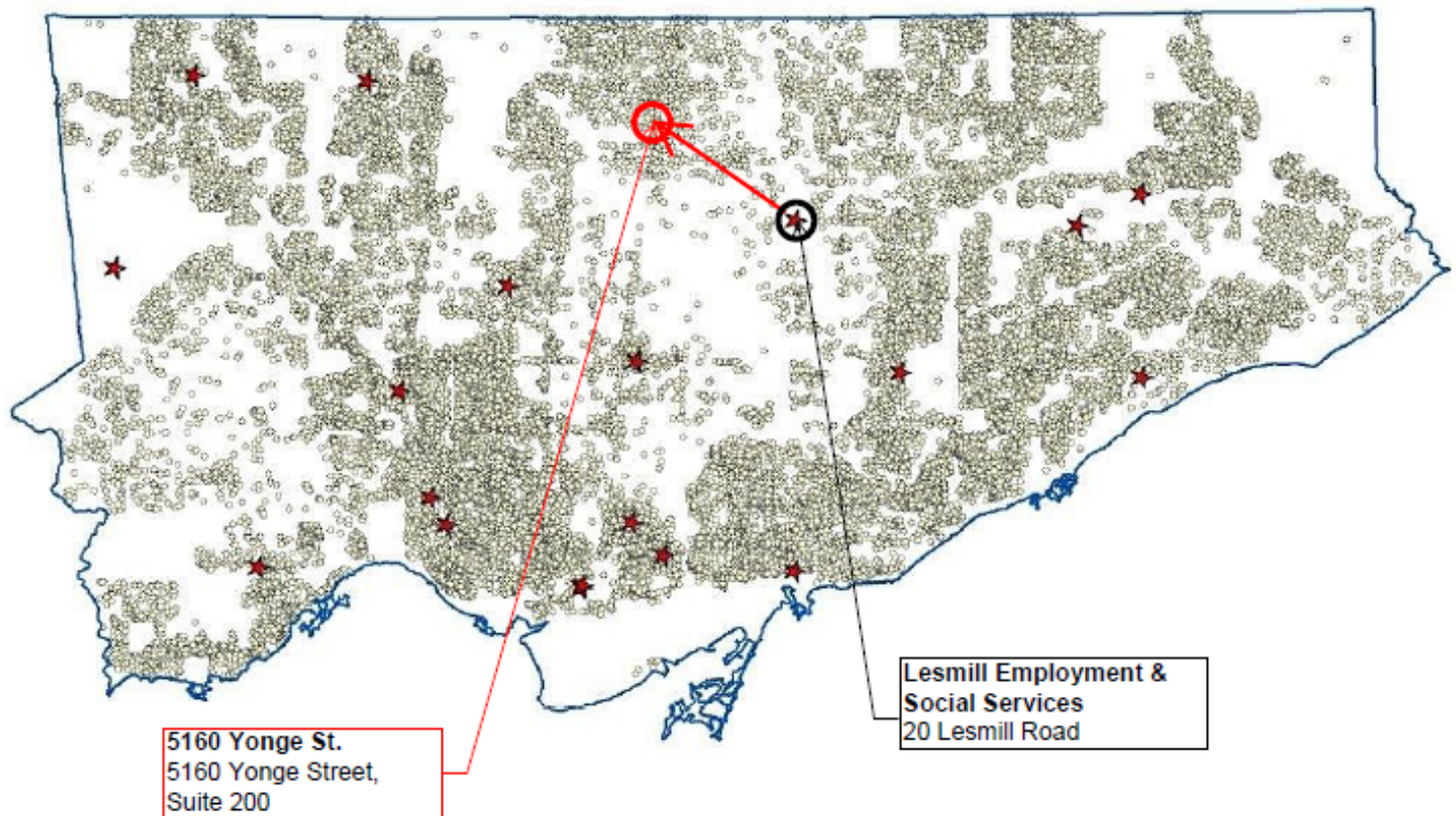
Appendix D – Financial Impact

## Appendix A – Location Map





## Appendix B – Toronto Employment and Social Services Client Location Map



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

### **Lease from the Canada Life Assurance Company (the "Landlord")**

**1. Leased Premises:**

31,635 square feet being Suite 200 in the building known as 5160 Yonge Street, Toronto, Ontario (the "Premises").

**2. Term:**

Ten (10) years, commencing on June 1, 2021 and ending on May 31, 2031.

**3. Minimum Basic Rent:**

Years 1-3: \$22.25 per square foot per year (\$703,878.75 per year) plus Harmonized Sales Tax.

Years 4-6: \$23.25 per square foot per year (\$735,513.75 per year) plus Harmonized Sales Tax.

Years 7-10: \$24.50 per square foot per year (\$775,057.50 per year) plus Harmonized Sales Tax.

**4. Additional Rent:**

Estimated for 2020 to be \$21.68 (plus Harmonized Sales Tax) per square foot for operating costs and taxes. A two percent (2%) per annum increase has been assumed for calculation purposes beginning in 2021.

**5. Option to Extend:**

Two (2) options to extend the lease for terms of five (5) years each at the then fair market value with all economic inducement factors considered for comparable leased premises in comparable buildings, agreed between the parties, and failing such agreement, as determined by arbitration pursuant to the Arbitration Act 1991, S.O. 1991, c.17, and provided that the Tenant is the City or a Permitted Transferee and not then in monetary or other material default.

**6. Early Occupancy Period:**

The City is not required to pay Basic Rent or the Taxes and Operating Cost portions of the Additional Rent for the three (3) month period commencing March 1, 2021 up to and including May 31, 2021 (the "Early Occupancy Period"). The City will be responsible only for payment of the utilities and janitorial costs incurred during the period (estimated to be approximately \$3.50 per square feet per year). This total amount for the three (3) month period is estimated to be approximately \$27,681.00 (\$28,168.00 net of Harmonized Sales Tax recoveries).

**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 taxation for municipal and school purposes if the City considers that the Premises may be used as a municipal capital facility. Provided Council grants satisfactory approval to this effect, the Landlord has agreed to enter into the necessary municipal capital facility agreement with the City of Toronto pursuant to Section 110(1) of the Municipal Act, 2001, as

amended, in a form acceptable to the City Solicitor and legal counsel for the Landlord (each party being responsible for their own legal fees with respect to the same) and to pass the full benefit of such exemption on to the City during the entire period of any such exemption. Application for tax exemption for the Premises will be submitted simultaneously to commence at the start of the lease.

**8. Leasehold Improvement Allowance:**

The landlord has agreed to provide a leasehold improvement allowance of \$22.00 per square foot plus Harmonized Sales Tax, equalling \$695,970.00 plus Harmonized Sales Tax (the "Allowance"), to be applied toward the cost of building out the Premises.

**9. Estimated Leasehold Improvement Cost:**

The estimated cost to build out the Premises according to the Toronto Employment and Social Services' requirements is approximately \$3,500,000.00 (plus Harmonized Sales Tax). The Allowance will be applied to the total cost, and the remainder will be paid in instalments throughout the construction period on a progressive draw basis. Furniture is estimated at an additional \$790,875.00 (plus Harmonized Sales Tax).

**10. Landlord Termination**

In the event that the Landlord obtains planning permission to demolish the whole or part of the Premises, and provides evidence of the same to the City, the Landlord may terminate the lease upon providing at least twenty-four (24) months prior written notice to the City, however such notice shall not be served prior to the eighth (8th) anniversary of the Commencement Date. In such event, the City shall vacate the Premises in the manner contemplated in the lease on or before the date set out in the notice without compensation, damages or indemnification from the Landlord, and all basic and additional rent shall be adjusted to the date of termination. This termination provision shall be valid through the Term and any Extension Term.

**11. Release and Indemnity**

It is acknowledged by the Landlord and the City that where the City agrees, on a clause by clause basis, to release or indemnify the Landlord in the lease, such release or indemnity shall not include any losses, damages and/or claims to the extent caused by the wilful misconduct or negligence of the Landlord or those for whom the Landlord is in law responsible. In addition, neither party shall be liable to the other for any indirect or consequential losses, damages and/or claims.



## Appendix D – Financial Impact

### Inclusive of all Operating and Capital costs

	Semi-gross rental payments	Realty taxes	Leasehold Costs	Total
Jan 1, 2021	\$714,125	\$132,136	\$3,594,905	\$4,441,166
Jan 1, 2022	\$1,186,220	\$231,050	-	\$1,417,269
Jan 1, 2023	\$1,195,866	\$235,671	-	\$1,431,537
Jan 1, 2024	\$1,224,160	\$240,384	-	\$1,464,544
Jan 1, 2025	\$1,247,378	\$245,192	-	\$1,492,569
Jan 1, 2026	\$1,257,615	\$250,096	-	\$1,507,711
Jan 1, 2027	\$1,291,124	\$255,097	-	\$1,546,222
Jan 1, 2028	\$1,318,252	\$260,199	-	\$1,578,451
Jan 1, 2029	\$1,329,115	\$265,403	-	\$1,594,519
Jan 1, 2030	\$1,340,197	\$270,711	-	\$1,610,908
Jan 1, 2031	\$793,230	\$115,052	-	\$678,177
Total	\$12,897,281	\$2,270,887	\$3,594,905	\$18,763,073
Harmonized Sales Tax	\$1,676,647	\$295,215	\$467,338	\$2,439,200
Total (inclusive of Harmonized Sales Tax)	\$14,573,927	\$2,566,103	\$4,062,243	\$21,202,273
Total (net of Harmonized Sales Tax recoveries)	\$13,124,273	\$2,310,855	\$3,658,175	\$19,093,303

Estimated cost of two 5-year extension terms, using rent from the final year of the term:

- Estimated ten year extension term: \$15,144,222.00
- Estimated ten year extension term (net of Harmonized Sales Tax recoveries): \$13,637,841.00