REPORT FOR ACTION

# Toronto Employment and Social Services Lease at 2900 Warden Ave, Suite 225

**Date:** February 24, 2020
**To:** General Government and Licensing Committee
**From:** Executive Director, Corporate Real Estate Management
**Wards:** Ward 22 – Scarborough-Agincourt

## SUMMARY

This report seeks authority to enter into a new sublease agreement with Bridlewood Mall Management Inc., as sub-landlord, for approximately 37,000 square feet of space at 2900 Warden Avenue, Suite 225, Scarborough (the "Leased Premises"), for use by Toronto Employment and Social Services. The rentable area of the Leased Premises is subject to the sub-landlord's right to re-measure the Leased Premises, provided that any increase in square footage shall not exceed five percent (5%) for the purposes of calculating rent. The sublease is for a term of ten (10) 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

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 sublease (the "Offer") and a sublease to be executed pursuant to the Offer (collectively the "Sublease") with Bridlewood Mall Management Inc. (the "Sub-landlord"), for approximately 37,000 square feet of space, to a maximum of 38,850 square feet, at 2900 Warden Avenue, Scarborough (the "Premises") for a ten (10) year term (the "Term") commencing January 1, 2022 and expiring on December 31, 2031, 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

Based on the maximum square footage of 38,850 square feet, the total operating expenditure to the City for the ten (10) year term is estimated to be $13,312,005.11 (inclusive of Harmonized Sales Tax) or $11,987,872.92 (net of Harmonized Sales Tax recoveries) as detailed in Appendix D. The City is also entitled to a four (4) month rent free fixturing period, during which there is no basic rent payable, but the City is required to comply with all other terms of the Offer, including payment of utilities and realty taxes.

If the two (2) options to extend for five (5) years each are exercised, the total cost over the twenty (20) year term will be approximately $26,392,359.43 (inclusive of Harmonized Sales Tax) or $23,767,137.13 (net of Harmonized Sales Tax recoveries).

Funding has been included in the 2022 Outlook of the 2020 Council Approved Operating Budget for Toronto Employment and Social Services (under cost centre C01203) 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 (50%) funding from the Province. 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 $3,951,045.00 (inclusive of Harmonized Sales Tax) or $3,558,038.40 (net of Harmonized Sales Tax recoveries). 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

This report presents a brand new initiative.

## COMMENTS

Toronto Employment and Social Services currently occupies 47,480 square feet of leased space at 100 Consilium Place in Scarborough (the "Existing Premises"). The lease for the Existing Premises commenced on July 1, 2010 and expires on June 30, 2020. The current use of the Existing Premises is for client support services and other general office and ancillary uses. Toronto Employment and Social Services' Existing Premises currently serve an average monthly caseload of 5,900 clients with an average of 2,650 office visits 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, 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 2900 Warden Avenue was deemed to best meet Toronto Employment and Social Services' requirements. Situated on the first 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 community of north Scarborough.

As the Leased Premises is located in Bridlewood Mall (the "Property") (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 at 100 Consilium Place in Scarborough, and has a smaller foot print by approximately 18 percent (18%) or 8,630 square feet. Furthermore, it is located on the ground floor inside a shopping mall instead of the 10th and 11th floors of an office building, which makes it more preferable for clients and logistically easier for Toronto Employment and Social Services to manage.

Moreover, by relocating to 2900 Warden Avenue, the new office will serve a currently underserved part of the City. Currently, north Scarborough lacks services according to the Toronto Employment and Social Services Client Map in Appendix B, as determined with 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.

The structure of the transaction is less expensive for the City since the common area costs and property management fee are covered by the semi-gross rent.

City staff will also seek to designate the Leased Premises as a Municipal Capital Facility in order to exempt the Leased Premises from realty taxation for municipal and school purposes.

The rent and other terms and conditions of this Lease reflect current market value according to market research and valuation conducted by Corporate Real Estate Management staff.

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 Q3 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

Nick Simos, Acting Director, Real Estate Services, Corporate Real Estate Management, 416-392-7223, Nick.Simos@toronto.ca

## SIGNATURE

Patrick Matozzo
Executive Director, Corporate Real Estate Management

## ATTACHMENTS

Appendix A – Major Terms and Conditions
Appendix B – Toronto Employment and Social Services Client Map
Appendix C – Location Map of 2900 Warden Avenue
Appendix D – Financial Impact Table

**Appendix A – Major Terms and Conditions [1]**

1. Leased Premises:
2900 Warden Ave, Scarborough Ontario, Suite 225, being approximately 37,000 square feet of space; subject to re-measurement by the Sublandlord, and provided that in no event shall the variance exceed five (5%) for the purpose to calculating Basic Rent.

2. Term:
Ten (10) years, commencing on January 1, 2022 and ending on December 31, 2031. The Sublandlord and the City acknowledge that the dates may be pushed out due to delays, such as construction delays.

3. Basic Rent:
Years 1-3: $22.50 per square foot per year ($832,500.00 annually) plus Harmonized Sales Tax
Years 4-6: $23.50 per square foot per year ($869,500.00 annually) plus Harmonized Sale Tax
Years 7-10: $24.50 per square foot per year ($906,500.00 annually) plus Harmonized Sales Tax

The Basic Rent payable includes all cost associated to the Tenant's share of all common area maintenance and structural costs of the Property, save and except for the Tenant's insurance, utilities, realty taxes, janitorial and routine maintenance of the Leased Premises.

4. Additional Rent:
Estimated for 2018 to be $6.14 (plus Harmonized Sales Tax) per square foot for realty taxes, and utilities to be based on consumption as measured by separate meters, except for water, which will be sub-metered.

5. Option to Extend:
Two (2) options to extend the lease for terms of five (5) years each at the then fair market basic rent rate. For the purpose of calculating Basic Rent, the parties agree that the effective Basic Rent in the final year of the initial Term will be $19.50 per square foot after deducting the premium of $5.00 per square foot paid by the Tenant for the Tenant's Leasehold Improvement Allowance for the Tenant's Work, which has been included in Basic Rent over the initial Term.

6. Fixturing Period:
The City will receive a four (4) month Basic Rent-free fixturing period commencing September 1, 2021 up to and including December 31, 2021 (the "**Fixturing Period**"). During the Fixturing Period, the City will be responsible for complying with all other terms of the Offer, including payment of the separately-metered utilities and realty taxes.

7. Municipal Capital Facilities Tax Exemption:
The Sublandlord acknowledges that the City has the right to request Council to exempt the Leased Premises from realty taxation for municipal and school purposes, and if Council passes a by-law for such exemption, the Sublandlord agrees to be enter into a

Municipal Capital Facility Agreement with the City and pass the full benefit of the exemption to the City.

8. Tenant's Work and Leasehold Improvement Allowance:
The Sublandlord has agreed to construct the Tenant's leasehold improvements (the "Tenant's Work"), estimated to be $140.00 per square foot of the rentable area of the Leased Premises plus Harmonized Sales Tax or approximately $5,180,000.00 plus Harmonized Sales Tax (inclusive of a project management fee not to exceed $300,000.00).

The Sublandlord will provide a leasehold improvement allowance of $50.00 per square foot plus Harmonized Sales Tax, being approximately $1,850,000.00 plus Harmonized Sales Tax assuming 37,000 square feet, up to $1,942,500.00 plus Harmonized Sales Tax (the "Allowance"), to be applied toward the cost of the Tenant's Work. The Sublandlord agrees to allow the City to elect, at the City's sole discretion, to amortize a portion of the cost of the Tenant's Work, up to a maximum of $50.00 per square foot of the rentable area of the Leased Premises plus Harmonized Sales Tax over the initial Term, at prime plus 2 percent (2%) per annum. The remainder of the Sublandlord's costs in constructing the Tenant's Work shall be payable by the City within sixty (60) days after Substantial Completion, as defined per the CCDC5B construction contract form.

9. Fair Wage Policy and Labour Trades Contractual Obligations:
The Sublandlord 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.

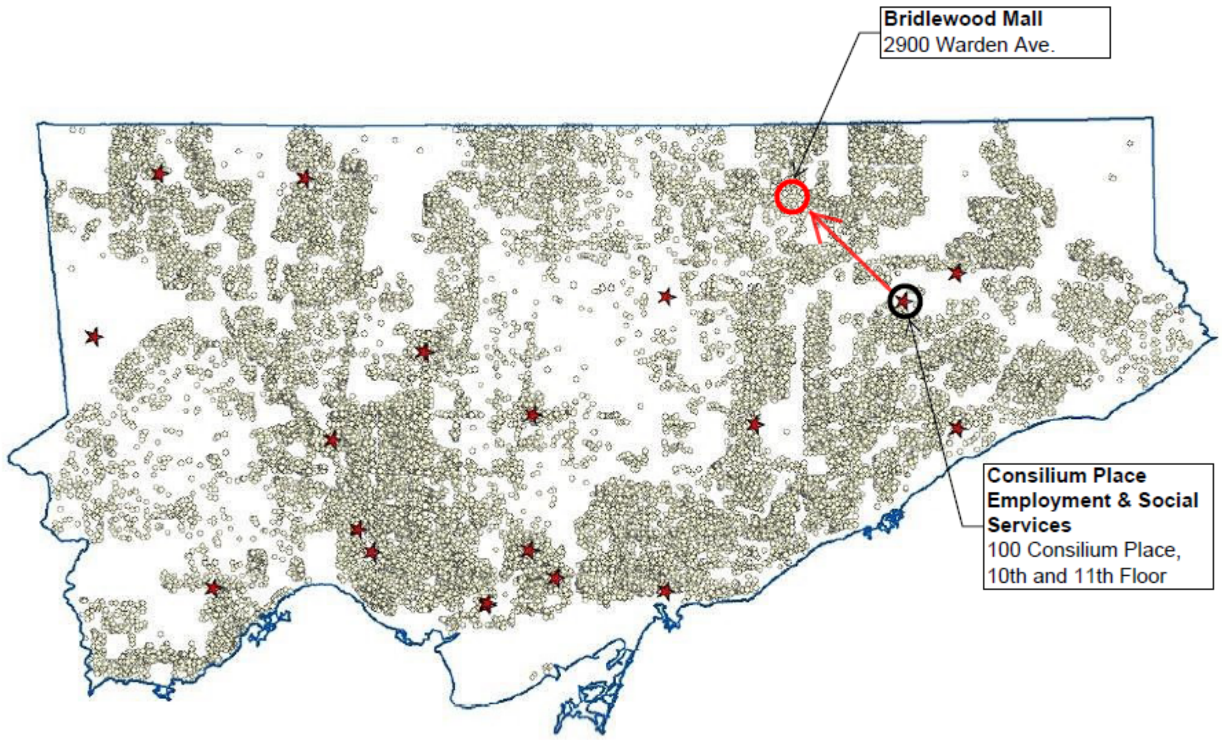
10. Use of Leased Premises:
The Leased Premises may be used for office use only, including client or customer support services and other general office ancillary use as permitted by law.

11. Sublandlord's Right to Relocation:
In the event the City exercises either of its options to extend, the Sublandlord shall have the right during the first or second extended term to relocate the Tenant from the Leased Premises upon not less than 24 months prior written notice. In the event that the Leased Premises are relocated, the Sublandlord shall, at its sole expense, construct the relocated premises in accordance with the requirements of this Offer with leasehold improvements of equal or greater standard, and the Offer shall be extended for a term of 10 years.

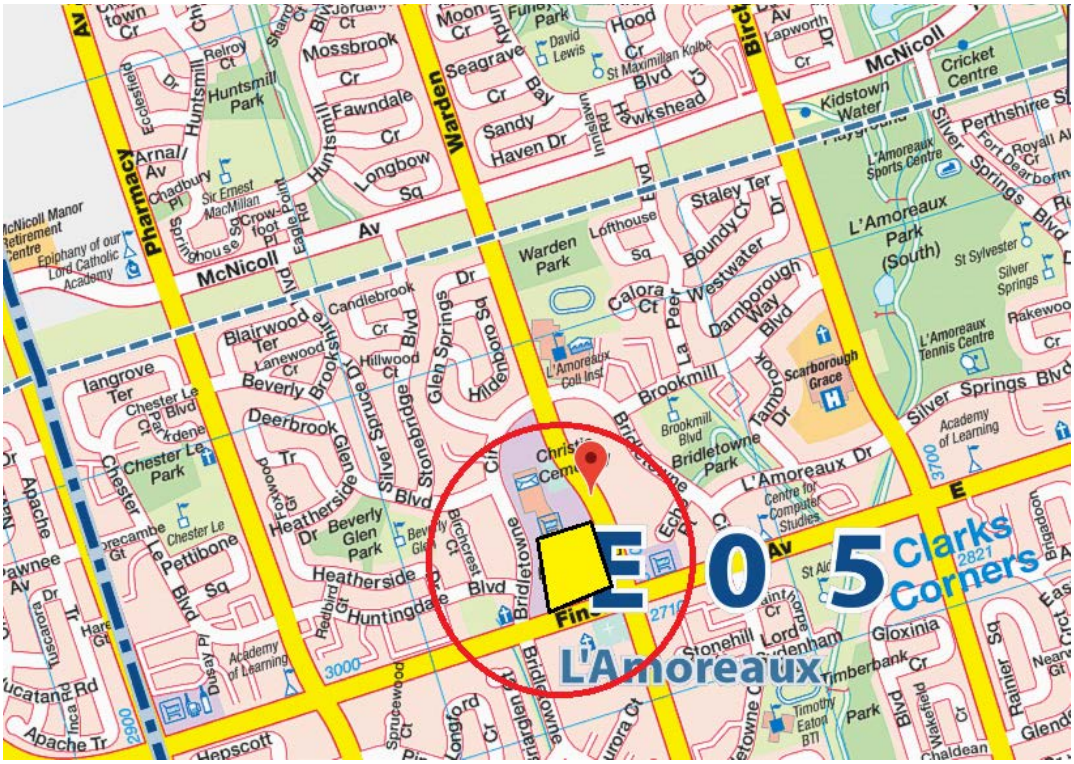
12. Non-Disturbance and Attornment Agreement:
The Sublandlord and the Tenant shall enter into a Non-Disturbance and Attornment Agreement with the head landlord, wherein the head landlord agrees that during the term of the head lease, the City shall not be required to comply with the terms of the head lease and in the event that the head lease expires and is not extended or renewed, is terminated or surrendered for any reason, the City's Offer/Sublease will be deemed to be a direct lease with the head landlord.

[1] Calculations in Appendix "A" are based on 37,000 square foot of space, subject to adjustment if the Leased Premises are re-measured.

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



## Appendix C – Location Map of 2900 Warden Avenue



**Appendix D – Financial Impact Table**

Table 1 - Financial Impact by Year [1]

| | Semi-gross rental payments | Realty taxes | Leasehold costs | Total |
|---|---|---|---|---|
| Jan 1, 2022 | $874,125 | $238,539 | $3,496,500 | $4,609,164 |
| Jan 1, 2023 | $874,125 | $243,310 | - | $1,117,435 |
| Jan 1, 2024 | $874,125 | $248,176 | - | $1,122,301 |
| Jan 1, 2025 | $912,975 | $253,139 | - | $1,166,114 |
| Jan 1, 2026 | $912,975 | $258,202 | - | $1,171,177 |
| Jan 1, 2027 | $912,975 | $263,366 | - | $1,176,341 |
| Jan 1, 2028 | $951,825 | $268,634 | - | $1,220,459 |
| Jan 1, 2029 | $951,825 | $274,006 | - | $1,225,831 |
| Jan 1, 2030 | $951,825 | $279,486 | - | $1,231,311 |
| Jan 1, 2031 | $951,825 | $285,076 | - | $1,236,901 |
| Total | $9,168,600 | $2,611,935 | $3,496,500 | $15,277,036 |
| Harmonized Sales Tax | $1,191,918 | $339,552 | $454,545 | $1,986,015 |
| Total (inclusive of Harmonized Sales Tax) | $10,360,518 | $2,951,487 | $3,951,045 | $17,263,051 |

| | Semi-gross rental payments | Realty taxes | Leasehold costs | Total |
|---|---|---|---|---|
| Total (net of Harmonized Sales Tax recoveries) | $9,329,967 | $2,657,905 | $3,558,038 | $15,545,912 |

[1] Calculations in Appendix D are based on the maximum square footage of 38,850 square feet of space.