

City of Toronto Lease at 2900 Warden Avenue

Date: August 28, 2020

To: General Government and Licensing Committee

From: Executive Director, Corporate Real Estate Management

Wards: Ward 22 - Scarborough-Agincourt

SUMMARY

The purpose of this report is to obtain authority to enter into a new sublease agreement with Bridlewood Mall Management Inc., as sublandlord, for approximately 33,000 square feet of space at 2900 Warden Avenue, Suite 225, Scarborough (the "Leased Premises") situated in the Bridlewood Mall, for use by Toronto Employment and Social Services ("TESS") and other City of Toronto ("City") Divisions and Agencies that are identified in the planning and design of the Leased Premises. The sublease is for a term of ten (10) years.

The Leased Premises will replace TESS's existing leased site at 100 Consilium Place in Scarborough (the "Existing Premises"), which services approximately 2,650 office visits per month, and will result in a reduction of approximately 14,480 square feet in total leased square footage as compared to the existing leased site. This relocation will ensure service continuity for clients in the underserved north Scarborough area, and presents opportunities for space optimization and service co-location in collaboration with the Toronto Public Library. The Leased Premises may also be used to implement strategic initiatives focused on creating agile, flexible City space that can be used by multiple City Divisions and Agencies, customers and clients as the need and demand for space to deliver services evolve.

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

RECOMMENDATIONS

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

1. City Council authorize 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 "Sublandlord"), for approximately 33,000 square feet of space, to a maximum of 34,650 square feet, at 2900 Warden Avenue, Scarborough (the "Premises") for a ten (10) year term (the "Term") commencing on approximately May 1, 2022 and expiring on approximately April 30, 2032, 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 34,650 square feet, the total operating expenditure to the City for the ten (10) year term, beginning approximately May 1, 2022, is estimated to be \$11,872,869 inclusive of Harmonized Sales Tax (\$10,691,886 net of Harmonized Sales Tax) as detailed in Appendix "D". The City is also entitled to a four (4) month rent-free fixturing period, from approximately January 1, 2022 to April 30, 2022, 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.

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 Toronto Employment and Social Services' 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. 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.

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 \$23,539,131 (inclusive of Harmonized Sales Tax) or \$21,197,717 (net of Harmonized Sales Tax).

The estimated cost for leasehold improvements is \$3,523,905 (inclusive of Harmonized Sales Tax) or \$3,173,385 (net of Harmonized Sales Tax). Funding for leasehold improvement costs is included in Toronto Employment and Social Services' 2020-2029 Council Approved Capital Budget and Plan.

Furthermore, it is anticipated that the re-location to Bridlewood Mall will provide estimated savings of \$7.776 million (inclusive of Harmonized Sales Tax) or \$7.002 million (net of Harmonized Sales Tax), excluding fit-up costs, for lease costs and an estimated savings of \$4.252 million (inclusive of Harmonized Sales Tax) or \$3.829 million (net of Harmonized Sales Tax) in total after taking into account leasehold improvements over the ten-year period with no impact to service delivery.

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

DECISION HISTORY

At its meeting on March 9 2020, the General Government and Licensing Committee considered Item GL12.19 "Toronto Employment and Social Services Lease at 2900 Warden Avenue, Suite 225" and deferred consideration of the item until its April 15, 2020 meeting.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL12.19>

At its meeting on June 2, 2020, the General Government and Licensing Committee considered GL13.8 "Toronto Employment and Social Services Lease at 2900 Warden Avenue, Suite 225" and referred the item to the Executive Director, Corporate Real Estate Management, in consultation with Toronto Employment and Social Services and ModernTO, for further review and a report to the September 14, 2020 meeting of the General Government and Licensing Committee.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL13.8>

COMMENTS

Current Status

Toronto Employment and Social Services currently occupies 47,480 square feet of leased space at 100 Consilium Place in Scarborough. The lease for the Existing Premises commenced on July 1, 2010 and expired on June 30, 2020; the City is in overhold and is in the process of finalizing an extension with an expiry date on December 30, 2022 in order to allow a smooth transition between the Existing Premises and the Leased Premises. Approximately 40 percent of the Existing Premises is dedicated to client facing services, and the remaining space is used for general office and ancillary uses. The Existing Premises currently serves an average monthly caseload of 5,900 with an average of 2,650 office visits each month.

The Toronto Public Library currently services the Bridlewood community through its branch located at the Bridlewood Mall, 2900 Warden Avenue. The Toronto Public Library ("TPL") has expressed an interest in improving its service delivery at this busy location in the mall.

Rationale for Relocating to the Leased Premises

As a result of the expiry of the lease at the Existing Premises and at the request of Toronto Employment and Social Services, Corporate Real Estate Management and CreateTO staff conducted an extensive review of City-owned spaces, including the opportunity to acquire new sites, to accommodate TESS's demand to relocate.

The search for new locations was informed by TESS' request to remain in north Scarborough to ensure service continuity for clients, especially given that this community is deemed underserved (see Toronto Employment and Social Services Heat Map in Appendix "B"). This interest aligned well with Toronto Public Library's desire to continue their presence in the community and better service this geographic area, therefore creating an opportunity to explore solutions that result in space optimization and support further collaboration in achieving service co-location.

As the review of City-owned spaces in the north Scarborough area did not yield any viable solutions, Corporate Real Estate Management undertook a comprehensive market search of properties in the area according to a set of specified criteria: proximity to clients and community partners, easy access to public transportation, and, preferably, sufficient space to operate on one floor. Staff toured several potential locations including the Leased Premises located in Bridlewood Mall (the "Property") (see Appendix "C" for Location Map), and identified it as the best solution.

The Leased Premises was deemed to best meet TESS' requirements. This location is preferred by clients and logistically easier to manage, being centrally located on the main floor of a public mall. It enables service continuity for the community and reduces the City's lease footprint by approximately 30 percent or 14,480 square feet. Furthermore, the Leased Premises support a solution to optimize space and co-locate services with the Toronto Public Library, which has confirmed an interest in leasing adjacent space for the purpose of re-locating its Bridlewood Branch from the lower level of the Property.

The Toronto Public Library, Toronto Employment and Social Services, Corporate Real Estate Management and CreateTO have created a working group to evolve the design and construction of the Leased Premises and to support the relocation of the Bridlewood Library Branch. It is anticipated that the Toronto Public Library will report to Council with further details of the relocation project and the use of space in the first half of 2021.

Efforts to Drive Optimization

In alignment with efforts to reduce the City's lease footprint Corporate Real Estate Management, in collaboration with CreateTO, will design the Leased Premises to be agile and reflect the current City-wide initiatives focused on optimizing space demand, including ModernTO, and the City's efforts to modernize its counter service delivery. These efforts will ensure that there are opportunities in the future for the space to be utilized by a variety of City Divisions and Agencies. ModernTO has advised that the Leased Premises can provide further flexibility in swing and touch down space, which will support the implementation of their program.

In the event the City determines the space is no longer needed prior the end of the term, CREM can explore a partial or whole sublease of the Leased Premises in order to minimize ongoing costs, provided the City secures consent from the Sublandlord, whose consent shall not be unreasonably withheld or delayed.

CreateTO will work with Toronto Employment and Social Services to review their long-term service delivery model and develop an accommodation strategy that makes optimal use of City real estate (leased and owned) while meeting programmatic needs.

Conclusion

The sublease agreement at 2900 Warden Avenue, if authorized by City Council, will allow clients in the underserved area of north Scarborough to benefit from service continuity. It creates opportunities for the Toronto Employment and Social Services and the Toronto Public Library to collaborate over space and resources in service delivery, and drive optimization. The agreement will present a favourable circumstance for the City to implement an agile pace design in line with the principles of ModernTO, and leverage other strategic initiatives and partnerships to create flexibilities that make the use of space conducive to the business and service needs of other City Divisions and Agencies, hence creating multi-use opportunities.

CONTACT

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SIGNATURE

Patrick Matozzo
Executive Director, Corporate Real Estate Management

ATTACHMENTS

Appendix "A" - Major Terms and Conditions
Appendix "B" - TESS Heat Map
Appendix "C" - Location Map of 2900 Warden Ave
Appendix "D" - Financial Impact Chart

Appendix "A"

Major Terms and Conditions [1]

1. Leased Premises:

2900 Warden Ave, Scarborough Ontario, Suite 225, being approximately 33,000 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 or around May 1, 2022 and ending on or around April 30, 2032. 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 (\$742,500 annually) plus Harmonized Sales Tax

Years 4-6: \$23.50 per square foot per year (\$775,500 annually) plus Harmonized Sales Tax

Years 7-10: \$24.50 per square foot per year (\$808,500 annually) plus Harmonized Sales Tax

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

4. Additional Rent:

Estimated for 2019 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 City for the City'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 approximately January 1, 2022 up to and including April 30, 2022 (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 City'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 \$4,620,000 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 \$1,650,000 plus Harmonized Sales Tax assuming 33,000 square feet, up to \$1,732,500 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% 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.

9. Fair Wage Policy and Labour Trades Contractual Obligations:

The Sublandlord agrees to perform the Tenant's Work in compliance with the City'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, counter service delivery 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 City 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 City 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.

13. Overholding

If the City remains in occupation of the Leased Premises at the expiration of the sublease or any renewal or extension thereof, without any further written agreement, the City shall remain as an overholding tenant for a fixed term of six (6) months (the "Overholding Term"), on a six month-to-six month basis, at monthly rate equivalent to 125% of the Basic Rent as that payable for the month immediately preceding the expiration of the sublease or any renewal or extension thereof, and on the same terms and conditions as the sublease.

14. Assignment

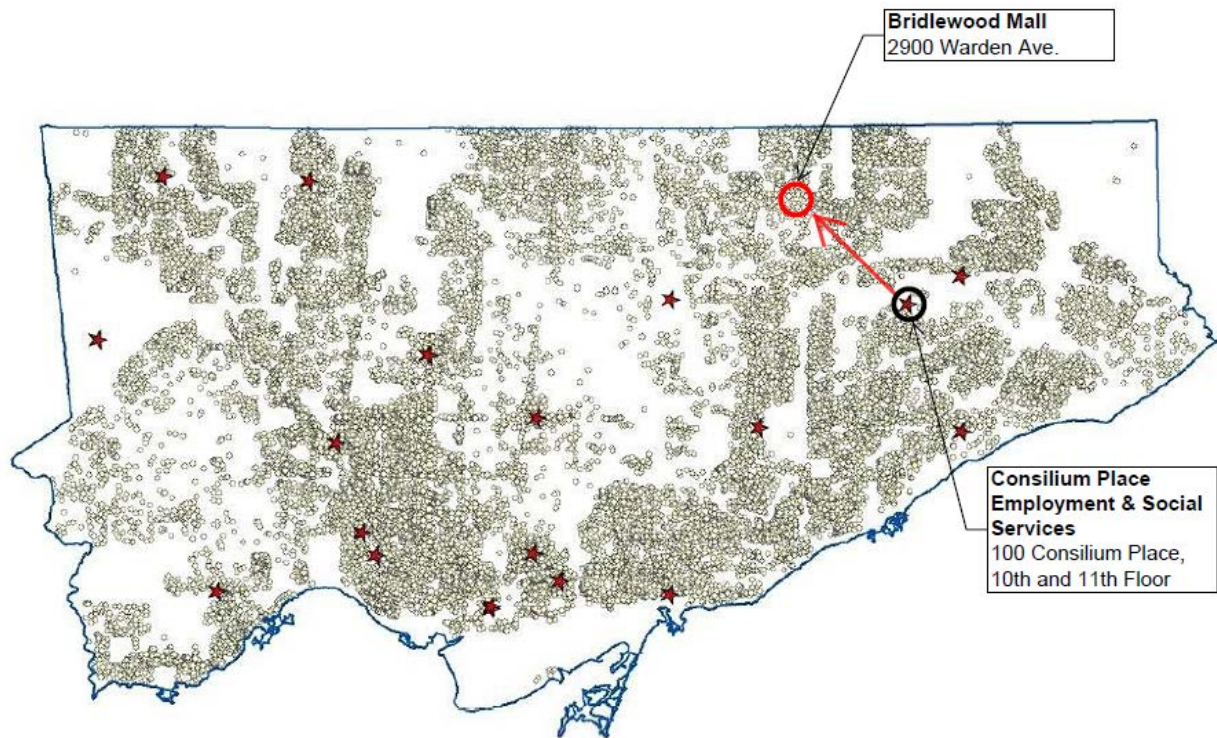
The City shall have the right to assign the lease or to sublet all or any part of the Premises at any time with the consent of the Sublandlord, which consent shall not be unreasonably withheld or delayed, provided that the use remains the same.

In addition, provided that the subtenant is the City and the transferee's use remains the same, the City shall be entitled to assign the lease or sublet all or part of the Premises to any agency, board, commission or wholly owned subsidiary of the City of Toronto, without seeking the Sublandlord's consent, upon at least thirty (30) days' prior written notice to the Sublandlord, and provided further that:

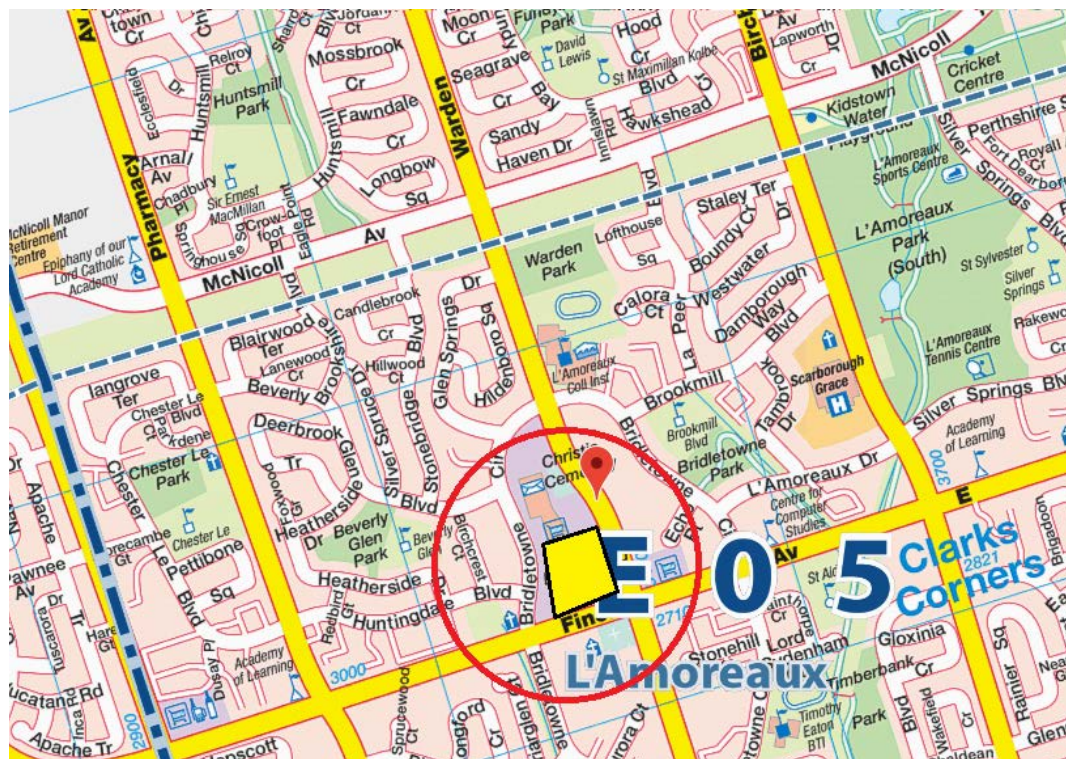
- (a) the City shall remain fully liable for payment of all Rent and fulfillment of all obligations of the subtenant to be performed pursuant to the lease notwithstanding permitted transfer; and
- (b) such permitted transferee shall enter into an assumption agreement with the Sublandlord, wherein the permitted transferee covenants in favour of the sublandlord to jointly and severally perform, observe and keep each and every covenant, proviso, condition and agreement in the lease, on the part of the subtenant to be performed, observed and kept.

[1] Calculations in Appendix "A" are based on 33,000 square foot of space, subject to adjustment if the Leased Premises are re-measured.

Appendix "B"
Toronto Employment and Social Services Heat Map



Appendix "C" - Location Map of 2900 Warden Ave



Appendix "D" - Financial Impact

Table 1 - Financial Impact by Year [1]

Commencement Date	Semi-gross rental payments	Realty taxes	Leasehold Costs	Total
May 1, 2022	\$779,625	\$212,751	\$3,118,500	\$4,110,876
May 1, 2023	\$779,625	\$217,006		\$996,631
May 1, 2024	\$779,625	\$221,346		\$1,000,971
May 1, 2025	\$814,275	\$225,773		\$1,040,048
May 1, 2026	\$814,275	\$230,289		\$1,044,564
May 1, 2027	\$814,275	\$234,894		\$1,049,169
May 1, 2028	\$848,925	\$239,592		\$1,088,517
May 1, 2029	\$848,925	\$244,384		\$1,093,309
May 1, 2030	\$848,925	\$249,272		\$1,098,197
May 1, 2031	\$848,925	\$254,257		\$1,103,182
Total	\$8,177,400	\$2,329,564	\$3,118,500	\$13,625,464
Harmonized Sales Tax	\$1,063,062	\$302,843	\$405,405	\$1,771,310
Total (inclusive of Harmonized Sales Tax)	\$9,240,462	\$2,632,407	\$3,523,905	\$15,396,774

Commencement Date	Semi-gross rental payments	Realty taxes	Leasehold Costs	Total
Total (net of Harmonized Sales Tax recoveries)	\$8,321,322	\$2,370,564	\$3,173,386	\$13,865,272

[1] Calculations in Appendix "D" are based on the maximum square footage of 34,650 square feet of space and 2% inflation for realty taxes.