

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

**Date:** August 28, 2020

**To:** General Government and Licensing Committee

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

**Wards:** Ward Number 9 – Davenport

#### **SUMMARY**

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The purpose of this report is to obtain authority to enter into a new lease agreement with Dufferin Mall Holdings Inc., as landlord, for approximately 27,894 square feet of space at 900 Dufferin Street, Suite 219, Toronto (the "Leased Premises"), for use by Toronto Employment and Social Services for a term of fifteen (15) years.

The Leased Premises will replace and consolidate three (3) of Toronto Employment and Social Services' existing leased sites in downtown, which will result in a significant reduction of total leased square footage by approximately 26,000 square feet or 47 percent, as compared to the existing leased sites, which are located at 2340 Dundas Street West, 1900 Dundas Street West, and 55 John Street.

The relocations from 2340 Dundas Street West and 1900 Dundas Street West are due to the pending expiry of the leases at these sites. The relocation from 55 John Street is necessitated by the City's strategic acquisition of 229 Richmond Street West and the disposition of 260 Adelaide Street West, requiring Toronto Employment and Social Services and other City Divisions to move to alternative locations to accommodate the anticipated Fire Hall at Metro Hall.

The rent and other terms and conditions of the lease 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**

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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 27,894 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 approximately on December 1, 2021 and expire on November 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).

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 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 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 \$3,419,907.15 (inclusive of Harmonized Sales Tax) or \$3,079,732.31 (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.

It is anticipated that the relocation to the Leased Premises will have no impact on service delivery and will provide an estimated savings of \$2.428 million (net of Harmonized Sales Tax) for lease costs or \$0.402 million (net of Harmonized Sales Tax) in total after taking into account leasehold improvement over the fifteen-year term.

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

## **DECISION HISTORY**

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At its meeting on October 29, 2019, City Council adopted EX9.6, "Property Acquisition for Strategic City Building", and approved the disposition of 260 Adelaide Street East and the acquisition of 229 Richmond Street West. The sale of 260 Adelaide is contingent on the City moving the existing Fire Hall on Adelaide Street West to the Wellington Street Frontage of Metro Hall. As a result, Toronto Employment and Social Services along with other City Divisions will need to be relocated from their current location at Metro Hall to accommodate this move.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX9.2>

At its meeting on June 29 and 30, 2020, City Council considered GL12.17, "Toronto Employment and Social Services Lease at 900 Dufferin Street, Suite 219", and referred the item to the Executive Director, Corporate Real Estate Management, for further consideration.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL12.17>

## **COMMENTS**

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Toronto Employment and Social Services currently occupies 25,680 square feet of leased space at 1900 Dundas Street West, 11,618 square feet of leased space at 2340 Dundas Street West, and approximately 14,025 square feet of city owned space at Metro Hall (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 space at Metro Hall (55 John Street) has been directed to be used as a Fire Hall and Toronto Employment and Social Services will be required to vacate that office by the fourth quarter of 2021 to accommodate the construction of the new Fire Hall.

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

To support the relocation of Toronto Employment and Social Services from the Existing Premises, Corporate Real Estate Management staff conducted an extensive market search of properties in the area, both City owned and third party owned sites, 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. Toronto Employment and

Social Services is satisfied that the Leased Premises is in an ideal location from which to serve its cliental across the city.

The Leased Premises, located on the second floor of Dufferin Mall (see Appendix C for Location Map), is located along major public transit routes, is fully accessible, and has direct connection to the covered parking via a dedicated elevator which services the Leased Premises on the second floor, the main level and the parking. The Leased Premises represents a significant reduction in Toronto Employment and Social Services' total leased footprint, and allows for the consolidation of three distinct Toronto Employment and Social Services office spaces. Toronto Employment and Social Services anticipates retaining the existing client base and expanding its services to new clients in this neighbourhood, as shown by the heat map in Appendix B.

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.

In the event the City determines the space is no longer needed prior the end of the term, Corporate Real Estate Management can explore a partial or whole sublease of the Leased Premises in order to minimize ongoing costs, provided the City secures consent from the Landlord, 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.

## **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 27,894 square feet of space, subject to re-measurement by the Landlord and provided that in no event shall the variance exceed 28,699 square feet in rentable area for the purposes of calculating rent.

### **2. Term:**

Fifteen (15) years, expected to commence on December 1, 2021 and ending on November 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 (\$624,203.25 per year) plus Harmonized Sales Tax.

Years 6-10: \$24.00 per square foot per year (\$688,776.00 per year) plus Harmonized Sales Tax.

Years 11-15: \$24.25 per square foot per year (\$695,950.75 per year) plus Harmonized Sales Tax.

### **4. Additional Rent:**

Operating costs (excluding taxes and utilities) for the Premises is fixed at \$7.63 (plus Harmonized Sales Tax) per square foot for 2021, and following 2021, Operating Costs shall increase on a cumulative basis by two percent (2%) per calendar year. Utilities for gas and hydro are estimated to be \$2.00 (plus Harmonized Sales Tax) per square foot for 2021. For year 1, Operating Cost and utilities is estimated to be approximately \$276,371.37.

The Landlord agrees on behalf of the City to install a Building Automation System; the associated maintenance costs plus 15% for overhead and supervision will be payable by the City as Additional Rent, in addition to Operating Cost. The Building Automation System will be used exclusively for the Premises and will allow the City to control the internal temperature.

The City will also elect to contract out Tenant premises HVAC services to the Landlord and the basic HVAC charges for the Leased Premises, plus a 15% administrative fee will be paid for by the City as Additional Rent. .

### **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 Minimum Rent free fixturing period commencing June 1, 2021 up to and including November 30, 2021 (the "Fixturing Period"). During the Fixturing Period, the Landlord will construct the Tenant's Work on behalf of the City. The City shall have no obligation to pay Minimum Rent, Operating Costs, realty taxes or basic HVAC charges, but will be responsible for complying with all other terms of the Lease, including payment of the separately metered utilities.

#### 7. Realty Taxes and Municipal Capital Facilities Tax Exemption:

The City shall pay the realty taxes allocated to the Leased Premises. 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 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), to be paid to the City 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	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	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 project management fee for the Landlord to construct the Tenant's Work 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.

#### 12. Demolition:

The Landlord has the right to terminate the lease any time after the initial term if it is the Landlord's intention to demolish or substantially renovate the Project (as defined in the lease) or the part the Leased Premises is located on, upon providing the City not less than 24 months' prior written notice.

#### 13. Overholding:

If the City remains in possession of the Premises after the expiration or other termination of the term, the City shall occupy the Premises as a month-to-month tenant at a monthly rental equal to one hundred and twenty-five percent (125%) of the Minimum Rent payable immediately preceding the expiry or other termination of the term.

#### 14. Accessibility for Ontarian with Disabilities Act ("AODA"):

The Landlord agrees that in constructing the Tenant's Work, the Leased Premises will be constructed in compliance of all applicable laws, including the AODA and the Ontario Building Code.

#### 15. Parking

The Landlord shall provide up to a maximum of 90 unreserved parking stalls, with 20 provided at no charge and the remaining 70 stalls to be provided at the monthly rate, which at the commencement shall be \$0. The Landlord can during the term and any extended term, provide 30 days' notice of the change in price and provide the City with an additional 15 parking stalls at no charge for a maximum of 2 hours per day, which the City may validate as required.

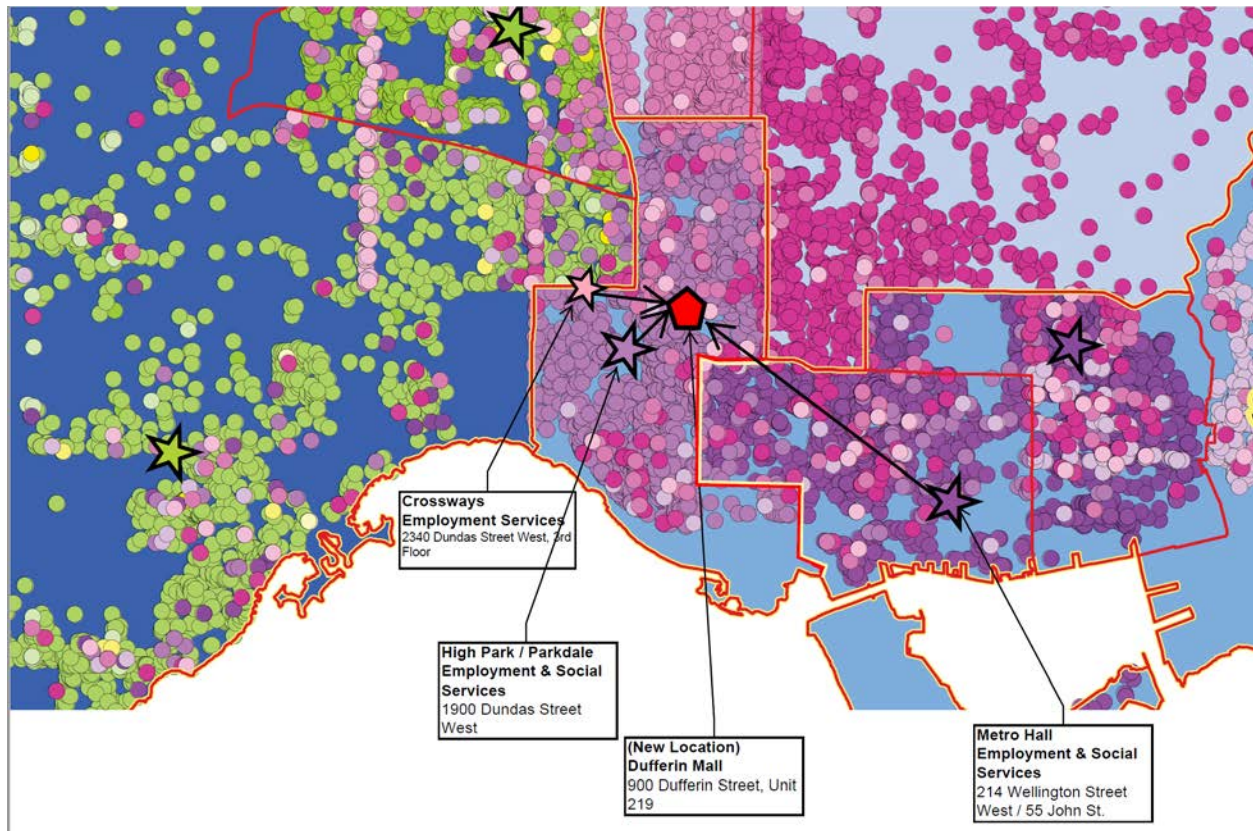
#### 16. Transfer

The City shall not assign, sub-let or otherwise encumber all or any part of the Leased Premises at any time without the consent of the Landlord, which shall not be unreasonable withheld or delayed. In addition, provided that the tenant 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 Leased Premises to any agency, board, commission or wholly

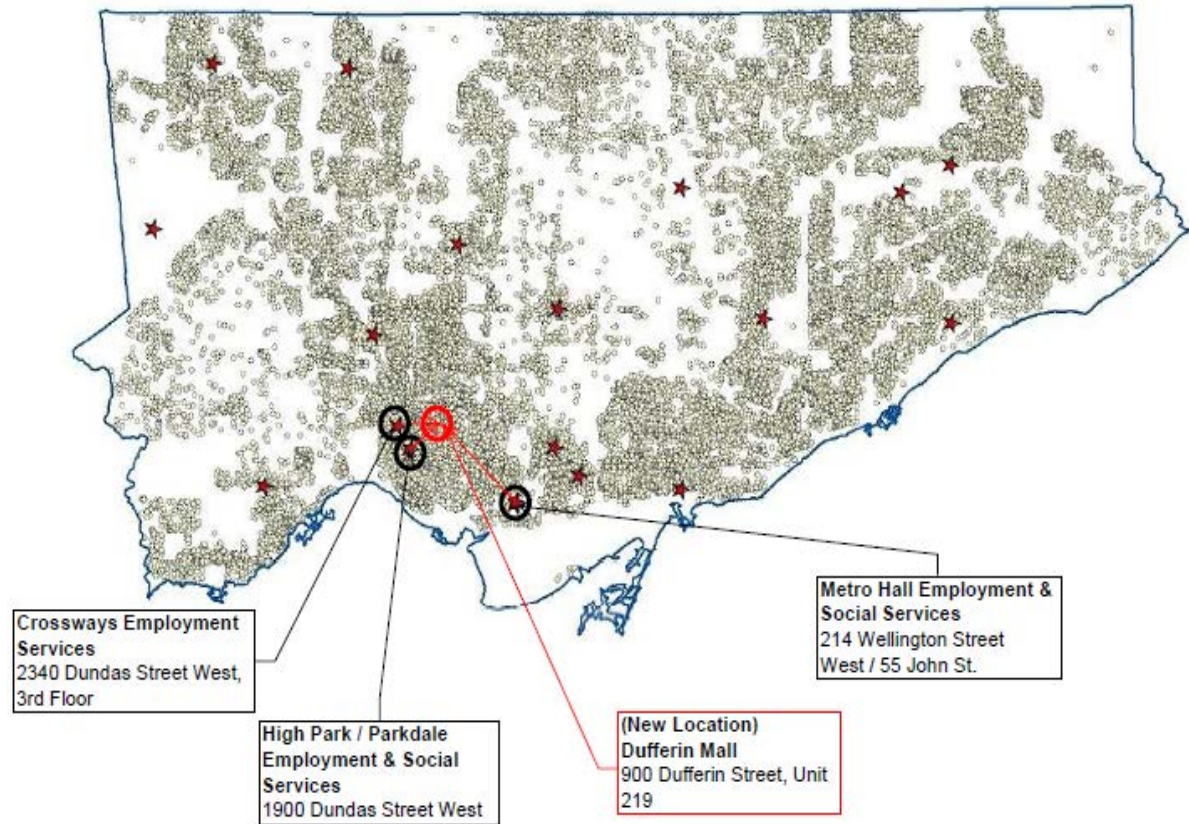


owned subsidiary of the City of Toronto without seeking the Landlord's consent, upon thirty (30) days prior written notice to the Landlord.

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

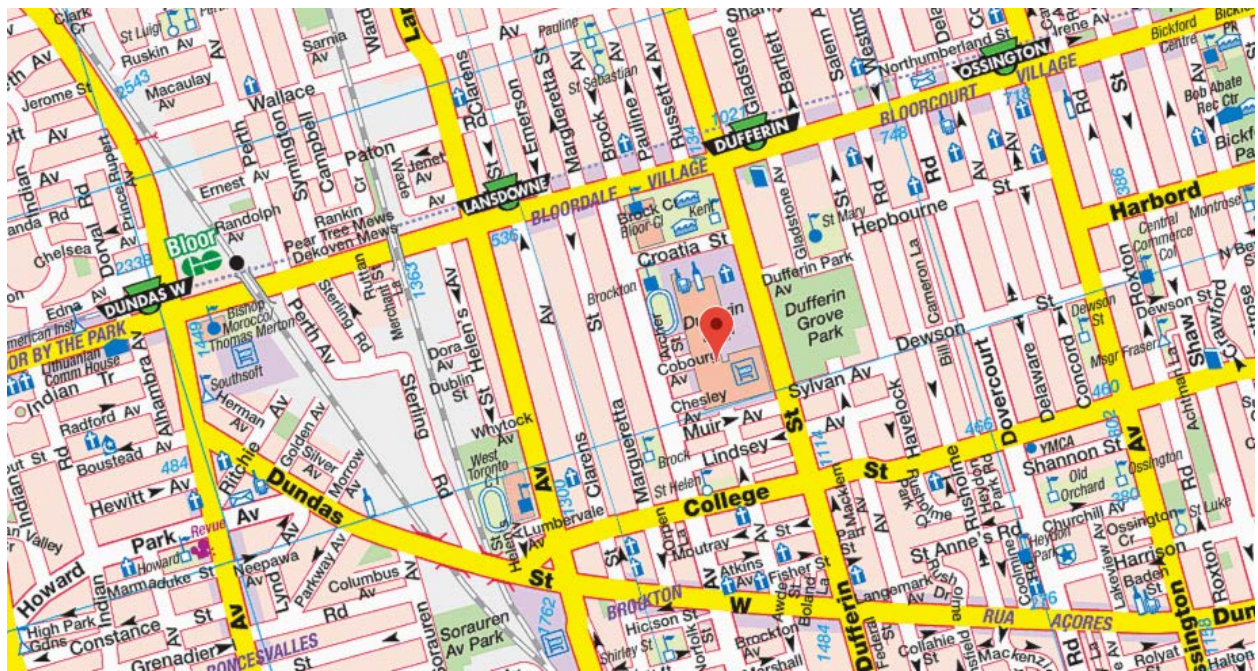


○ ● ● = Toronto Employment and Social Services client locations





## Appendix C – Location Map of 900 Dufferin Street



## Appendix D – Financial Impact Table

Commencement Date	Rental Payments	Additional Rent (CAM + Utilities)	Realty taxes*	Leasehold Costs	Total**
Dec 1, 2021	\$ 624,203.25	\$ 276,371.37	\$ 271,205.55	\$ 3,026,466.50	\$ 3,927,041.12
Dec 1, 2022	\$ 624,203.25	\$ 283,546.12	\$ 284,765.83	-	\$ 907,749.37
Dec 1, 2023	\$ 624,203.25	\$ 291,151.36	\$ 299,004.12	-	\$ 915,354.61
Dec 1, 2024	\$ 624,203.25	\$ 298,907.26	\$ 313,954.32	-	\$ 923,110.51
Dec 1, 2025	\$ 624,203.25	\$ 306,821.37	\$ 329,652.04	-	\$ 931,024.62
Dec 1, 2026	\$ 688,776.00	\$ 315,188.58	\$ 346,134.64	-	\$ 1,003,964.58
Dec 1, 2027	\$ 688,776.00	\$ 323,730.31	\$ 363,441.38	-	\$ 1,012,506.21
Dec 1, 2028	\$ 688,776.00	\$ 341,659.04	\$ 381,613.44	-	\$ 1,021,230.98
Dec 1, 2029	\$ 688,776.00	\$ 351,065.01	\$ 400,694.12	-	\$ 1,030,435.04
Dec 1, 2030	\$ 688,776.00	\$ 360,682.98	\$ 420,728.82	-	\$ 1,039,841.01
Dec 1, 2031	\$ 695,950.75	\$ 370,810.56	\$ 441,765.26	-	\$ 1,056,633.73
Dec 1, 2032	\$ 695,950.75	\$ 381,171.87	\$ 463,853.53	-	\$ 1,066,761.31
Dec 1, 2033	\$ 695,950.75	\$ 391,778.61	\$ 487,046.20	-	\$ 1,077,122.62
Dec 1, 2034	\$ 695,950.75	\$ 402,930.03	\$ 511,398.51	-	\$ 1,087,729.36
Dec 1, 2035	\$ 695,950.75	\$ 414,352.04	\$ 536,968.44	-	\$ 1,098,880.78
Total	\$ 10,044,650.00	\$ 5,028,269.34	\$5,852,226.21	\$ 3,026,466.50	\$18,099,385.84
Harmonized Sales Tax Total (Inclusive of Harmonized Sales Tax) Total (Net of Harmonized Sales Tax recoveries)	\$ 1,305,804.50	\$ 653,675.01	\$ 760,789.41	\$ 393,440.65	\$2,352,920.16
	\$11,350,454.50	\$ 5,681,944.36	\$ 6,613,015.61	\$ 3,419,907.15	\$20,452,306.00
	\$10,221,435.84	\$ 5,116,766.88	\$ 5,955,225.39	\$ 3,079,732.31	\$18,417,935.03

\*Estimated and expected to be exempt

\*\*Calculation of total does not include realty taxes