

May 17, 2021

Re: MM32.5 - Call to Publicly Release the Signed 350 page 200-year Lease Agreement Between the City of Toronto and Oxford Properties, for the Redevelopment of the Canada Square Lands at 2200 Yonge Street - by Councillor Mike Colle, seconded by Councillor Jaye Robinson

The information provided below summarizes the consolidated ground lease and commencement agreement summary.

Yonge-Eglinton Lands Consolidated Ground Lease and Commencement Agreement Summary

Part A - Background:

- The Yonge Eglinton Lands owned by the City/T.T.C. consists of 9.2 acres at the southwest corner of Yonge Street and Eglinton Avenue, and are bordered by Eglinton Avenue to the north, Duplex Avenue to the west, Berwick Avenue to the south and Yonge Street to the east. The block includes some freehold lands owned by persons other than the T.T.C./City.
- Parts of the Yonge Eglinton Lands (approximately 7.2 acres) associated with the existing Canada Square complex are currently leased to Oxford Properties and CT REIT (the "Tenant") pursuant to several ground leases (referred to in this summary as the existing ground leases).
 - 2200 Yonge Street is an office building that was completed in 1961/1962 and later expanded to include the retail bank building at 2210 Yonge.
 - 2180 Yonge Street is an office building that was completed in 1972.
 - 2190 Yonge Street is a mixed-use building with office and cinema uses that was completed in 1987
 - The existing ground leases and ancillary lease agreements have terms that end in 2051 and 2070 when you include the renewal options.
- Another part of the Yonge Eglinton Lands is comprised of a freehold parcel (not currently subject to any of the existing ground lease) where the old T.T.C. bus terminal was

located (approximately 2 acres, as the southeast corner of Eglinton Avenue and Duplex Avenue), which lands are currently being utilized by Metrolinx for construction staging for the new L.R.T. station. The additional approximately 2 acres will be leased to Oxford Properties and CT REIT in connection with the consolidated ground lease.

- The Yonge Eglinton Lands also include the Eglinton T.T.C. Subway Station along with related subway infrastructure, an interim T.T.C. bus terminal and a former T.T.C. bus terminal which has been demolished. The Eglinton Crosstown L.R.T. (the "E.C.L.R.T.") is currently under construction and the new L.R.T. Station is scheduled for completion in 2022.

Part B - Summary of the Consolidated Ground Lease:

- The initial term of the new consolidated ground lease is for 99 years with an option for an additional 99 year term, subject to the Tenant making investments in the complex and maintaining the development to the standard of a Class A commercial building or, in the case of residential development, a first class rental apartment building.
- Initial Base Rent - \$2,027,892 – equal to the cumulative total of ground rent payable under the existing ground leases.
- The ground rent formula consists of the Fair Market Value of the Land ("F.M.V.L.") for each land use, multiplied by the density built, multiplied by the agreed upon rental rate. The F.M.V.L. forms the basis for determining the ground rent payable. There is a negative adjustment applied for any affordable housing requirement.
- The agreed upon rental rate is a 20-Year Government of Canada ("G.o.C.") bond plus a fixed spread of 175 basis points (b.p.s.). The resulting rate can be viewed as similar to a bond yield reflecting the credit risk of the Tenant. This equated to 4.25 percent at the time the Term Sheet was agreed to by the parties. The G.o.C. bond yield is to be capped at 2 percent.
- The forecasted Net Present Value ("N.P.V.") of the ground lease rent payments results in a total of \$161,000,000 (based on the financial evaluation undertaken by Brookfield Financial (B.F.I.N.) on behalf of CreateTO, City and T.T.C.).
- City's appraised value was \$160,100,000.

Consolidated Ground Lease Rent Summary

Overview of Negotiated Deal and Financial Assumptions		
Lease Term		
Initial Term	99 Years	
Extension Term	99 Years	
Determination of Ground Rent		
F.M.V.L. – Residential	\$85 / SF	
Adjustment to Residential F.M.V.L.	(\$25)/ SF	Adjustment is intended to account for the impact of suite mix and affordable housing requirements in the Yonge Eglinton Secondary Plan.
Adjusted Residential F.M.V.L.	\$60 / SF	
F.M.V.L. – Non-Residential	\$55 / SF	
Deduction for Enabling Costs	(\$25,000,000)	Costs associated with building over & adjacent to the T.T.C. structures
Ground Lease Rental Rate	4.25%	20-Year G.O.C. + 175 BPS (G.o.C. rate up to a maximum of 2.5%).
Basis for Interim Resets		
Interim Reset Frequency	20 Years	
Development Period	Initial 20-30 Years	During the Development Period, rent adjustments will be measured from the date of completion of each respective phase based on the rates applicable to each use.
First Interim Reset	CTC Lease for CT Office C.P.I. for Commercial Rental Guideline for Residential	The first rent adjustment following the Development Period will be based on (1) the Residential Rent Increase Guideline for residential buildings, (2) C.P.I. for non-anchor commercial tenants, and (3) lock-step increase based on anchor lease for the anchor office tenant.
Subsequent Interim Resets in initial 99- year term	85% of Cumulative Growth in NOI	
T.T.C. Infrastructure		
Reimbursement for T.T.C. Bus Terminal	\$25,000,000	City/T.T.C. to reimburse Tenant up to a maximum amount.
Reconstruction of Station Entrances & Concourse modifications	\$11,000,000	Tenant to pay this amount.
Rate Assumptions		
C.P.I. Inflation	1.9%	
Historical Rental Guideline	2.2%	
Blended Growth Rate for Initial Reset	2.1%	
N.O.I. Growth Rate	2.8%	
Valuation Measures		
N.P.V. of Lease Payments (99 Years)	\$161,000,000	
CBRE Valuation of City's Freehold Interest	\$160,100,000	

Additional Lease Terms

- Acknowledgement that forecasted N.P.V. is based on \$161,000,000 value.
- Landlord approval is required to make any of the following changes to the Master Development Plan:
 - Any material decrease in the height or density of any buildings that would result in the Forecasted N.P.V. falling below \$161,000,000;
 - Any changes to the order of development and construction of the phases which would delay the construction of the T.T.C. bus terminal; and
 - Any changes to the location, configuration, connections or layout of the new T.T.C. bus terminal, the T.T.C. station entrances or Metrolinx station entrances, or any of the T.T.C. areas or Metrolinx areas.
- T.T.C. technical review is required prior to commencing any construction work. The Tenant has 20 years to construct development, subject to:
 - 10-year extension of development period with payment to T.T.C. of \$10,000,000; and
 - Economic force majeure which requires third party (partially chosen by T.T.C.) to confirm that proposed development is not economically viable (to be confirmed yearly).
- If Tenant exercises the 10-year extension to the development period (with \$10M payment to T.T.C.), revised forecasted N.P.V. based on same model is to be performed. If N.P.V. is under \$161,000,000, cumulative increase in C.P.I. is added to the residential rental rate.
- New Bus Terminal to be constructed as part of re-development.
 - T.T.C.'s contribution to bus terminal capped at \$25,000,000, save and except for change requests (Oxford's estimate of bus terminal in 2018 was \$57,000,000 – similar to T.T.C.'s own cost estimate).
 - Unsettled items from the 2016 bus specification remain and will be addressed with the Tenant through Planning approvals and/or T.T.C. Technical Review.
 - No new T.T.C. retail in re-designed bus terminal/concourse except for Gateway Newstands;
- Additional transit improvement to be provided by Tenant includes \$11,000,000 renovation to the Eglinton Station concourse.
- Tenant will have a right of first offer to purchase the Yonge Eglinton Lands in the event the City/T.T.C. intends to sell its fee simple ownership.

- During the development period, the tenants have an option to purchase the fee simple interest in parts of the Yonge Eglinton Lands (up to 33% of the total G.F.A. contemplated in the Master Development Plan and on those parts of the lands that are not encumbered by transit infrastructure). The sale of the fee simple interest will facilitate the development of residential condominium buildings.

Master Development Plan

- The Master Development Concept Plan (associated with the consolidated ground lease) consists of a mixed-use development of multiple towers:
 - New Residential - ~1,590,000 square feet (including purpose built rental);
 - New Non-residential - ~688,000 square feet;
 - The Tenant is not required to redevelop the existing ~400,000 square foot office building at 2180 Yonge Street during the development period. The Tenant is permitted to do so under the lease, subject to securing the requisite municipal approvals;
 - Public space component – 2 major public spaces, one public plaza at the Yonge-Eglinton corner, and a public park along Duplex Avenue; and
 - Public spaces and park areas:
 - New public park; and
 - New public plaza at the south-west corner of the intersection.

Planning Approval Process

- The City is the applicable planning authority to review and provide planning approvals, if required, for any particular proposed development or construction work to be undertaken on the Lands, including the development contemplated by the Master Development Plan, and/or any applications for official plan amendments, zoning amendments and/or site plan approvals in connection therewith and nothing in the lease shall prevent the City from exercising its authority or discretion with respect to all such planning matters.
- Provided that the landlord is the T.T.C., the City or any agency, board or commission thereof or a corporation controlled by the City, the Tenants have agreed, as a covenant of the lease, that during the term they will not object to or appeal any decisions or non-decision of the City Planning Division, Toronto and East York Community Council, Planning and Housing Committee, City Council or the Committee of Adjustment with respect to any applications for planning approvals in respect of the Master Development Plan or any component thereof or the construction of any other additional improvements during the term, in each case without the prior written consent of the Landlord, acting reasonably.

Part C - Summary of Commencement Agreement

- Conditions precedent (to the benefit of the Tenant only) that still exist (and not waived) as of May 10, 2021, includes:
 - Environmental (January 1, 2022),

- Municipal approval (July 1, 2022), and
- Metrolinx surrendering licensed lands (July 24, 2022);
- Conditions automatically extend for 60 day intervals.
- Does not automatically terminate for missing a condition date – T.T.C. has to provide notice.
- If conditions not satisfied or not waived, the current leases remain in place until the end of their terms and the consolidated ground lease does not commence.

For Further Information:

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Reference Documents:

1. Consolidated Ground Lease
2. Commencement Agreement
3. TTC Development Lands Lease