

Below Market Sublease Agreement with Macaulay Centres for Children For Child Care Services – 486 Front Street West

Date: February 10, 2025

To: General Government Committee

From: Executive Director, Corporate Real Estate Management and General Manager, Children's Services

Wards: 10 - Spadina-Fort York

SUMMARY

This report seeks authority to enter into a ten-year year nominal sublease (the "Sublease") with Macaulay Centres for Children (the "Subtenant") for the purpose of delivering child care services at a newly constructed child-care centre located on the upper ground floor at 486 Front Street West (the "Subleased Premises"). The Subtenant, selected by the General Manager, Children's Services, pursuant to an Expression of Interest ("E.O.I.") process conducted by Children's Services, is expected to operate the child care program at the Subleased Premises with occupancy anticipated in the third quarter of 2025.

By way of a head lease, currently being negotiated, between the City, as tenant, and the developer, as landlord, the developer will lease to the City the lands and improvements on the upper ground floor at 486 Front Street West for a child care facility. The head lease will have a cumulative term of 99-years and was secured as a community benefit under a Section 37 agreement of the Planning Act.

RECOMMENDATIONS

The Executive Director, Corporate Real Estate Management and General Manager, Children's Services, recommend that:

1. City Council authorize the Executive Director, Corporate Real Estate Management to enter into a nominal sublease agreement (the "Sublease") with Macaulay Centres for Children, as subtenant, (the "Subtenant") for a term of ten years (the "Term") with an option to renew for a further ten years in respect of premises at the property municipally known as 486 Front Street West, as set out in Appendix A (the "Subleased Premises"), as illustrated on the Location Map

and Floor Plan of the Subleased Premises set out in Appendix B and Appendix C respectively and including such other or amended terms and conditions that are acceptable to the Executive Director, Corporate Real Estate Management and in a form satisfactory to the City Solicitor.

2. City Council authorize severally each of the Executive Director, Corporate Real Estate Management, and the Director, Transaction Services, Corporate Real Estate Management to negotiate and execute the Sublease, and any related documents on behalf of the City.

FINANCIAL IMPACT

The proposed Sublease will provide the Subtenant with the Subleased Premises for nominal rent and in accordance with the terms of the Sublease.

All operating costs related to heating, air-conditioning and ventilation equipment, plumbing, all utilities, repair and replacement costs, realty taxes and local improvement charges, facility fees and charges, and caretaking costs related to the building's common areas, will be paid by the developer pursuant to a 99-year head lease, currently being negotiated, resulting in no expected costs to the City. The Subtenant will be responsible for all costs of operating the child care centre in the Subleased Premises, including costs such as staff salaries, employee benefits, food, educational supplies/equipment, furniture, and decorations.

The estimated total opportunity cost of the Sublease over the twenty-year potential term, including the extension option, is approximately \$10,958,658 based on a market base rental rate of \$50 for the interior space, and \$25 for the exterior space, with annual inflation of 2.5 percent.

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

DECISION HISTORY

At its meeting held on November 7, 8 and 9, 2017, City Council adopted Item EX28.8, thereby approving the Community Space Tenancy Policy, which replaced the Policy for City-Owned Space Provided at Below-Market Rent. On June 29 and 30, 2020, City Council adopted Item GL12.7, thereby approving certain amendments to the Community Space Tenancy Policy. The Community Space Tenancy Policy, as amended, does not apply to the allocation of community space to organizations that operate under Purchase of Service Agreements with the City for child care.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX28.8>

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL12.7>

At its meeting of January 31, 2017, City Council adopted Item TE20.7 - Final Report - 440,

444, 450 and 462 Front Street; 425, 439, 441 and 443 Wellington Street West; 6-18 Spadina Avenue and 1 and 19 Draper Street - Zoning Amendment, thereby authorizing the City to enter into a Section 37 Agreement to secure, among other matters, the entering into a head lease agreement with the Head Landlord and the City for 99 years for a childcare facility, comprising of 613 square metres of interior space and a minimum of 192 square metres of exterior space within Building 4 at 440 Front Street West.

<https://secure.toronto.ca/council/agenda-item.do?item=2016.TE20.7>

At its meeting on October 1, 2, and 3, 2002, City Council adopted Item titled Policy for City Owned Space Provided at Below-Market Rent as the first step in rationalizing how City owned space is provided to community and cultural organizations.

<http://www.toronto.ca/legdocs/2002/agendas/council/cc021001/pof13rpt/cl001.pdf>

COMMENTS

Background

By way of a head lease, currently being negotiated, between the City, as tenant, and the developer as landlord, the developer will lease to the City the lands and improvements on the upper ground floor at 486 Front Street West for a child care facility. The head lease will have a cumulative term of 99-years and was secured as a community benefit under a Section 37 agreement of the Planning Act. The child care centre has a dedicated entry way from Front Street West, and will have space for up to 62 children, including: 10 infants, 20 toddlers and 32 preschoolers.

Under the terms of the head lease, the developer is required to construct, finish, furnish and fully equip the space in compliance with all applicable laws and child care licensing requirements. The space will be provided to the City completely free of charge, rent-free and at no cost to the City. The space must be used exclusively as a child care facility operated by the City or a non-profit operator chosen or established by the City. Additionally, assignments or subleases to operators for use as a child care facility do not require consent from the developer.

Selection of Child Care Operator

An E.O.I. conducted by Children's Services to identify and confirm a qualified, licensed, not-for-profit child care provider to operate the child care centre located within the Subleased Premises closed on October 28, 2024 and was awarded on November 15, 2024.

Applications were accepted from not-for-profit child care agencies and public institutions who hold a service agreement in good standing with the City of Toronto for child care fee subsidies and who have experience in the successful operation of licensed child care programs. Multiple bids were received and evaluated by staff with the top bid from the Subtenant selected by Children's Services. The Subtenant is expected to operate the child care program at the Subleased Premises with occupancy anticipated in the third quarter of 2025.

The Sublease Agreement

The City will enter into a Sublease for the Subleased Premises for a ten-year term, with an option to extend for an additional ten years. The Subtenant will be responsible all costs of operating the child care centre in the Subleased Premises including, but not limited to staff salaries, employee benefits, food, educational supplies/equipment, furniture, and decorations. The Subleased Premises may only be used for delivering child care services for children aged zero to four. See Appendix A for the major terms and conditions of the Sublease.

CONTACT

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SIGNATURE

Patrick Matozzo
Executive Director, Corporate Real Estate Management

Shanley McNamee
General Manager, Children's Services

ATTACHMENTS

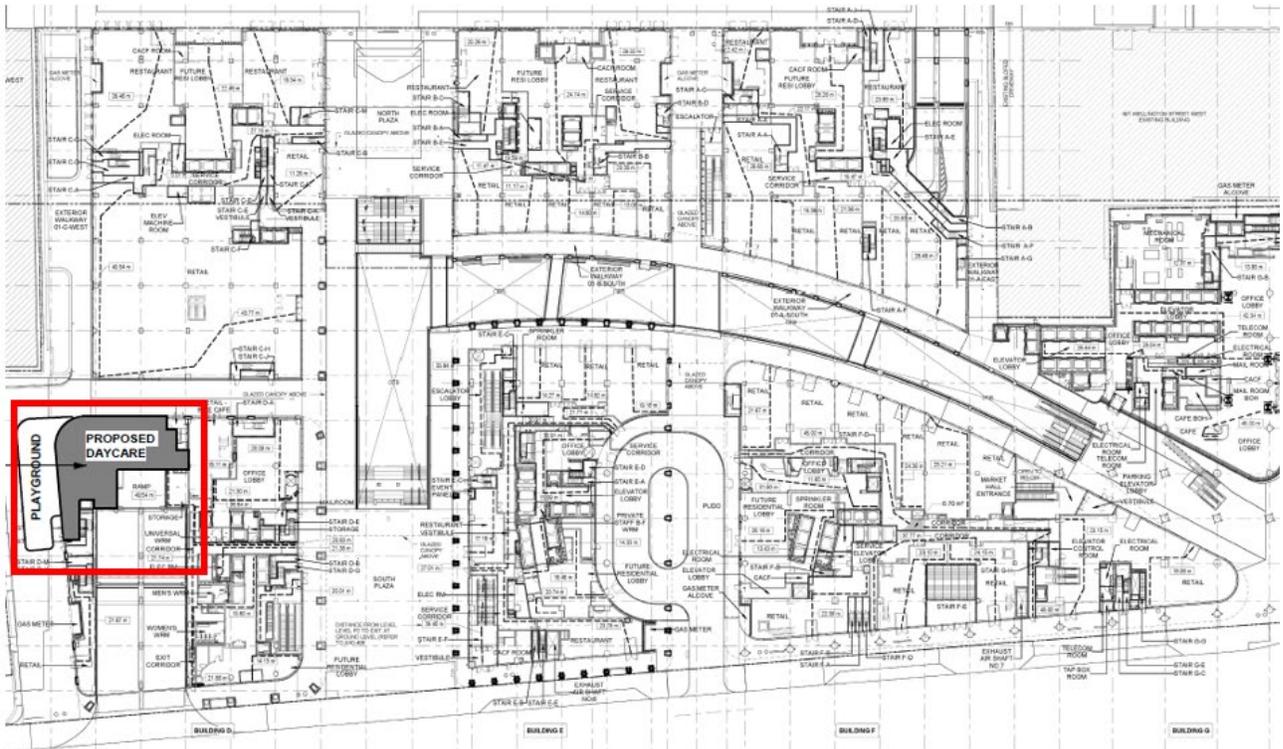
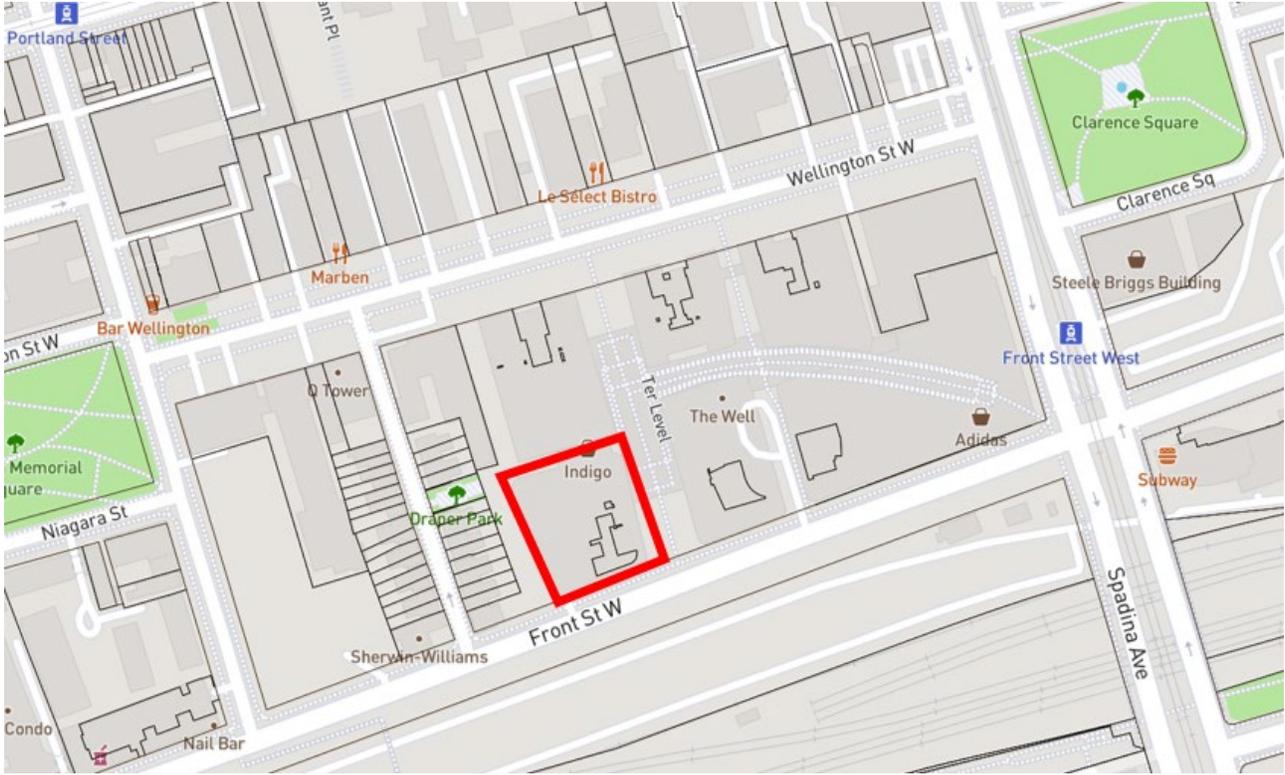
Appendix A - Major Terms and Conditions of Sublease
Appendix B - Location Map of the Subleased Premises
Appendix C - Floor Plan of Subleased Premises

Appendix A – Major Terms and Conditions of Sublease

Property:	Unit 01 21, Level UG, 486 Front Street West, Toronto, ON, M5V 0V2
Sub-landlord:	City of Toronto (the "City")
Subtenant:	Macaulay Centres for Children
Consent of Head Landlord:	Consent from the developer, as head landlord, is not required for an assignment or sublease to operators for use as a child care facility.
Compliance with the Head Lease:	The Subtenant shall comply with all of the terms and conditions of the Section 37 community benefits lease, currently being negotiated, between the City as tenant and the developer as head landlord.
Subleased Premises:	Total area of 9,623 square feet; comprising approximately 7,533 square feet of indoor space and approximately 2,090 square feet of outdoor space at grade; located on the upper ground floor of the building, in addition to three (3) parking spaces located on level P3, as shown in Appendix B and C.
Basic Rent:	A nominal sum of \$2 per annum (\$20 in total for the initial 10-year term) shall be deemed to have been paid on the commencement date of the Sublease, plus all applicable taxes.
Additional Rent:	<p>The Subtenant will manage and pay for all costs of operating the child care centre in the Subleased Premises including, but not limited to staff salaries, employee benefits, food, educational supplies/equipment, furniture, and decorations.</p> <p>The developer will manage and pay for heating, air-conditioning and ventilation equipment, plumbing, all utilities such as water, gas and hydro, repair and replacement costs (other than normal wear and tear), realty taxes and local improvement charges, facility fees and charges, and caretaking costs related to the building's common areas.</p>
Maintenance and Repairs (Interior):	The Subtenant will be responsible for any maintenance, alterations and replacement costs of the child care facility and building systems. The cost of any alterations and replacements requested or undertaken by the Subtenant and approved by the City to enhance, improve, or reconfigure the child care facility will be paid by the Subtenant.
Property Tax:	To be paid annually by the Subtenant.
Commencement Date:	On or about June 1, 2025, or such other date as determined by the Executive Director, Corporate Real Estate Management and General Manager, Children's Services.
Sublease Term:	The initial term of the Sublease shall be 10 years.
Option to Extend:	Provided the Subtenant retains its not-for-profit status and is not in default under the Sublease, the Subtenant has the option to extend the Term for one additional 10-year term, on

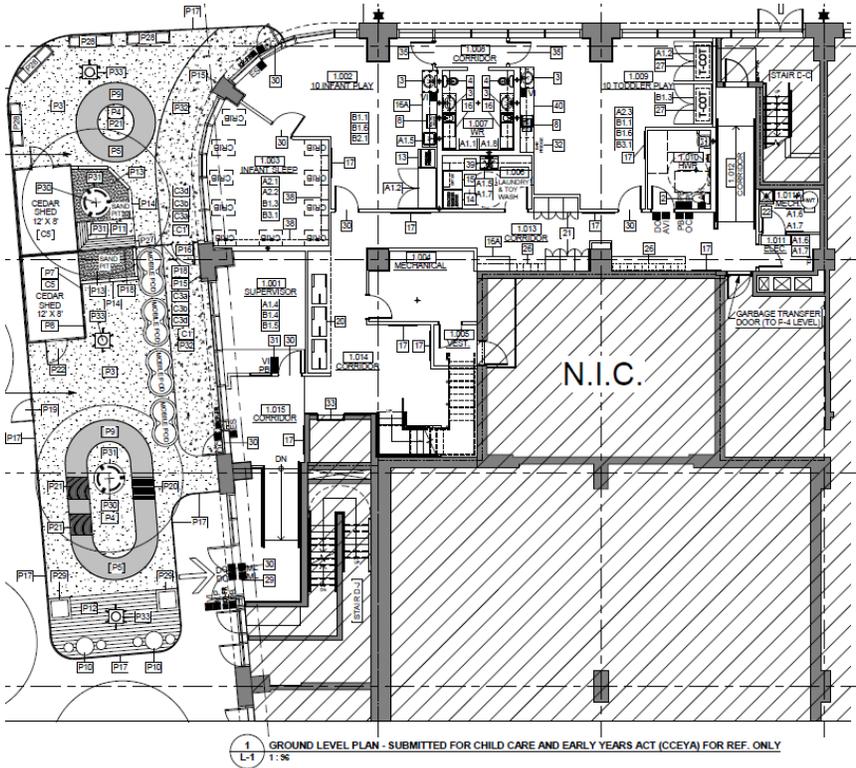
	the same terms and conditions as set out in the Sublease, save and except for any further right of extension.
Permitted Use:	<p>The Subleased Premises shall be used solely as a not-for-profit child care centre for children ages 0 to 4 licensed under and operated in accordance with the <i>Child Care and Early Years Act, 2014</i> (Ontario) and all other applicable laws, and for no other purpose.</p> <p>The Subtenant shall pay all expenses and obtain and maintain at all times, all permits, licences, and authorization necessary to continue its permitted use.</p>
Service Agreement:	The Subtenant will enter into a service Agreement with the City of Toronto. A default of the service Agreement by the Subtenant shall constitute a default under the Sublease.
Insurance:	The Subtenant shall provide an insurance certificate or other proof of insurance in accordance with the City's requirements prior to the commencement of the Term of the Sublease, and thereafter on an annual basis, and upon request of the City.
Non-Profit status:	The Subtenant is required to maintain non-profit status throughout the Term of the Sublease, and any extension thereof.
Subleasing:	The Subtenant shall not be entitled to assign the Sublease or sublease the Subleased Premises without the prior written consent of the City.

Appendix B - Location Map of Subleased Premises



Appendix C – Floor Plan of Subleased Premises

Ground Level Plan:



Mezzanine Level Plan:

