

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: July 6, 2011

SUBJECT: LEASE EXTENSION – DUNDAS WEST SUBWAY
(MCDONALD’S RESTAURANTS)

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission:

1. Approve granting a five-year lease extension for the period from October 20, 2011 to October 19, 2016 for the lease of premises at the Dundas West subway station with McDonald’s Restaurants of Canada Limited (McDonald’s) resulting in annual rent of \$210,000 and;
2. Granting a second extension option for a further five years (2016 - 2021) under the terms outlined in this report.

FUNDING

No funding is required. The renewal of the first five-year extension period (2011 - 2016) will result in an increase of 38% in annual minimum rents from \$152,000 to \$210,000. The rent for the additional five-year extension period (2016-2021) will be negotiated but will not be less than the \$210,000 amount.

In addition to the above, the Commission will receive \$7,200 annually for basement storage space. Also, McDonald’s will complete a renovation of the leased premises and commits to spending a minimum of \$100,000 on improvements at the restaurant.

McDonald’s will continue to pay for common area maintenance, utilities, taxes and other charges which are in addition to the minimum rent.

BACKGROUND

McDonald’s presently operates a retail store at the Dundas West subway station and has been a tenant since October 1986. The current agreement expires in October 2011. However, McDonald’s has made an unsolicited proposal and have requested an extension of this lease for an additional five (5) years plus a further five-year optional extension.

McDonald’s has been an excellent tenant, complying with all building code requirements and all fire code or other upgrades requested by the TTC and have proven to be a reliable and professional tenant that is well financed.

DISCUSSION

The extension agreement is based on the same terms and conditions under the current agreement, except for rent. Minimum net rent is presently set at \$152,000, not including common area maintenance, taxes, hydro, water, etc. McDonald’s has requested an extension to their lease as follows:

Term:	October 20, 2011 to October 19, 2016
Annual Net (Base) Rent:	\$210,000 for years 1 to 5 (this represents 38% increase in (base rent)
Storage Rent:	\$7,200 per year for years 1 to 5 for basement storage space (this represents a 100% increase)
Option Period:	Rent to be negotiated, but will not be less than \$210,000 per year (October 20, 2016 to October 19, 2021)
Area:	<ul style="list-style-type: none">▪ 800 square feet – restaurant▪ 360 square feet – storage
Additional Rent:	McDonald’s will continue to pay all additional rents such as common area maintenance fees, hydro, water, taxes, etc.

The following summarizes the proposed terms and conditions for the five-year (2011-2016) lease extension:

- Annual minimum rent shall be \$210,000 from October 20, 2011. This represents a rent of \$262.50 per square foot and, as noted above, is a 38% increase in base rent.
- Annual rent of \$7,200 will be paid for the basement storage space. This represents a rent of \$20.00 per square foot and as noted above is a 100% increase in rent.
- Beginning in 2011, and ending before June 2012, McDonald’s will commit to spend a minimum of \$100,000 in capital repairs/renovation to upgrade their restaurant.
- For the rights to a further 5-year period, rent will be negotiated, but will be no less than the \$210,000 paid under the initial term.

The minimum rental rate for the proposed rental term for the five-year extension is considered excellent in comparison to other TTC tenants and exceeds other rents in the area of Dundas West subway station. The store which is 800 square feet in size will generate \$262 per square foot, net. By comparison, the Cinnabon store at Sheppard station pays \$150 per square foot. Retail stores in the vicinity of the Dundas West subway station are paying a range of \$10 to \$50 per square foot.

Based on this, it is unlikely that soliciting competitive bids for this lease location would result in higher rent being paid to the TTC.

JUSTIFICATION

The substantial increases in annual minimum rent will result in stable revenue sources for the Commission. The increase in secure rental income, in combination with a \$100,000 renovation represents favourable terms in comparison to typical market rents based on an independent assessment.

The renovation will ensure that the store is kept in good physical condition by adding safe, clean, fire retardant metal fixtures. The renegotiated terms are considered satisfactory and will provide McDonald’s with an adequate timeframe to recapture their capital expenditures of over \$100,000.

The renewal of this lease agreement is considered the most prudent course of action. McDonald’s has a proven track record as a good tenant and the substantial increase in annual minimum rent will result in a stable revenue source for the Commission. The proposed rent exceeds the amounts being received by the TTC and other landlords in the vicinity of Dundas West subway station.

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