

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: July 6, 2011

SUBJECT: OFFICE LEASE – 1835 YONGE STREET, 7TH FLOOR

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission approve the offer to lease office space at 1835 Yonge Street with LPF Realty Office Inc. under the terms detailed in this report to meet the needs of the Rail Vehicle Engineering (RVE) section of the Rail Cars & Shops department at a total maximum cost of \$2,016,659.00, plus applicable taxes.

FUNDING

The total maximum cost to lease this space is approximately \$2,016,659.00, plus applicable taxes, for the duration of the lease term expiring on September 30, 2016. Staff are working towards reducing the costs by examining savings associated with the leasehold expenditures, including savings from utilizing existing furnishings and fixtures, which will be to the benefit of the Commission.

The RVE section is wholly dedicated to capital work on the following projects in the TTC's 2011-2015 Capital Program approved by City of Toronto Council on February 23, 2011: Project 4.12 Purchase of 234 & 126 New TR Subway Cars (pages 975-982); Project 4.18 Purchase of 204 LRV's (pages 1027-1030); and on the Transit Expansion Department LRV project which is funded by Metrolinx. This lease cost can be accommodated within project budgets.

BACKGROUND

The RVE section has the need for additional office space to meet current and future requirements. Currently, the Hillcrest complex has no space to accommodate future full-time new hires. The approved organization includes a total of 43 positions by year-end 2011.

Following the completion of renovations in 2008, the 4th floor at the J.G. Inglis building has been shared by Rail Cars & Shops and Track & Structures department personnel. With a maximum occupancy of 86, this floor is at 100% capacity. It can no longer accommodate the needs of both sections, due to growth in capital project work (e.g. ATC, LRV, etc.). With approximately 80 RVE staff to relocate to the new leased premises at 1835 Yonge Street, the vacated Hillcrest space will allow for staffing of both Plant and Track and Structures. The floor will return to capacity in the very near future. As noted

above, a number of new positions are being held for hiring as there is no office space available. Though various options were considered, it was determined that relocation of the largest group, RVE would alleviate the space constraints for the remaining sections. The RVE section is charged to manage the three major rail vehicle procurement projects – TR subway vehicles, replacement vehicles for legacy streetcars and the Transit Expansion LRVs. Relocation of the capital project based RVE section as a unit has the least impact to management supervision and local interdepartmental interaction; and optimizes synergy amongst the various project teams within the RVE section.

A number of alternative spaces have been evaluated by the Property Development department. The most suitable vacant site at this time has been identified as the 7th floor of 1835 Yonge Street. The site is in very close proximity to the McBrien Building at 1900 Yonge Street and would meet the space requirements of the RVE section. This location also offered the lowest gross rent when comparing spaces.

The post-lease space needs of the department will be accommodated within the context of the overall Commission's office space plan.

DISCUSSION

The TTC offer for the lease of the space at 1835 Yonge Street from LPF Realty Office Inc., which has been accepted by the landlord conditional on Commission approval, is summarized as follows:

Premises:	7 th floor – 11,138 square feet.
Term:	<ul style="list-style-type: none"> ▪ Five (5) years – October 1, 2011 to expiry of lease on September 30, 2016. ▪ Tenant shall have the right to terminate the lease after the third (3rd) year of the lease term, provided nine (9) months written notice prior to the effective termination date is given. ▪ The termination penalty will be the amount equal to the unamortized costs of leasing commissions, free rent and the leasehold improvement allowance using an interest rate of 8%. This is estimated to be approximately \$91,000.00.
Base Rent:	<ul style="list-style-type: none"> ▪ October 1, 2011 to September 30, 2013 - \$8.00 per square foot on 9,138 square feet only. ▪ October 1, 2013 to September 30, 2016 - \$8.00 per square foot on 11,138 square feet.
Other:	TTC will pay all additional rent for property taxes, utilities, maintenance, etc., as set out in the Head Lease which is currently set at approximately \$19.26 per square foot.
Parking:	Two parking spots at \$150.00 per spot/per month each.
Renovations:	<ul style="list-style-type: none"> ▪ Cost of leasehold improvements budgeted at \$50.00 per square foot. At the time of writing this report, staff were working on finalizing the space plan utilizing existing furniture, offices, fixtures, etc. in order to save on costs. Staff will initially move into the existing (as is) offices. Renovations will be kept at a minimum. ▪ Landlord shall provide the tenant with a leasehold improvement financing of up to \$50.00 per square foot.

The maximum total cost to the Commission over the life of the lease is \$2,016,659.00, plus applicable taxes. This includes base rent, operating costs and leasehold improvement costs. As noted above, staff is working towards utilizing existing furniture, offices and fixtures to reduce the cost of the lease by saving on renovation costs and will allow an expedited move in.

Property Development's broker, DTZ Barnicke, provided property information on other lease opportunities in the Yonge/Davisville area with asking rental rates ranging from \$16.00 to \$27.50 per square foot. In view of these rental rates, staff were able to negotiate rent at \$8.00 per square foot at 1835 Yonge Street, combined with the expected lower than usual lease improvement costs allowing staff to move in sooner which justifies supporting this as the most cost effective lease transaction.

JUSTIFICATION

The lease is required to relocate the RVE section for the reasons outlined in this report. A number of alternative spaces were evaluated by staff. The most suitable and cost effective vacant space has been identified as the 7th floor of 1835 Yonge Street. The term of the lease also coincides with the Office Consolidation project. The post-lease space needs of the department will be accommodated within the context of the overall Commission space plan.

June 6, 2011
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