

# TORONTO TRANSIT COMMISSION REPORT NO.

**MEETING DATE:** November 21, 2012

**SUBJECT:** MATERIALS & PROCUREMENT – 455 GORDON BAKER ROAD

## **ACTION ITEM**

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### **RECOMMENDATION**

It is recommended that the Commission approve:

1. A change in the use of the leased warehouse at 455 Gordon Baker Road for inventory storage and control by the Materials & Procurement department; and
2. Funds in the upset limit amount of \$1.3M (plus applicable taxes) for tenant improvements to this leased space to meet the Materials & Procurement department's operational requirements.

### **FUNDING**

The rents for the lease of this building were approved by the Commission at its meeting of December 15, 2010 and have/will be incorporated into the approved 2013 and future years operating budgets. The leasehold improvement costs needed to allow the Materials & Procurement Department (M&P) to occupy the building are an unbudgeted expense, to be incurred in 2012 and 2013. The financial analysis for use of 455 Gordon Baker Road by M&P is attached as Appendix 1.

### **BACKGROUND**

At its meeting of December 15, 2010, the Commission approved leasing 455 Gordon Baker Road for use by the Revenue Operations department. Costs related to the design and construction of the tenant improvements required to accommodate Revenue Operations at 455 Gordon Baker Road caused staff to reconsider its options. A more cost effective, viable alternative was found and all contracts with respect to 455 Gordon Baker Road and its use by Revenue Operations were cancelled. Accordingly, the TTC issued a stop work order to the landlord and its contractors in April, 2012.

The Materials & Procurement department (M&P) requires approximately 90,000 to 100,000 square feet to house inventory displaced by the arrival of materials needed to service the new subway trains operating on the Yonge/University/Spadina line. This includes much larger components for the new trains such as cab units, air conditioning units both of which as examples take considerable more storage space. In addition, staff is looking for additional space to consolidate and manage project material more efficiently.

**DISCUSSION**

The size and layout of 455 Gordon Baker Road meets M&P’s requirements. The landlord is agreeable to the proposed change in the use of its building. In order to make the facility ready for M&P to occupy, tenant improvements estimated in the amount of \$1.3M are required to install data and communication lines, make changes to the existing lighting and sprinkler systems to accommodate racking for the storage of inventory and prepare the building for use.

At its meeting of December 15, 2010, the Commission approved the Offer to Lease 455 Gordon Baker Road on the terms and conditions set out in the offer and funding in the amount of \$13.1M to lease the building and undertake the tenant improvements needed for Revenue Operations to occupy the building. The approvals given were specific to Revenue Operations’ use of the building. Rents over the initial lease term are projected to be \$5.7M. The sunk costs associated with the change of the use of the building from Revenue Operations to Materials are projected to be in the range of \$2.6M. In addition, rent costs incurred to date are in the order of \$1.3M. Overall savings as a result of this repurposing is approximately \$2.0M.

The repurposing of the building will not alter (1) the term of the lease which will remain at five years and which is proposed to expire November 30, 2017 and (2) the rent costs over the five year term. The tenant improvements sought are not extensive and the costs are directly related to the size of the facility. The improvements will be paid for in instalments in 2012 and 2013 as the work, which is proposed to be phased, is completed.

The following is a summary of the lease terms:

Premises:	98,406 square feet.
Term:	Five year initial term commencing December 1, 2012 and terminating November 30, 2017.
Base Rent:	\$5.00 per square foot over the initial term.
Additional Rent:	The TTC will pay realty taxes, operating and maintenance costs, including utilities, in the form of additional rent.
Other:	The TTC will have the option to extend the lease for up to an additional five years at prevailing market rates.
Tenant Improvements:	Tenant Improvements estimated in the amount of \$1,300,000.00 will be paid for in 2012 and 2013.

The term of the lease is proposed to begin on December 1, 2012 on first occupancy of the building by M&P. The total estimated cost to the Commission over the term is approximately \$7M (adjusted for inflation), plus applicable taxes. This includes tenant improvements, base rent, estimated operating costs, parking and property taxes.

**JUSTIFICATION**

Repurposing 455 Gordon Baker Road for use as a warehouse for storage of inventory to support the TTC operations and making the tenant improvements necessary to accommodate the use is the most cost effective course of action at this time.

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November 21, 2012

22-6-10

Attachment: Appendix 1

# APPENDIX 1

## TTC - 455 Gordon Baker Road Summary of Financial Obligations

Year End Months	Dec. 31, 2012 1	Dec. 31, 2013 12	Dec. 31, 2014 12	Dec. 31, 2015 12	Dec. 31, 2016 12	Dec. 31, 2017 11	Total Obligation
Area (sq.ft.)	98,406	98,406	98,406	98,406	98,406	98,406	
Net Rent	\$5.00	\$5.00	\$5.00	\$5.00	\$5.00	\$5.00	
OP Costs	\$3.83	\$3.91	\$3.98	\$4.06	\$4.15	\$4.23	
Taxes	\$2.12	\$2.16	\$2.21	\$2.25	\$2.29	\$2.34	
Additional OP Costs	\$1.00	0	0	0	0	0	
	<u>\$6.95</u>	<u>\$6.07</u>	<u>\$6.19</u>	<u>\$6.31</u>	<u>\$6.44</u>	<u>\$6.57</u>	
Total Annual Net Rent	\$41,003	\$492,030	\$492,030	\$492,030	\$492,030	\$451,028	\$2,460,150
Total Taxes/OP Costs	\$48,793	\$597,226	\$609,171	\$621,354	\$633,781	\$592,585	\$3,102,910
Additional Op Costs	\$98,406	\$0	\$0	\$0	\$0	\$0	\$98,406
Total Occupancy Costs	<u>\$188,202</u>	<u>\$1,089,256</u>	<u>\$1,101,201</u>	<u>\$1,113,384</u>	<u>\$1,125,811</u>	<u>\$1,043,613</u>	<u>\$5,661,467</u>
Tenant Improvements	\$975,000	\$325,000					\$1,300,000
TOTAL CASH OUTFLOW	<u>\$1,163,202</u>	<u>\$1,414,256</u>	<u>\$1,101,201</u>	<u>\$1,113,384</u>	<u>\$1,125,811</u>	<u>\$1,043,613</u>	<u>\$6,961,467</u>