

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: September 27, 2012

SUBJECT: 1835 YONGE STREET – LEASE EXTENSION

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission approve:

1. The agreement to extend the term of the lease dated December 1, 2007 between LPF realty Office Inc. (the "Landlord") and the Toronto Transit Commission (the "Tenant") for the 4th floor and a portion of the 6th floor, at 1835 Yonge Street; and
2. The funds for tenant improvements to the leased space at 1835 Yonge Street in the amount of \$140,000.00; and
3. The options to extend the lease terms for "Additional Premises A" (Fare Card) and "Additional Premises B" (Rail Vehicle Expansion).

FUNDING

The proposed lease extensions are for a term of five (5) years beginning April 1, 2013 and ending September 30, 2018. The leasing of the space will cost the TTC approximately \$1,830,118.00 plus parking and applicable taxes across the term. Details of the financial analysis are attached as Appendix 1. Sufficient funds are included in the proposed TTC Operating Budget and adequate provisions will be made in future operating budgets as required.

In addition to the lease payments, staff are also seeking approval of tenant improvement costs of \$140,000.00, or approximately \$10.00 per square foot of leased space, to accommodate reconfiguration of the space to meet changing requirements and the replacement of worn finishes, fittings and fixtures.

The options to extend lease terms for "Additional Premises A" and Additional Premises B" do not create any funding requirements or obligations.

BACKGROUND

Due to the structural condition of 1900 Yonge Street, the Toronto Transit Commission (“TTC”) leased space for the Legal Department on the 4th and 6th floors of 1835 Yonge Street beginning in December 2007. The current lease term for this space ends on March 31, 2013. The lease contains an option to extend the initial lease term for a further term of 5 years. The lease requires that the option be exercised a minimum of nine months before the expiry of the initial term.

DISCUSSION

The Legal Department occupies approximately 14,000 square feet of space on the 4th and 6th floors of 1835 Yonge Street. A search of office space along the north Yonge corridor showed that floor areas of a size to meet the Legal Department’s requirements were not readily available at a cost competitive with the lease rate for 1835 Yonge Street. and furthermore, there was little space available within the immediate vicinity of Davisville and Yonge for the foreseeable future.

The TTC’s offer for exercising the extension to the term of the lease was accepted by the Landlord conditional on Commission approval, and is summarized as follows:

Premises	Approximately 11,138 square feet on the fourth floor and 2,865 square feet on the sixth floor of 1835 Yonge Street
Term	Commencing April 1, 2013 and terminating on September 30, 2018
Base Rent	\$11.00 per square foot
Early Termination	One time right to terminate the lease effective on September 30, 2016.
Renovation of the Leased Space	Leasehold improvement allowance of up to \$10.00 per square foot of rentable premises plus taxes to be paid in a lump sum after completion of the tenant improvements.
Option to Extend	Option to extend for a further term of three years effective October 31, 2015 in respect of Additional Premises “A”; for one further term of two years effective September 30, 2016 in respect only of Additional Premises B; and one further term of five years in respect of the Original Demised Premises
Other	All other terms and conditions remain the same

The total estimated cost to the TTC of the lease extension for 1835 Yonge Street, over the five year term, is \$1,830,118.00 (not adjusted for inflation). This includes base rent and operating costs but excludes parking, tenant improvement costs and taxes.

The Lease does not contain options to extend the terms for Additional Premises A (Fare Card) or Additional Premises B (Rail Vehicle Expansion). Staff recommended approval of these options to extend the lease terms, at the TTC’s discretion, to provide the TTC with flexibility in terms of accommodating any continued need for office accommodation at this location and flexibility with respect to consolidating its space requirements in the future. These options do not create any funding requirements or obligations for the TTC. The options allow the TTC to bring the three terms currently in the Lease, to a common termination date if so required.

The base rent and overall cost is considered reasonable based on comparable net rents for available and renewing leased space in the Yonge corridor between St. Clair and Eglinton which ranges in cost from \$18.00 per square foot to \$22.00 per square foot net asking a five year term.

JUSTIFICATION

Entering into an agreement with the Landlord for a five year extension to the term of the lease at a competitive market rate provides the TTC with the most cost effective accommodation.

September 27, 2012
22-6-10
Attachment – Appendix 1



FINANCIAL ANALYSIS OF PROPOSED EXTENSION AT 1835 YONGE ST
4th and 6th floors

Prepared for: Toronto Transit Commission

	CASH FLOW BY CALENDAR YEAR EFFECTIVE APRIL 1, 2013 TO SEPTEMBER 30, 2018						TOTAL PROPOSED NEW OBLIGATIONS
	April 1, 2013 to Dec 31 2013 (9 months)	2014	2015	2016	2017	2018 to Sept 30 2018 (9 months)	April 1 2013 to Sept. 30 2018 (5 yrs 6 months)
4th floor Area (sq.ft.)	11,138	11,138	11,138	11,138	11,138	11,138	11,138
6th Floor Area (sq.ft.)	2,865	2,865	2,865	2,865	2,865	2,865	2,865
Total Area (sq.ft.)	14,003	14,003	14,003	14,003	14,003	14,003	14,003
Net Rent / sq.ft.	\$11.00	\$11.00	\$11.00	\$11.00	\$11.00	\$11.00	
Op Costs / sq.ft. (excl taxes)	\$12.14	\$12.38	\$12.63	\$12.88	\$13.14	\$13.40	
Gross Rent / sq.ft.	\$23.14	\$23.38	\$23.63	\$23.88	\$24.14	\$24.40	
Net Rent / Year	\$115,525	\$154,033	\$154,033	\$154,033	\$154,033	\$115,525	\$847,182
Op Costs (excl taxes) / Year	\$127,497	\$173,396	\$176,864	\$180,402	\$184,010	\$140,767	\$982,936
Total Annual Rent	\$243,057	\$327,465	\$330,934	\$334,471	\$338,080	\$256,330	\$1,830,118

Note: Annual Inflation on Operating Costs: 2%
 NPV of New Obligations @ 8% \$1,405,977