

# TORONTO TRANSIT COMMISSION REPORT NO.

**MEETING DATE:** September 27, 2012

**SUBJECT:** Notice of Award - 5140 and 5160 Yonge Street – Lease Extensions

## **INFORMATION**

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### **RECOMMENDATION**

It is recommended that the Commission receive the notice of award of Chair Stintz, Commissioner Parker, and Chief Executive Officer approving:

1. The agreement to extend the term of the lease dated January 10, 2008, between the Great-West Life Assurance Company (the "Landlord") and the Toronto Transit Commission (the "Tenant") for Suites 540 and 600, at 5140 Yonge Street;
2. The funds for renovation of the leased space, Suites 540 and 600, at 5140 Yonge Street in the amount of \$225,000.00;
3. The agreement to extend the term of the lease dated January 24, 2006, between the Great-West Life Assurance Company and London Life Insurance Company (the "Landlord") and the Toronto Transit Commission (the "Tenant") for Suites 1100 and 1300, at 5160 Yonge Street; and
4. The funds for renovation of the leased space, Suites 1100 and 1300, at 5160 Yonge Street in the amount of \$200,000.00.

### **FUNDING**

The proposed lease extensions are for a term of five (5) years beginning June 1, 2013 and ending May 31, 2018. The leasing of the space will cost the TTC approximately \$8,850,048.00 at 5140 Yonge Street and \$8,180,267.00 at 5160 Yonge Street, plus, in each case, parking and applicable taxes across the term. Details of the financial analysis are attached as Appendix 1 and 2. The existing leases and the proposed extensions are budgeted capital expenditures provided for within the approved 2012 to 2016 Capital Program budget.

In addition to the lease payments, staff are also seeking approval of renovation costs of \$225,000.00 for 5140 Yonge Street and in the amount of \$200,000.00 for 5160 Yonge Street, or approximately \$5.00 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 use of these funds will be at the discretion of the Engineering, Construction & Expansion Group ("EC & E Group").

**BACKGROUND**

At its meeting of July 14, 2010, the Commission approved the revisions and updates to the Authorization for Expenditures and Other Commitments Policy, effective August 1, 2010, which states that *“The Commission delegates authority to the Chair, Vice-Chair and the Chief Executive Officer to authorize items that would normally be authorized by the Commission when the approval is required before the next Commission meeting. If the Chair and/or Vice-Chair are not available, authority would be deemed to be delegated to any two (2) Commissioners and the Chief Executive Officer.”* These authorizations are to be followed up by a notice of award Commission report that is to be submitted to the next scheduled Commission meeting for information.

Due to a lack of space within the J.G. Inglis Building at 1138 Bathurst Street and the William C. McBrien Building at 1900 Yonge Street, the TTC leased space for the EC & E Group on the 5th and 6th floors of 5140 Yonge Street and on the 11<sup>th</sup> and 13<sup>th</sup> floors of 5160 Yonge Street beginning in 2008. The current lease terms for this space end on May 31, 2013. The leases contain options to extend the initial lease terms for further terms of 5 years. The leases require that the options be exercised before September 15, 2012.

**DISCUSSION**

The Engineering Department occupies 44,823 square feet of space on the 5th and 6th floors of 5140 Yonge Street (Suites 540 and 600). The Spadina Subway Extension and the Transit Expansion Departments occupy 40,400 square feet of space on the 11th and 13th floors of 5160 Yonge Street (Suites 1100 and 1300). A search of office space along the north Yonge corridor showed that floor areas of a size to meet the EC & E Group’s requirements were not readily available at a cost competitive with lease rates at 5140 and 5160 Yonge Street and that, furthermore, there is significant demand for space within the immediate vicinity of North York City Centre into the foreseeable future.

The TTC’s offers for exercising the first extensions to the terms of the leases were accepted by the Landlords conditional on Commission approval, and are summarized as follows:

5140 Yonge Street:

Premises	The 6th floor and a portion of the 5th floor totaling 44,823 square feet of rentable area and designated as Suite 540 and Suite 600.
Term	A five year extension to the original term of the Lease commencing June 1, 2013 and ending May 31, 2018.
Base Rent	Year 1 base rent is set at \$19.00 per square foot. Base rent escalates at a rate of \$0.50 per square foot for each succeeding year of the extended term. Year 5 base rent is \$21.00 per square foot.
Other	The remaining terms and conditions of the Lease remain unchanged
Renovation of the leased space	Will be carried out in accordance with the Lease by the Landlord.

The total estimated cost to the TTC of the lease extension for 5140 Yonge Street, over the five year term, is \$8,850,048.00 (not adjusted for inflation). This includes base rent and operating costs but excludes parking, renovation costs and applicable taxes.

5160 Yonge Street:

Premises	The 11 <sup>th</sup> floor and the 13 <sup>th</sup> floor totaling 40,400 square feet of rentable area and designated as Suites 1100 and 1300.
Term	A five year extension to the original term of the Lease commencing June 1, 2013 and ending May 31, 2018.
Base Rent	Year 1 base rent is set at \$19.00 per square foot. Base rent escalates at a rate of \$0.50 per square foot for each succeeding year of the extended term. Year 5 base rent is \$21.00 per square foot.
Other	A rider to the offer contains a provision in the form of an option, allowing the TTC to surrender at no cost the 11 <sup>th</sup> floor (suite 1100) on January 31, 2017, in advance of the end of the extended lease term, provided notice is given to the Landlord before January 31, 2016. The remaining terms and conditions of the Lease remain unchanged.
Renovation of the leased space	Will be carried out in accordance with the Lease by the Landlord.

The total estimated cost to the TTC of the lease extension for 5160 Yonge Street over the five year term is \$8,180,267.00 (not adjusted for inflation). This includes base rent and operating costs but excludes parking, renovation costs and applicable taxes.

The rates are considered reasonable based on comparable net rents for available and renewing leased space in the north Yonge corridor between Finch and York Mills which range in cost from \$19.00 per square foot to \$20.25 per square foot for a five year term.

The TTC is in the process of transferring the responsibility for the implementation of four LRT projects, Eglinton Crosstown, Sheppard East, Finch West and the SRT to Metrolinx, as previously reported to the Commission. This process is anticipated to be completed by the end of October 2012. However, the new lines will intersect and connect to the TTC existing lines at Eglinton West, Eglinton/Yonge, Don Mills and Kennedy stations and, therefore, it is imperative that the TTC retain staff in support of various design reviews in order to protect the TTC's physical assets and the safety of TTC's customers during construction of the LRT lines. In addition, the TTC has been requested to operate the new LRT lines and, therefore, also needs to review and accept various operating systems in order to ensure safe and efficient transit operations.

Staff is preparing an Office Consolidation Program for the purpose of accommodating TTC's administrative departments within a single facility. It is anticipated that a Request for Proposals (RFPs) will be issued in 2013 to the Real Estate community, and move-ins commencing in late 2016. In order to take into account the time it will take for the preparation/issuance/evaluation of the RFP, lease negotiations/design/construction of the premises and move in, the term of the lease extensions has been set at five years. Entering into these lease extension should not affect the proposed schedule or move out of staff from leased locations to the new Head Office.

**JUSTIFICATION**

Entering into agreements with the Landlords for a five year extension to the terms of the leases at a competitive market rate provides the TTC with the most cost effective accommodation.

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September 27, 2012

22-11-10

Attachment: Appendix 1 & 2



