

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: September 27, 2012

SUBJECT: 834 CALEDONIA ROAD - INDUSTRIAL FACILITY LEASE
FOR SURFACE ELECTRICAL

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission approve:

1. The offer to lease industrial space at 834 Caledonia Road with 834 Caledonia Holdings Inc. (the "Landlord") under the terms set out in this report; and
2. Funds in the amount of \$300,000 for tenant improvements to the leased space to meet the Toronto Transit Commission's operational requirements.

FUNDING

The proposed lease is for a term of five (5) years commencing December 1, 2012. This space (approximately 15,124 square feet of rentable area) will cost the Commission approximately \$1,245,977.00 plus applicable taxes across the term of the lease, including approximately \$300,000 (or \$19.83 per square foot) for tenant improvements. Details of the financial analysis are attached as Appendix 1. Sufficient funds are available in the 2012 TTC operating budget for the lease costs and appropriate provisions will be made in future operating budgets as required. The proposed tenant improvement costs are unbudgeted and can be accommodated within the 2012 operating budget.

BACKGROUND

The Toronto Transit Commission ("TTC") entered into a lease (the "Lease") with Cartwright Management Inc. on December 9, 2009 to rent 163 Cartwright Avenue (the "Property") for the use of the TTC's Wiring and Service Section of the Rail Infrastructure Department ("W&S"). The building on the Property (approximately 7,795 square feet) houses a training facility for electrical apprentices and the administrative support for the training programs. The Lease expires December 14, 2012.

Cartwright Management Inc. sold the Property to 161-163 Cartwright Holdings Inc. and transferred ownership on April 4, 2012. Firm Capital Properties Inc. ("Firm") indicated to the TTC that it has an interest in 161-163 Cartwright Holdings Inc. Although the Lease contains options to extend the term, Firm has stated that it wishes to have the Property for its own use and will not permit the exercise of the options contained in the Lease.

W&S has an on-going requirement for space to house its electrical training facilities and for the storage of capital project materials and staging. In addition to the 7,795 square feet it currently occupies at 163 Cartwright Avenue, approximately 7,000 square feet have been identified as needed to consolidate its operations and provide space to accommodate growth which has taken place since the inception of the Lease. Approximately 5,000 square feet of the additional space is required for the storage of dedicated capital material and staging for capital projects. The remainder will facilitate the rationalization, relocation and consolidation of administrative support functions for the capital work group. Space is not available within any of the TTC's existing facilities. Therefore, the TTC needs to continue to lease suitable industrial space to accommodate this function. Following a search of industrial space in the northwest quadrant of the City of Toronto, space meeting the department's functional and locational requirements was found at 834 Caledonia Road.

DISCUSSION

The TTC offer for the lease of a portion of 834 Caledonia Road (approximately 15,124 square feet) from 834 Caledonia Holdings Inc. (the "Landlord"), which has been accepted by the Landlord conditional on Commission approval, is summarized as follows:

Premises	A portion of 834 Caledonia Road consisting of approximately 15,124 square feet of rentable area of the building occupying a portion of the site and a fenced exclusive use vehicle parking area.
Term	5 years commencing December 1, 2012 and expiring November 30, 2017.
Base Rent	Years 1 & 2: \$8.50 per square foot of rentable area; Years 3, 4 & 5: \$9.00 per square foot of rentable area.
Parking	Exclusive use of a fenced parking area as set out in Schedule B to the offer plus 30 unreserved parking stalls, all at no additional cost to TTC
Tenant Improvements	Turnkey by Landlord. Cost to be paid on completion of construction.
Option to Extend	Option to extend the lease term for a further term of five (5) years on written notice at least 6 month in advance of expiry of the first term
Other	TTC to pay its proportion of maintenance and operating costs. Other lease terms in accordance with Landlord's standard form of lease

The total estimated cost to the Commission over the life of the lease is \$1,245,977.00 (adjusted for inflation), plus applicable taxes. This includes tenant improvements, base rent, operating costs, and parking but excludes applicable taxes. The cost to lease the space is considered reasonable based on comparable net rents for available space in the immediate area which range from \$8.00 to \$14.00 per square foot.

JUSTIFICATION

The lease of space at 834 Caledonia Road is a cost effective course of action as the Landlord undertakes to meet the TTC's short timelines to prepare the leased space for occupancy; and represents the best overall value to meet W&S's requirement for leased industrial space in this area of the City of Toronto.

September 27, 2012
22-9-10
Attachment – Appendix 1



FINANCIAL ANALYSIS OF CONDITIONAL OFFER TO LEASE AT 834 CALEDONIA RD

Prepared for: Toronto Transit Commission

	CASH FLOW BY CALENDAR YEAR EFFECTIVE DECEMBER 1, 2012 TO NOVEMBER 31, 2017						TOTAL PROPOSED NEW OBLIGATIONS
	<u>December 1, 2012</u> to <u>December 31, 2012</u> (1 month)	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>January 1, 2017</u> to <u>November 30, 2017</u> (11 months)	<u>December 1, 2012</u> to <u>November 30, 2017</u> (5 years)
Approx. Area (sq.ft.)	15,124	15,124	15,124	15,124	15,124	15,124	15,124
Net Rent / sq.ft.	\$8.50	\$8.50	\$8.54	\$9.00	\$9.00	\$9.00	
T.M.I. / sq.ft.	\$3.50	\$3.57	\$3.64	\$3.71	\$3.79	\$3.86	
Gross Rent	\$12.00	\$12.07	\$12.18	\$12.71	\$12.79	\$12.86	
Net Rent / Year	\$10,713	\$128,554	\$129,184	\$136,116	\$136,116	\$124,773	\$665,456
T.M.I / Year	\$4,411	\$53,993	\$55,073	\$56,174	\$57,297	\$53,573	\$280,521
Tenant Improvements	\$300,000						\$300,000
Total Annual Rent	\$315,124	\$182,547	\$184,257	\$192,290	\$193,413	\$178,346	\$1,245,977

NPV of New Obligations @ 8% \$979,916

NOTES: Annual Inflation applied to T.M.I. 2%

Net Rent / sq.ft.	
Year 1	\$8.50
Year 2	\$8.50
Year 3	\$9.00
Year 4	\$9.00
Year 5	\$9.00