

# TORONTO TRANSIT COMMISSION REPORT NO.

**MEETING DATE:** February 25, 2013

**SUBJECT:** 1910 YONGE STREET - LEASE RENEWAL

## **ACTION ITEM**

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### **RECOMMENDATION**

It is recommended that the Commission approve:

1. The agreement to extend the term of the lease dated April 25, 2006, between 1910 Davisville Centre Inc. (the "Landlord") and the Toronto Transit Commission (the "Tenant") for the 2<sup>nd</sup> and 3<sup>rd</sup> floors at 1910 Yonge Street; and
2. Funds for tenant improvements to the leased space at 1910 Yonge Street in the amount of \$ 270,000.00.

### **FUNDING**

The proposed lease extension is 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 \$4,081,106.00, plus applicable taxes and property taxes, across the term. Details of the financial analysis are attached as Appendix 1. Sufficient funds are available in the 2013 TTC operating budget for the proposed extension and appropriate 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 \$270,000.00, or approximately \$10.00 per square foot of leased space, to accommodate reconfiguration of the space to meet changing staff requirements and the replacement of worn finishes, fittings and fixtures.

### **BACKGROUND**

Due to a lack of space within 1900 Yonge Street, it was necessary to lease space for the ITS Department on the 2<sup>nd</sup> and 3<sup>rd</sup> floors of 1910 Yonge Street beginning in June 2006. The current lease term for this space ends on May 31, 2013. The lease does not contain options to extend the initial lease term.

**DISCUSSION**

The ITS Department occupies approximately 29,356 square feet of space on the 2<sup>nd</sup> and 3<sup>rd</sup> floors of 1910 Yonge Street. A search of office space along the north Yonge corridor showed that floor areas of a size to meet the ITS Department’s requirements were not readily available at a cost competitive with the lease rate for 1910 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 the Commission’s approval and is summarized as follows:

Premises	Approximately 29,356 square feet on the second and third floors of 1910 Yonge Street.
Term	Commencing June 1, 2013 and terminating on May 31, 2018.
Base Rent	\$13.35 per square foot.
Early Termination	One time right to terminate the lease effective on May 31, 2016. Should TTC exercise this right, it will be required to pay a one-time lease termination of \$10.00 per square foot of rentable area (approximately \$298,727.00).
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 five (5) years.
Other	Terms and conditions are added to the Lease to protect TTC’s computer programs and licenses as well as stored information in any format; and to bring the lease in line with TTC’s current operating procedures.

The estimated cost to the TTC of the lease extension for 1910 Yonge Street, over the five year term, is \$4,081,106.00. This includes base rent and operating costs but excludes, tenant improvement costs, and applicable taxes and property taxes. Currently the TTC pays approximately \$192,696.00 per year in property taxes on its existing lease at 1910 Yonge Street.

The base rent and overall cost is considered reasonable based on comparable rents for available and renewing leased space in the Yonge corridor between St. Clair and Eglinton which range in cost from \$13.00 per square foot to \$22.00 per square foot net asking for a five year term. The lease renewal has been negotiated with termination dates within the move-in period that the TTC anticipates for the consolidated offices.

**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.

February 25, 2013

22-11-10

Attachment: Appendix 1

**TORONTO TRANSIT COMMISSION**

**APPENDIX 1**

**1910 YONGE STREET**

**2nd and 3rd floors**

**CONDITIONAL OFFER TO LEASE - JAN 28 AT \$13.35 NET**

	<b>TOTAL PROPOSED NEW OBLIGATIONS</b>
	<u>June 1 2013 May 31 2018</u>
2nd floor	15,290
3rd floor	14,066
<b>Total Area</b>	<b>29,356</b>
<b>Net Rent per Sq Ft.</b>	<b>\$13.35</b>
<b>Op Costs (excl taxes)</b>	<b>\$14.45</b>
	<b>\$27.80</b>
<b>Net Rent</b>	<b>\$1,959,516</b>
<b>Op Costs (excl taxes)</b>	<b>\$2,121,548</b>
<b>Total Gross Rent</b>	<b>\$4,081,106</b>

**CASH FLOW BY CALENDAR YEAR**

	<u>2013 June 1 2013 to Dec 31 2013 (7 months)</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018 Jan 1 2018 to May 31 2018 (5 months)</u>	<u>Total New Obligation</u>	<u>NPV @ 8%</u>	
								<u>GROSS</u>	<u>NET</u>
2nd floor	15,290	15,290	15,290	15,290	15,290	15,290	15,290		
3rd floor	14,066	14,066	14,066	14,066	14,066	14,066	14,066		
<b>Total Area</b>	<b>29,356</b>	<b>29,356</b>	<b>29,356</b>	<b>29,356</b>	<b>29,356</b>	<b>29,356</b>	<b>29,356</b>		
<b>Net Rent per sq ft</b>	<b>\$13.35</b>	<b>\$13.35</b>	<b>\$13.35</b>	<b>\$13.35</b>	<b>\$13.35</b>	<b>\$13.35</b>	<b>\$13.35</b>		
<b>Op Costs (excl taxes)</b>	<b>\$13.77</b>	<b>\$14.05</b>	<b>\$14.33</b>	<b>\$14.62</b>	<b>\$14.91</b>	<b>\$15.21</b>	<b>\$14.45</b>		
<b>Gross Rent</b>	<b>\$27.12</b>	<b>\$27.40</b>	<b>\$27.68</b>	<b>\$27.97</b>	<b>\$28.26</b>	<b>\$28.56</b>	<b>\$27.80</b>		
<b>Net Rent</b>	<b>\$228,610</b>	<b>\$391,903</b>	<b>\$391,903</b>	<b>\$391,903</b>	<b>\$391,903</b>	<b>\$163,293</b>	<b>\$1,959,516</b>	<b>\$1,516,461</b>	<b>\$1,516,461</b>
<b>Op Costs (excl taxes)</b>	<b>\$235,844</b>	<b>\$412,390</b>	<b>\$420,638</b>	<b>\$429,051</b>	<b>\$437,632</b>	<b>\$185,993</b>	<b>\$2,121,548</b>	<b>\$1,636,265</b>	
<b>Suggested TTC Counter Jan 22</b>	<b>\$464,495</b>	<b>\$804,335</b>	<b>\$812,583</b>	<b>\$820,996</b>	<b>\$829,578</b>	<b>\$349,330</b>	<b>\$4,081,106</b>	<b>\$3,152,726</b>	<b>\$1,516,461</b>

Note: Inflation of Op. Costs 2%  
 NPV of New Obligations @ 8% \$3,152,921