



STAFF REPORT ACTION REQUIRED

Lease of Office Space – 250 Bloor Street East

Date:	June 22, 2015
To:	TTC Board
From:	Chief Executive Officer

Summary

The purpose of this report is to seek approval to enter into a lease for office space located on the eleventh, twelfth and thirteenth floors of 250 Bloor Street East, to accommodate operating departments and staff working on Capital Projects being undertaken by the TTC, in accordance with the terms and conditions set out in this report.

The proposal to lease office space at 250 Bloor Street East meets the criteria for size and location to accommodate the approximately 330 staff, whose positions have been identified either in the Capital Program or as part of TTC's Operating Budget.

Recommendations

It is recommended that the Board:

1. Authorize the execution of a lease agreement between The Manufacturers Life Insurance Company and the Toronto Transit Commission for the lease of the eleventh, twelfth and thirteen floors of 250 Bloor Street East, Toronto, for a term of ten (10) years in accordance with the terms and conditions set out in the offer to lease dated May 7, 2015 and as summarized in this report, in accordance with the Toronto Transit Commission's policies, and any other documents or agreements arising as a result of entry into the lease, all on terms and conditions acceptable to the TTC's General Counsel;
2. Approve the expenditure of
 - a. An \$ 29,390,000 plus HST for rent payments in accordance with the terms and conditions of the above noted lease, subject to changes from current projections in the escalation of additional rent (e.g. utilities, property taxes and maintenance); and
 - b. \$1,475,000 for leasehold improvement costs in addition to the leasehold improvement allowance set out in the lease.

Implementation Points

In Accordance with Corporate Policy 6.5.0 Authorization for Expenditures and Other Commitments, Paragraph 3.7.9; leasing contracts having a term over ten years or lease payments of over \$200,000.00 per year require Board approval.

Financial Summary

The proposed lease is for a term of ten (10) years beginning April 1, 2016, and ending March 31, 2026. The total rent obligation (including operating costs and real estate taxes) for the space is estimated at \$ 29,390,000 plus HST for the term. The annual rent is approximately \$2.94M. Of this total, it is estimated that 50% will be allocated to the capital budget and 50% will be allocated to the operating budget. These figures are to be determined based on the ultimate floor plan and space allocation. The annual rent payments will begin on April 1, 2016.

The estimated cost of the leasehold improvements over and above the leasehold allowance is \$1,475,000. It is estimated that the budget allocations for these improvements will also be split 50/50 between the capital and operating budgets.

Sufficient funds for the rent and leasehold improvement expenditures have been included in TTC's 2015 Operating Budget and the 2015-2024 Capital Budget and Plan (CTT061 CAD/AVL and SAP) as approved by Council, on March 10 to 11, 2015; and sufficient funds will be incorporated into future operating and capital budgets.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

Accessibility/Equity Matters

Barrier free access is provided from the street and parking garage to the leased space at 250 Bloor Street East by means of doors and banks of elevators located on the ground floor of the building and serving the street entrances, passenger drop off areas and underground parking facilities. Any modifications to the leased space to meet AODA requirements will be undertaken as part of leasehold improvements; however, any modifications to common areas will be made by the landlord.

Issue Background

TTC staff is initiating an office consolidation study to identify options for future office accommodation including the viability of retaining the McBrien Building and consolidation of TTC office space. The results of this study are not expected until Q1 2016.

Based on requests received for office space, and analysis of overall space needs, there is presently a shortfall of office space for the current approved staff complement in owned and leased office facilities. In order to accommodate shortfalls in various departments for office space for Operating and Capital Project staff, a search for leased accommodation began in 2014.

A requirement to rent approximately 66,000 square feet of office space was identified as needed to accommodate various operating departments and the Computer Aided Dispatch (CAD)/Automatic Vehicle Location (AVL), and the System, Applications and Products (SAP) Capital Project teams.

The duration of the requirement was estimated at approximately ten years (the estimated life of the majority of the capital projects) and the range of suitable locations to minimize travel for meetings and meet adjacency requirements was identified as being, in proximity to Line 1 from Bloor Street to Eglinton Avenue.

TTC staff confirmed with City of Toronto Real Estate Division staff that there was no surplus office space within their office portfolio including the Agencies, Boards, Commissions and Divisions (ABCDs) that met the necessary criteria for the required office space.

A market search of office space available for lease along the Yonge Street corridor (including Yonge and Eglinton, North York, and Yonge and Bloor) revealed a limited number of properties which fit the criteria. This was expected as there is low office space vacancy in all of these high demand areas matching the above-noted criteria. A block of office space became available at 250 Bloor Street East which would fulfil the identified office space needs. As a result of the proximity of this building to the downtown core and to both Line 1 and Line 2, the low vacancy rate and the nature of competition for office space in this area (i.e. stable corporate entities with long-term lease requirements), a ten-year term is included in the Offer to Lease in order to be competitive and also to achieve the most favourable rental rates for the TTC.

Based on a review of the available space, the optimal match of cost, location, and space size, configuration, connectivity and availability was the office space located at 250 Bloor Street East. The building is located on Bloor between Yonge and Sherbourne streets within walking distance of both Bloor-Yonge and Sherbourne Stations.

If there are changes in the requirements of any of the departments using the office space across the term of the lease, there are other TTC leases that will be expiring within the next 1-5 years that could be accommodated at this location. Should the TTC at any point

during the lease term not require the space in part or in whole, the lease will permit TTC to sublet it.

Comments

The following is a summary of the terms and conditions of the Offer to Lease, including rent inducements, negotiated with the landlord.

Terms and Conditions	
Term:	Ten (10) years beginning on April 1, 2016 and ending March 31, 2026.
Rentable Area:	11 th Floor: 22,000 square feet 12 th Floor: 22,000 square feet 13 th Floor: 22,000 square feet Total: 66,000 square feet
Basic Rent (per square foot of rentable area)	Years 1 to 2: \$ 19.50 per square foot Years 3 to 4: \$ 20.50 per square foot Years 5 to 6: \$ 21.50 per square foot Years 7 to 8: \$ 22.50 per square foot Years 9 to 10: \$ 23.50 per square foot
Additional Rent (per square foot of rentable area):	Estimated at \$20.58 per square foot for 2015 (variable in future years, subject to review by TTC)
Leasehold Improvement Allowance	\$45.00 per square foot of rentable area for a total of \$2,970,000.
Early Occupancy	Early Occupancy beginning December 1, 2015 with four month rent free period until lease commencement at April 1, 2016.
Option to Extend	One option to extend for a further 5 years at then current market rates

The estimated base rents per square foot of rentable area are competitive with market rents in the general location for buildings of comparable age and size and with other office space leased by TTC.

The average gross rental rate (basic rent plus additional rent) of existing TTC office leases is \$38.77 per square foot. The average gross rent for 250 Bloor Street East is \$40.08 per square foot, which is comparable.

Leasehold improvement costs are estimated at \$67.35 per square foot of rentable area, of which \$45 per square foot in the form of a leasehold improvement allowance and an estimated \$22.35 per square foot will be paid by TTC. On this basis, the total cost of the leasehold improvements is estimated at \$4,445,000. TTC estimates indicate that up to an additional \$1,475,000 will be required for leasehold improvements beyond the leasehold improvement allowance of \$2,970,000.

Staff recommends entry into a lease based on the terms and conditions set out in the Offer to Lease and summarized above as a cost effective means of providing suitable office accommodation in the absence of available space in TTC's portfolio of existing leased and owned office space.

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