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LEASE EXTENSION FOR OVERFLOW OFFICE SPACE LOCATED AT 520 CANE PARKWAY, TOWN OF NEWMARKET

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report dated April 15, 2011, from the Commissioner of Corporate Services.

1. RECOMMENDATIONS

It is recommended that:

1. The Region be authorized to enter into a lease extension agreement for a three-year, ten-month term with Dave Wood Holdings Limited, for overflow office space, located at 520 Cane Parkway, in Newmarket, consisting of 22,320 square feet, for an average annual rent $362,522 inclusive of HST.

2. The Regional Chair and the Regional Clerk be authorized to sign the necessary lease extension agreement with Dave Wood Holdings Limited, subject to the approval of Legal Services and the Regional Treasurer.

3. The Commissioner of Corporate Services be authorized to sign a lease extension for a further optional term of one (1) year, for a total annual rent of approximately $377,467 (basic and additional) inclusive of HST, with Dave Wood Holdings Limited, if required, subject to the approval of Legal Services and the Regional Treasurer.

2. PURPOSE

This report requests authorization to extend the lease for a three-year, ten-month term plus an option for an additional one (1) year renewal for overflow office space to specifically be held for Regional staff requiring overflow space in Newmarket.

3. BACKGROUND

EMS has occupied 520 Cane Parkway since 2002

EMS has been operating its Operations/Response Station in Newmarket from March 2002 to 2011 at this leased location. This operation includes a response station, administrative offices, a medical supply store and storage.

The Region had leased the property from 2002-2007 and subsequently exercised an option to renew for a further four (4) year term which brings us to the current year of 2011. At the time of renewal in 2007, the landlord considered selling this property to the Region based on a property market value of $2,115,000 (established by GSI Real Estate and Planning Advisors Inc.). After much consideration, the Landlord decided not to sell the property to the Region, but decided to extend the lease instead.

As a result of this decision, EMS requested that Property Services staff exercise its option to renew the lease. Remaining at this site was the best option for EMS at that time.

EMS will be vacating part of the space at Cane Parkway and moving to 80 Bales Drive East, East Gwillimbury in July 2011

EMS administration and storage will be relocating to the newly constructed Regionally owned facility located at 80 Bales Drive East, East Gwillimbury effective July 25, 2011. The Paramedic Response Station (occupying approximately 8,000 sq. ft.) will remain. Upon EMS vacating, this leased location will be used as overflow space for Regional staff until such time as the proposed Central Services Centre is ready for occupancy.

EMS Paramedic Response Station will eventually relocate

Property Services Branch has been requested by Community and Health Services to identify a new location(s) for the Paramedic Response Station. The acquisition of a suitable site and construction of a new station(s) will take a minimum of two – three years.

It is therefore important that the Region retain control of the property while the EMS Paramedic Response Station remains, as ingress and egress is critical to the on-going operation of the facility for ambulance vehicles.

4. ANALYSIS AND OPTIONS

The Landlord and Property Services staff have reached a tentative agreement for a three-year, ten-month lease extension

Property Services staff have reached a tentative agreement with the landlord for a three-year and ten-month lease extension at a rate of $13.75 per square foot, from March 1, 2011 to June 30, 2013 and then increase to $14.75 per square foot from July 1, 2013 to December 31, 2014 with an option to renew the lease for a further one (1) year term at $14.75 per square foot.

This also provides an opportunity for interim overflow space in Newmarket to accommodate staff growth over the next three years, until the construction of the Central

Services Centre. A number of departments i.e. Community and Health Services, Environmental Services, and Rapid Transit have expressed interest in the space.

If the Region were to relinquish the office space at 520 Cane Parkway, there is limited space available in the Newmarket area. Currently, there are only three listed properties from Richmond Hill to Newmarket that are 10,000 to 15,000 square feet on the market. The average cost per square foot year one is $12 to $14 per square foot in base rent plus additional rent (taxes, maintenance, insurance) plus utilities. This negotiated rate is within this range.

The cost to construct leasehold improvements for any new space could be in the range of $50 to $60 per square foot (this translates to $700,000 to $840,000 in construction costs). Remaining at the Cane Parkway site in the interim would require limited leasehold improvements thus avoiding this cost. The space is currently built out as office space and would only require minor renovations, if any.

5. FINANCIAL IMPLICATIONS

The following chart outlines the cost for renewing the existing lease at 520 Cane Parkway.

Table 1
Lease Cost Analysis for Region Interim Office Space

Extended Lease Term Three-years, ten-months	Annual Base Rent ($13.75 per sq. ft.)	Annual Base Rent as of July 1, 2013 ($14.75 per sq. ft.)	Proposed Additional Rent (approx.)	Proposed Annual Total Rent as of March 1, 2011
Year 1 Mar 1/11-Feb 29/12	$306,900		$4,413	$311,313
Year 2 Mar 1/12-Feb 28/13	$306,900		$4,545	$311,445
Year 3 Mar 1/13-Feb 28/14	$102,300	$219,480	$4,682	$326,462
Year 4 Mar 1/14-Dec 31/14	**10 months**	$274,350	$4,822	$279,172

The annual additional rent consists of utilities (heat, hydro), garbage removal, janitorial, security, landlord’s insurance and summer ground maintenance.

The Commissioner of Finance has conducted his due diligence with respect to this lease in accordance with his obligation under the Region’s Policy relating to financing leases contained in the recently amended Capital Financing and Debt Policy, such amendment being approved by Regional Council. The Policy requires that prior to entering into a financing lease, the Commissioner of Finance must assess the costs, financial and other risks associated with the proposed financing lease. (*See Attachment 1*)

6. LOCAL MUNICIPAL IMPACT

There is no direct impact to the public, as there will be no interruption in EMS services.

7. CONCLUSION

A lease extension is required to provide not only for the continuation of the EMS Paramedic Response Station, but for overflow space for Regional staff requiring premises in Newmarket, prior to the construction of the Central Services Centre in 2014. A number of potential Regional tenants have been identified. Property Services Branch will work with these departments to determine the most suitable candidate.

Therefore, it is recommended that the Region enter into this lease extension as outlined in this report.

For more information on this report, please contact Paul Roberts, Manager, Realty Services, Property Services Branch at extension 1424.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause was included in the agenda for the May 5, 2011 Committee meeting.)

ATTACHMENT 1

MEMORANDUM

To: Lloyd Russell

From: Clayton Pereira

Date: March 16, 2011

Re: 520 Cane Parkway Lease Renewal

Background

Ontario Regulation 653/05, under the Municipal Act, 2001 requires the Regional Treasurer to prepare a report to Council for material leases. The report must contain the Treasurer's assessment of the costs and financial and other risks associated with the proposed agreement. The regulation also indicates that municipal councils must provide a statement of policies and goals which may provide for a category of lease financing arrangements which in the opinion of the Treasurer and Council does not result in a material impact for the municipality.

As such, Regional Council approved the Corporate Financing and Debt Policy in 2006 which defined material lease as having payments in excess of $250,000 a year. A policy update approved in September 2008, (Clause 8, Report No. 7 of Finance and Administration Committee) extended the definition of a material lease as having a net present value of $2.0 million.

Lease under consideration

Council authorization is being sought to enter into a three year and ten month lease, commencing on March 1, 2011 with Dave Wood Holding Limited, for an EMS Operation/Response Station, located at 520 Cane Parkway in Newmarket, comprising of 22,320 square feet for an approximate rent of $320,816 (before HST). The tentative agreement also includes an option to renew the lease for a one year term for a total annual rent of approximately $334,042 (before HST).

EMS has been occupying the leased location since March 2002. The lease expired on February 28, 2011, after a renewal for March 1, 2007 for four years.

The base rent has remained unchanged and will be $13.75 per square foot. Additional rent to the Region is based on its proportionate share of building expenses, including the cost of the Landlord's insurance.

In addition to the base rent and additional rent, EMS has and will continue to pay for utilities, property tax, operating costs, etc..

Property Services have highlighted that EMS will be vacating 520 Cane Parkway on July 25, 2011 and the 14,000 square foot space they occupy will be available for interim overflow. Community Health and Environmental Services have expressed interest in the location until the Central Services Centre is ready for occupancy.

Analysis of Lease

Ontario Regulation 653/05 requires the Regional Treasurer to evaluate specific aspects of the proposed lease. The following is an evaluation of each requirement.

A comparison between the fixed and estimated costs associated with proposed agreement and those associated with other methods of financing.

Property Services has indicated that remaining in this site is the most feasible option for EMS in the interim and Paramedics for the duration. The Region has invested significant improvements that allow for Regional staff to accommodate the premises when EMS moves to its new location in July 2011. More importantly, Property Services has indicated that accommodating for interim overflow in the existing offices will not incur significant retrofit costs other than possible moving costs.

A statement summarizing, as may be applicable, the effective rates of financing of the agreement, the ability for agreement payment amounts to vary, and the methods or calculations, include possible financing rate changes, that may be used to establish that variance under agreement.

The base rent amounts of the lease are known for the duration of the lease agreement. The additional rent is variable as it is based on actual costs incurred and the proportionality of the space occupied by the Region. In the event of a dispute on additional rent, a neutral party such as an external auditor or accountant shall provide a conclusion.

A statement summarizing any contingent payment obligations under the agreement that in the opinion of the Treasurer would result in a material impact for the municipality, including termination provisions, equipment loss, equipment replacement options, and guarantees and indemnities.

Legal Services has advised that the Lease does not contain any contingent payment obligations which in the Treasurer’s opinion would result in a material impact for the Region. The provisions contained in the Lease respecting indemnification and termination are commercially reasonable. It is a requirement of this report that Legal Services and Regional Treasurer must authorize the Lease prior to its execution by the Region.