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NEW LEASE FOR RAPID TRANSIT OFFICE LOCATED AT 3601 HIGHWAY 7 EAST, MARKHAM

The Rapid Transit Public/Private Partnership Steering Committee recommends the following:

1. **The presentation by Susan Tuckey, Chief Financial Officer, York Region Rapid Transit Corporation, be received; and**

2. **The recommendations contained in the following report, September 5, 2008, from the Commissioner of Corporate Services and Vice-President, York Region Rapid Transit Corporation, be adopted:**

1. RECOMMENDATIONS

It is recommended that:

1. The Region be authorized to enter into a lease for a ten-year term, commencing on January 1, 2009 with 1602978 Ontario Inc., for York Region Rapid Transit Corporation located at 3601 Highway 7 East, in Markham for the 12th Floor (11,001 sq. ft.) at an approximate cost of $2,975,771 over the ten-year commitment.

2. The Region be authorized to enter into a lease for all or part of the 11th floor (approximately 12,430 sq. ft.) should it be required, on the same terms and conditions as the 12th floor.

3. Council approve a one-time leasehold improvement for the leased space based on the current industry standard of $60 per square foot, inclusive of a furniture allowance.

4. Staff investigate and report back on the opportunity to purchase the floor space and prepare a buy-versus-lease cost benefit analysis.

5. The Region be authorized to enter into a sublease with York Consortium 2002 at 3601 Highway Seven East, at the option of the York Region Rapid Transit Corporation and the Region.

6. The Regional Chair and the Regional Clerk be authorized to sign the lease with the landlord and the sublease with the subtenant, subject to review by Legal Services.

2. PURPOSE

This report recommends that the Region enter into a ten-year lease agreement for the York Region Rapid Transit Corporation with a sublease to York Consortium 2002, required for the rapid transit project office.

3. BACKGROUND

The Rapid Transit capital program delivery office is currently located one block north of Highway 7 off of Leslie Street in Richmond Hill

The York Region Rapid Transit Corporation, in partnership with York Consortium 2002 (collectively referred to herein as “the Rapid Transit Office”), has been leasing 11,418 square feet in a Class B building in Richmond Hill since September of 2002, for the implementation of an inter-regional rapid transit system. This project-specific office space is eligible for funding recovery from funding sponsors. To date, office costs have been covered under the federal/provincial “*Quick Start*” and interim work programs. The lease at the current location was due to expire in August 2008 and has been extended to December 31, 2008 to allow the Corporation further time to review office space in the area.

4. ANALYSIS AND OPTIONS

The current location is no longer suitable for the Rapid Transit Office

The current location for the Rapid Transit Office is no longer suitable for a number of reasons.

- The landlord cannot accommodate increased space demands.
- The current configuration and amenities of the office are not adequate for the type of activities conducted through the Rapid Transit Office.
- The building HVAC system is unsatisfactory

The landlord cannot accommodate increased space demands

The Rapid Transit project has grown from its initial $150 million program (phase one) to VivaNext. VivaNext work programs are valued at over 5 billion dollars and consist of two subway extensions and the Bus Rapid Transit (BRT) rapidway build-out. The project has outgrown its current office facilities.

Currently 50 rapid transit and York Consortium employees occupy the current office space and, subject to full project funding being secured, it is reasonable to plan for at least a doubling of space requirements.

While the existing landlord has identified small pockets of available space, these spaces are not adjacent to the current floor, but rather, are located on random floors is in sizes of 2,000 to 3,000 sq. ft. or less.

The configuration and amenities of the current office are not adequate for the type of activities conducted through the Rapid Transit Office

Meeting space and amenities at the current facility are inadequate for concurrent public consultation, collaboration with Metrolinx, the TTC, the City of Toronto, and Infrastructure Ontario, preliminary design, final design, and construction activities. The base requirement is for at least three meeting rooms of various scales, with opportunity to use additional space on an ongoing basis to meet overflow requirements.

As well, with the volume of activities, comes the need for appropriate storage and access to materials, such as display boards and drawings. The current facility has no capacity to address the need for storage of materials required on a regular basis.

A market search was conducted in the Richmond Hill/Markham area for properties accessible to Viva service

The York Region Rapid Transit Corporation requested Property Services staff locate new premises as the current location is unable to accommodate existing and future staff and business requirements. Through a real estate broker, Property Services researched suitable facilities located in the Richmond Hill/Markham area that are easily accessible via Highways 7, 404 and 407, and where staff can conveniently use Viva service. Property Services and Rapid Transit staff inspected six properties that met these criteria.

A new building located at the southeast corner of Highway 7 and Town Centre Boulevard is the preferred site

Property located at 3601 Highway 7 East, in Markham was chosen as the most suitable location because it is adjacent to Viva service, and is in close proximity to amenities and services. The building also has a business office on the 4th floor that can be rented on an as-needed basis for public and/or business meetings. The top two floors of this twelve story building are available for lease, having new modern mechanical and electrical systems and easy stairwell access to one another. This new location offers a fresh facility with adequate space to accommodate the expanded space needs of the Rapid Transit Office. Underground parking facilities and on-site and on-call security are included in the gross rent.

Property Services staff has reached a conditional agreement with the landlord at 3601 Highway 7 East for a ten-year lease for the 12th floor, with an option to renew the lease for an additional ten-year term, at the then current market rent. The agreement is conditional on Council approval and the Region being satisfied that the floor layout meets space planning needs for the Rapid Transit Office.

In the event that the landlord chooses to sell the office space that will be occupied by the Rapid Transit Office, as it is part of a condominium-owned complex, the landlord will first offer to sell the office space to the Region, for a mutually agreeable price. Staff are also exploring the cost benefits of purchasing this space and will report back on any favourable recommendation to purchase rather than lease this space over the ten year period.

The landlord has been made aware that there is a very good chance that the 11th floor will be required

Long-term Rapid Transit Office activity is contingent on adequate program funding through Metrolinx. The timing and outcome of the Metrolinx funding of projects is the subject of several reports this fall. While the Rapid transit office remains confident that a large portion of vivaNext will be funded, the timing may impact how and from where the full extend of the work program activities will take place.

To deal with these circumstances this report recommends that the Region enter into a ten year lease for the 12th floor to replace the current office space. The new floor plate is 417 square feet smaller than the space currently leased. Given that the new facility has a business office with available rooms for ad hoc use, the York Region Rapid Transit Corporation feels that, in the immediate term, the 12th floor plate can accommodate office needs.

The York Region Rapid Transit Corporation would like to secure the best possible arrangements to lease the currently vacant 11th floor, should it be required.

5. FINANCIAL IMPLICATIONS

The following chart outlines the cost for leasing this new space:

Table 1
Lease Cost Analysis for Rapid Transit

	Area Square Feet	Annual Base Rent (Average)	Annual Additional Rent (Average)	Total Rent over Term of Lease
Existing Location	**11,418**	**$ 12.00**	**$ 11.55**	**$ 2,688,939**
New Location - 12th Floor	11,001	$ 14.50	$ 12.55	$ 2,975,771
New Location - 11th Floor	12,430	$ 14.50	$ 12.55	$ 3,362,315
Total for New Location for both Floors	**23,431**	**$ 14.50**	**$ 12.55**	**$ 6,338,086**

The initial annual base rent for the first five years of the new “Class A” facility is $2.00 more per square foot than the current “Class B” facility. The Annual additional rent, consisting of property taxes, condominium fees, common area and elevator maintenance, underground parking and security averages $12.55 per square foot versus $11.55 per square foot at the current facility. Of the properties visited, this building had the lowest rent per square foot, with most exceeding gross rent of $31 per square foot.

The new location is currently at base building condition, as the building has been newly constructed. The cost of leaseholds is estimated to be $60.00 per square foot (including furniture allowance). Utility costs are a supplement to additional rent and are paid directly by the Region to the utility providers, based on consumption. The new facility is serviced by the Markham District Heating Grid, which will result in lower utility costs.

The landlord has provided the Region with a three-month free net rent occupancy period, commencing as soon as the lease is fully executed.

Additional one-time costs that will be incurred include those for moving (estimated at $650 per person), network connectivity with the Region’s system, and the implementation of Voice over Internet Protocol (VoIP) technology for telecommunications. It is anticipated that these one-time costs will not exceed $80,000, based on the current staff complement that will be moving to the new facilities. These costs will be incorporated into the sublease and will be recovered as project office expenses.

The proposed lease complies with the Region’s Capital Financing and Debt Policy relating to financing leases. The Policy requires that, prior to entering into a financing lease, which is not a non-material lease as defined in the Policy, the Commissioner of Finance must assess the costs and financial and other risks associated with the proposed financing lease (*see Council Attachment 1*).

All costs associated with this lease will be accommodated in the Rapid Transit 2009 budget.

6. LOCAL MUNICIPAL IMPACT

This new location will allow for the Rapid Transit Office to continue with its implementation of the Viva program. The cost of this new location will have a minimal impact on York Region taxpayers as project office costs are expected to be fully eligible for senior government funding.

7. CONCLUSION

The current location is not adequate for the type of activities conducted through the Rapid Transit Office and can not accommodate increased space demands. Six area properties inspected were inspected that were easily accessible via Highways 7, 404 and 407, have nearby amenities, and where staff can conveniently use Viva service. A modern property located at 3601 Highway 7 East, in Markham was chosen as the most suitable location. The York Region Rapid Transit Corporation would like to lease the 12th floor at this location with the possibility of also leasing the 11th floor, after space required have been confirmed through the program delivery model.

This building had the lowest rent per square foot of the properties visited and the annual base rent for the new “Class A” facility is $2.00 more per square foot than the current “Class B” facility. All costs associated with this lease will be accommodated in the Rapid Transit 2009 budget.

Staff are exploring the cost-benefits of purchasing this space and will report back on any favourable recommendation to purchase rather than lease this space over the ten year period.

For more information on this report, please contact Barry Crowe, Director Property Services at Ext. 1684. The Senior Management Group has reviewed this report.

(The attachment referred to in this clause was included in the agenda for the September 11, 2008 Committee meeting.)