

3

NEW LEASE FOR YORK REGION TRANSIT 3601 HIGHWAY 7 EAST, TOWN OF MARKHAM

The Transit Committee recommends the following report, dated February 27, 2009, from the Commissioner of Transportation Services and the Commissioner of Corporate Services, be deferred to the April 16, 2009 Transit Committee meeting pending further exploration by staff of other potential rental opportunities.

1. RECOMMENDATIONS

It is recommended that:

1. The Region be authorized to enter into a lease for a ten-year term, commencing on September 1, 2009, with 1602978 Ontario Inc., for York Region Transit, located at 3601 Highway 7 East, 8th Floor, in the Town of Markham, consisting of 12,469 square feet at an approximate annual cost of \$331,000.
2. The Regional Chair and the Regional Clerk be authorized to sign the lease with the landlord, subject to the approval of Legal Services and the Regional Treasurer.
3. The Commissioner of Corporate Services be authorized to sign a lease extension agreement, at the then current market rate, for up to an additional ten-year term, if required, subject to the approval of Legal Services.

2. PURPOSE

This report requests authorization to lease space at 3601 Highway 7 East, 8th Floor, in Markham to house some of the existing York Region Transit staff which will meet the expanding needs of the YRT program.

3. BACKGROUND

York Region Transit has outgrown the 5th floor of the South Service Centre since the branch was originally created and sited in 2001

YRT services have increased every year since inception. Staff resources have gradually expanded and are now occupying the entire 5th floor of the South Service Centre.

The Fare Enforcement section of YRT, created in 2005 with the launch of Viva bus rapid transit service, has been operating from the South Service Centre (SSC) since that time. To fulfill YRT's due diligence with respect to passenger safety and to meet customer

service needs, the Enforcement section is expanding its role to include system-wide security in their mandate. Projected growth of this unit may see it double in size over the next seven to ten years.

The SSC, while suitable, has no additional space available in the next few years for projected YRT growth. In conjunction with Property Services, staff determined that a portion of the Branch could be relocated to another location in order to address medium-term requirements (5-10 years). The Enforcement and Revenue Management sections were identified as the most suitable candidates to operate from another location because they have the least day-to-day physical office interaction with other YRT sections.

In the longer term, it is preferable to be completely located in the SSC to give YRT proximity to the proposed end of the Yonge Street Subway but in order to accomplish this, existing tenants would need to be relocated to other Region facilities. This is anticipated to occur as part of the overall Region property strategy, but not in the short term.

4. ANALYSIS AND OPTIONS

The following options were reviewed before selecting the preferred option:

4.1 Accommodation Option 1 – Remain at Current Location

Discussions with staff from YRT concerning their current and projected future space requirements resulted in the need to acquire additional space for their operations outside of the South Service Centre (SSC). The space on the 8th floor at 3601 Highway 7, being 12,469 sq. ft., will meet the current and medium term (5-10 year) growth requirements of YRT. The Enforcement and Revenue Management Sections of YRT have been identified as the groups which would be leaving the SSC. It should also be noted, that the move of these sections from the SSC will free-up space at this facility to accommodate the projected growth of the remaining YRT sections within the SSC over the same time period.

Through these same discussions, it was determined that, the space being vacated by Community & Health Services on the 4th floor of the SSC would not be large enough to manage the space requirements of YRT. The call centres will be vacating approximately 5,912 sq. ft. on the 4th floor, but Community & Health Services will be re-using all but approximately 1,000 sq. ft of this space for other program service delivery needs.

4.2 Accommodation Option 2 – Alternative Location – Co-locate With York Region Rapid Transit Corporation (Rapid Transit)

Property Services staff have acquired new space located 3601 Highway 7 East, in Markham (Liberty Square), on behalf of Rapid Transit. They will be occupying the 12th floor of the building in April, 2009.

This facility is also a suitable location for YRT Enforcement due to its location, being close to Highways 404, 407 and 7, for easy accessibility, and its close proximity to the Viva service, which has a stop just outside of the building. The 8th floor is large and in base-building condition, allowing it to be designed to meet the unique space requirements of the Enforcement function. It will also enable the possible relocation of the Revenue Management portion of YRT, providing the opportunity for a larger secure storage space or vault.

Liberty Square has a modern mechanical and electrical system and easy stairwell access to other Regional users. It has convenient underground parking for staff as well as seven reserved parking spaces for YRT utility vehicles, and on-site/on-call security.

Property Services staff have reached a tentative agreement with the landlord for a ten-year lease term, with an option to renew the lease for up to an additional ten year term at the then current market rent.

5. FINANCIAL IMPLICATIONS

Table 1 outlines the cost of leasing this new space:

Table 1
Lease Cost for York Region Transit

	Area Square Feet	Annual Base Rent for the First Lease Year (Per Sq. Ft.)	Annual Additional Rent for the First Lease Year (Per Sq. Ft.)	Annual Total Rent (Per Sq. Ft.)	Total Annual Rent
8th Floor 3601 Highway 7 East	12,469	\$14.00	\$12.55	\$27.05	\$331,051.95

The annual additional rent and condominium fees at Liberty Square consists of property taxes, common area maintenance, building systems maintenance and repair, elevator maintenance, winter and summer ground maintenance, underground parking and security.

As noted, the new location is currently at base-building condition, as the building has been newly constructed. The cost of leasehold improvements is estimated to be \$80.00 per square foot (including furniture allowance). The total capital cost is estimated to be \$997,520. Utilities are metered separately and all costs 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 produce more economical utility costs.

The landlord has provided the Region with a free net rent occupancy period, commencing as soon as the lease is fully executed in order for the Region to carry out its leasehold improvements.

The Treasurer 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 on September 18, 2008 (Clause 8 of Report No. 7 of the Finance and Administration Committee). The Policy requires that prior to entering into a financing lease, which is not a non-material lease as defined in the Policy, as is the case with the proposed lease, the Commissioner of Finance must assess the costs and financial and other risks associated with the proposed financing lease (*see Council Attachment 1*).

All capital costs associated with this lease were included in the 2009 Capital budget which was approved in December, 2008. The partial year operating costs are accommodated in the proposed York Region Transit 2009 Business Plan and Operating Budget and will be annualized in the 2010 Operating Budget and Business Plan.

6. LOCAL MUNICIPAL IMPACT

There are no local municipal implications associated with this report

7. CONCLUSION

The new location at Liberty Square is a more suitable location, as it will meet the expanding needs of the Enforcement and Revenue Management sections of the YRT program, at a rental rate lower than its existing location. It is therefore recommended that a ten year lease be executed for the property.

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

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause is attached to this report.)