



# LEASING TRANSACTION IN TORONTO

**TO:** Infrastructure Committee

**MEETING:** August 21, 2014

**FROM:** Maryse Bertrand, Ad. E.  
Vice-president

Real Estate Services, Legal Services and General Counsel

**DECISION SOUGHT :** Approve prolonging of lease in Toronto

**NEXT STEPS:** Authorize seeking approval from Treasury Board for automatic 5-year renewal of lease and to grant two 5-year tenant options.

**DATE:** August 7, 2014



## A1. CONTEXT

- **Toronto Broadcast Centre (TBC):**
  - Expected minimum excess space of approximately 1M rentable ft<sup>2</sup> (rsf) from which approximately 256,000 rsf are already leased to third parties (excl. current transaction)
  - New lease executed by CEO on June 5, 2014 with Ariad Custom Publishing Limited (Ariad) for a 5-year term with no options
  - Permission to extend lease to 10 years and to grant two additional 5-year options requires Treasury Board approval
  - Tenant and CBC/Radio-Canada would like to proceed with request to Treasury Board in order to maximize leasing opportunity
- **New Tenant's Profile:**
  - Communication agency, e-mail marketing services and Website contents
  - Strong financial profile as determined by CBC/Radio-Canada's Finance and Administration Department
- **Transaction proposed herein supports:**
  - Real Estate Strategic Plan (reduce costs and maximize proceeds)
  - Overall plan to revitalize the TBC (transaction supported by English Services)
  - Corporation's strategic framework *A space for us all* (cost-effectiveness and footprint reduction)



## A1. CONTEXT

- Existing Lease:
  - Premises: Approximately 21,710 rsf on L7
  - Use: General office use
  - Term: 5 years (2019) s.18(b)
  - Tenant Fixturing Period: 6 months
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## A2. KEY DECISION ELEMENTS

- Lease amendment requested:
  - Extension Period: 5-year lease becomes 10-year lease (2020-2025)
  - Expected Exercise Date: Automatically upon Treasury Board (TB) approval (anticipated November 2014)
  - Rent Amendment Date: March 1, 2020 (after expiry of first 5-year term)
  - Additional Options: 2 x 5-year options



## A2. KEY DECISION ELEMENTS

- Key Financial Terms:
  - Base Rent: s.18(a)  
s.18(b)  
(upon TB approval) Year 1 to 5
  - First option: Year 6 to 10
  - Second option: Year 11 to 15
  - Additional Rent: Year 16 to 20 Fair market value
  - Real Estate Taxes (estimate for 2020)
  - Operating Expenses (estimate for 2020  
(including energy, cleaning and utilities)  
Sub-total
  - Tenant Improvements: N/A
  - Landlord Work:<sup>(1)</sup> N/A
  - Additional Commission and Legal Fees:
  - Tenant Insurance Coverage:

(1)



## A3. KEY BENEFITS, IMPACTS & RISKS

- Key benefits include:
  - Financial
    - No investment or incremental cost required to extend contract and earn revenue
    - Increased internal rate of return with practically no change in payback period
    - Base rent in line with market benchmarks
      - s.18(a)
      - s.18(b)
  - Strategic
    - Supports leasing plan at the TBC
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    - Supports Corporation's strategic framework *A space for us all* (cost-effectiveness and footprint reduction)



## A3. KEY BENEFITS, IMPACTS & RISKS

- Key impacts include:
  - Minimal impact since tenant will already be occupying premises in 2015
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s.18(b)



## A3. KEY BENEFITS, IMPACTS & RISKS

- Key risks include:

	Mitigation factors
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s.18(b)





## A4. OTHER OPTIONS CONSIDERED

- 5-year lease with no option (status quo) does not provide certainty of renewal at term and is less attractive financially.
- Initial 10-year lease with two 5-year options required Treasury Board approval which could not accommodate Tenant's timing for delivery of premises in August 2014.



## A5. SUCCESS MEASURES

- Execution within schedule (approval process): Tenant (Ariad) is expecting confirmation as soon as possible to plan its mitigation measures (if not approved).
- A project progress report (integrating data from initial/existing lease) will be presented to the Infrastructure Committee in November 2014 as part of the annual update on the Real Estate master plan.



## A6. RESOLUTION

- That the Infrastructure Committee recommend to the Board of Directors to approve:
  - (i) an extension of the lease for an additional period of five (5) years beyond the term and (ii) two (2) options to extend for five (5) years each;
  - a Treasury Board submission to obtain the required Order in Council; and
  - all necessary agreements to give effect to this resolution on the terms and conditions substantially similar to those described in the materials provided to the Board of Directors at the meeting.



## **B. APPENDICES**

1. Financial Model Summary (1 page)
2. Floor Plans (2 pages)
3. Leasing Statistics within TBC (1 page)



# B1. FINANCIAL MODEL SUMMARY

s.18(a)  
s.18(b)

(in thousands of dollars)  
June 02, 2014

	Notes	ARIAD	ARIAD	ARIAD
Project Costs		Lease 5-year term	Additional 5-year term, plus 2 x 5-year options	Lease 10-year term, plus 2 x 5-year options
<b>Description</b>				
Project Costs - Real Estate				
Commissions, legal and other transaction costs				
Project Costs				
Cash Flows (project period + lease term)				
Project Costs (see above)				
Rent Revenues (net rent + tenant OPEX + taxes )				
Cash Flows to end of initial lease term				
Internal Rate of Return				
Project Payback Period (in years) - From October 2014				
Net Cash Flow				
Net Present Values				



## B2. FLOOR PLANS – LEASED SPACE ON L7 (WEST)

s.16(2)

s.18(b)









# B2. FLOOR PLANS – CROSS-SECTIONAL VIEW

s.16(2)

s.18(b)

-  Ariad Transaction
  -  Leasable Space
  -  Already-Leased Space
  -  CBC Space
- John Street \_\_\_\_\_

Building Cross Section (looking north from Front Street)



# B3. LEASING STATISTICS WITHIN TBC

s.18(a)

s.18(b)

## Toronto Tenants Summary

Tenants	Type	Net Rent/ft <sup>2</sup>
Ariad	Office	
Public Works and Government Services Canada	Office	
Media Voice Generation	Office	
Allied	Data Centre	
New York News	Retail	
Unique Health & Wealth	Retail	
Ito Sushi	Retail	
Sunset Grill	Retail	
Boston Pizza	Retail	
Walt Disney	Entertainment	

### Market Benchmark

Direct Asking Net Rent > 20,000 ft<sup>2</sup>

Wellington Street  
 Front Street  
 Yonge Street

Source: CBRE Toronto Market Overview Nov 19, 2013

### Market Benchmark

Sublease Asking Net Rent > 20,000 ft<sup>2</sup>

Wellington Street  
 Bay Street  
 Adelaide Street