



## **STAFF REPORT ACTION REQUIRED**

### **Renewal of Warehouse Space Lease – 40 Carl Hall Road**

<b>Date:</b>	May 31, 2016
<b>To:</b>	TTC Board
<b>From:</b>	Chief Executive Officer

#### **Summary**

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The purpose of this report is to seek the Board's approval, in respect of the lease of the premises located at 40 Carl Hall Road, Toronto (for Materials and Procurement Warehouse Space), to extend the term of the lease for an additional four years, subject to the terms and conditions outlined in this report.

#### **Recommendations**

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##### **It is recommended that the Board:**

1. Authorize the execution of the lease amendment agreement to extend the lease between Parc Downsview Park and the Toronto Transit Commission for the lease of the premises located at 40 Carl Hall Road, Toronto, for a term of four years, in accordance with the terms and conditions summarized in this report, Toronto Transit Commission's policies, and any other documents or agreements arising as a result of entry into the lease, in a form acceptable to the TTC's Head – Legal and General Counsel.
2. Approve the expenditure of \$4,385,833 plus HST for rent payments for the premises (including utilities) for a four year term, subject to change from current projections due to the escalation of additional rent, and in accordance with the terms and conditions of the lease.

#### **Implementation Points**

The recommendations are for TTC staff to proceed with negotiations of the extension and amendment of the lease in accordance with the terms and conditions set out in this report.

## **Financial Summary**

The proposed lease is for a term of four years. The total rent obligation (including operating costs and property taxes) for the space is estimated at \$4,385,833 plus HST for the term subject to changes from current projections in escalation of additional rent (e.g. utilities, property taxes, maintenance) for the term. Sufficient funds for the leasing of space at 40 Carl Hall Road is included in the TTC 2016 Operating budget, as approved by Council on February 17, 2016. Sufficient funds for the lease extension will be incorporated into future operating budgets.

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

## **Accessibility/Equity Matters**

Access is provided from street level to the premises by means of a ramp to the doors located on the ground floor of the building.

## **Decision History**

Board approval was received on October 29, 2009 to enter into a lease for 95,000 square feet of warehouse space for a 2 year term up to December 31, 2011. TTC exercised its first option to renew for a one year period to December 31, 2012 ([https://www.ttc.ca/About\\_the\\_TTC/Commission\\_reports\\_and\\_information/Commission\\_meetings/2009/November\\_17\\_2009/Minutes/index.jsp](https://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2009/November_17_2009/Minutes/index.jsp)).

On May 27, 2013 the Board approved increasing the leased warehouse space by 40,000 square feet for a total of 135,240 square feet and extend this agreement for another two year period up to December 31, 2014. ([https://www.ttc.ca/About\\_the\\_TTC/Commission\\_reports\\_and\\_information/Commission\\_meetings/2013/April\\_24/Minutes/Minutes\\_March\\_27\\_\\_20.pdf](https://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2013/April_24/Minutes/Minutes_March_27__20.pdf)).

On May 28, 2014 the Board approved to extend this agreement for another 2 years up to December 31, 2016. ([https://www.ttc.ca/About\\_the\\_TTC/Commission\\_reports\\_and\\_information/Commission\\_meetings/2014/June\\_24/Minutes/index.jsp](https://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2014/June_24/Minutes/index.jsp)).

## **Issue Background**

TTC leases space at 40 Carl Hall Road for the Materials and Procurement Department (M&P) for warehousing purposes. M&P has been located at the premises since January 1, 2010. The existing lease will expire on December 31, 2016.

The warehouse at 40 Carl Hall Road is generally located at the south west quadrant of Allen Road and Sheppard Avenue West in Toronto, with convenient access to transit and highways. The premises provides 135,240 square feet of warehouse space. M&P is responsible for all TTC inventory management, warehousing and distribution of parts and materials to support TTC’s operational requirements in more than a dozen facilities across the city, including bus garages, carhouses, and divisional stores. Annually, the TTC issues over 10 million parts valued at over \$143 million from its inventory for the maintenance of the TTC’s fleet of transit vehicles, physical infrastructure assets and other maintenance needs. The TTC’s warehousing facilities were at full capacity in 2013 and the demand for warehouse space has since increased.

A Warehouse and Logistics Optimization Study has since been commissioned to conduct an overall review and best practice benchmarking strategy for TTC’s materials management. This logistics study is targeted for completion by the end of the second quarter of 2016; however, the review, design, approval, acquisition, delivery and implementation of the long-term warehousing strategy will require phasing over a number of years. The draft version of this study highlights the preferred decision to have one centrally located distribution center which will satisfy current requirements and future growth in inventory and service requirements. The interim plan is to gain approval to extend 40 Carl Hall Road, along with the recent approved use of DVP warehouse, to allocate sufficient time/approval until a permanent distribution site is found. The results of this study will be presented to the TTC Board for direction once the study has been completed.

Based on the foregoing, there is a requirement for the TTC to continue to lease the premises at 40 Carl Hall Road until the results of Warehouse and Logistics Optimization Study and the recommendations are ready to be implemented.

TTC staff have consulted with City of Toronto Real Estate Services Portfolio Management staff and confirmed that the City and its Agencies, Boards, Commissions and Divisions (ABCDs) do not have any surplus warehouse space that meets the requirements of the M&P Department for size, location and use.

**Comments**

The following is a summary of the terms and conditions of the offer to amend and extend the lease.

Terms and Conditions	
Term:	Four years beginning January 1, 2017 and ending December 31, 2020. Either party may terminate the lease at end of year 3 with 18 months prior written notice.
Rentable Area:	135,240 square feet
Basic Rent	Years 1 to 2: \$5.00 per square foot of rentable area.

	Years 3 to 4: \$5.25 per square foot of rentable area.
Additional Rent	For 2017, estimated at \$2.81 per square foot of rentable area (variable in future years, subject to review by TTC).

The total rental commitment for the four year term is estimated at \$4,385,833 plus HST or \$1,056,224 for the first year of the term.

The proposed base rent is competitive with market rents in the general location of the premises for buildings of comparable age and size.

This report recommends proceeding with the lease extension and amending agreement based on the terms and conditions set out in this report and summarized above, as a cost effective means of providing a suitable warehouse space for the TTC's M&P Department.

## Contact

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