



Report of the Commissioner of Corporate Services

Lease Amendment - South Services Centre, City of Richmond Hill

1. Recommendations

1. Council approve the lease amendment for the Region's occupancy of the property at 50 High Tech Road in the City of Richmond Hill
2. The Commissioner of Corporate Services be authorized to execute a lease amendment agreement and all necessary documents to complete the transaction

2. Purpose

This report seeks Council approval to amend the office lease at 50 High Tech Road in the City of Richmond Hill with respect to maintenance, repair and replacement of the large-scale building components and systems.

Pursuant to the Region's Leasing of Real Property Policy, Council approval is required to execute amendments to Material Leases.

Key Points:

- The lease amendment will allocate maintenance and repair responsibilities of the large-scale building systems and components to the Region and replacement responsibilities to the landlord
- The Region's undertaking of repairs of large-scale building systems and components will mitigate increases in overall additional rent from operating costs and service fees charged by the landlord
- The lease amendment limits the Region's financial obligations for replacement of large-scale building systems and components completed by the landlord

3. Background

The Region has been leasing the South Services Centre since 2001

The Region entered into a 20-year office lease of 50 High Tech Road in the Richmond Hill commencing on June 1, 2001.

The building is commonly referred to as the South Services Centre and is owned by Condor York Holdings Inc. It is a five-storey office building containing 111,650 gross square feet. The building contains a variety of mixed office uses including publicly accessible services such as dental clinics and transit offices. The building provides nearly 400 parking spaces and is easily accessible by the public by car and public transit.

On September 1, 2014, the Region and the landlord amended the lease to extend the term until December 31, 2031, which was approved by Council in 2014.

The Region has been responsible for the maintenance and repair of the main systems serving the leased premises

Under the 2001 lease, the Region was responsible for maintenance and repairs of large-scale building components and systems serving the leased premises, whereas the landlord was responsible for major capital replacements, including structural components. The 2001 lease stipulated that any replacements paid for by the landlord would be charged back to the Region as additional rent.

In the 2014 lease amendment, the Region remained responsible for maintenance and repair of large-scale building systems and components serving the leased premises, whereas the landlord remained responsible for the maintenance, repair and replacement of structural components of the building. However, the 2014 lease amendment stipulated that effective August 2021, the landlord will become responsible for maintaining and repairing several building systems such as gas distribution, sprinkler, elevators and HVAC. As before, the landlord would be able to charge all costs incurred back to the Region in the form of additional rent. In addition to any incurred costs, the landlord would be able to include staff salaries, equipment costs, accounting fees and a two percent administration fee in its calculation of this additional rent.

This part of the 2014 lease amendment was not implemented, as the landlord advised staff that it will increase lease costs, and these increases were not budgeted.

Replacement of aging large-scale building components and systems highlighted the need to amend the lease terms for the Region

In early 2022, the Region requested the landlord replace a substantial component of the building's HVAC equipment (the Make-Up Air Unit or "MUA Unit"), which reached end-of-life and was unrepairable. The MUA Unit was replaced by the landlord in August 2022 and the amortized cost of its replacement will be charged back to the Region as additional rent. The proposed lease

amendment will limit repayment of the replacement cost for the MUA Unit to the end of the lease term.

4. Analysis

Overall rent paid by the Region would increase if the landlord were to conduct the maintenance and repair of the large-scale building components and systems

The landlord has estimated that additional rent will increase to \$3.80 per square foot per year if it assumes maintenance and repair responsibilities of all the main building systems. Operating costs include maintenance and repair costs, staff salaries, equipment costs, accounting fees, plus an administration fee of two percent. In comparison, the Region's 2022-2023 own maintenance and repair costs for the building are \$1.40 per square foot per year.

Having the landlord take on maintenance and repair responsibilities would increase additional rent by \$425,000 per year. By having the Region continue maintenance and repair responsibilities will save \$268,000 annually in net maintenance and repair costs.

By amending maintenance and repair responsibilities for large-scale building systems and components, this new lease amendment eliminates the increase in additional rent that the Region would have incurred if these responsibilities were shifted to the landlord in 2021 as per the 2014 lease amendment.

The landlord will still be responsible for replacing large-scale building components and systems

Property Services' Building Condition Report 2019 highlighted components of the building which will require replacement due to aging prior to the end of the lease term in December 2031.

For items the landlord is responsible for replacing (i.e. replace electrical, mechanical, and heating, ventilating, and air conditioning systems), calculation of the repayment amount charged back to the Region is detailed in the lease amendment. The repayment amount is the cost of the item, amortized on a straight-line basis predicated upon the useful life of the replaced item, in accordance with the calculation of the operating costs provided for in the lease. The lease amendment clarifies that if the straight-line amortization exceeds the Region's lease term, the Region will only pay for the amount that is amortized during the lease, and not the entire cost of the replacement.

The Region will only be responsible for paying the Make-Up Air Unit replacement costs until the lease expiration date

For the replacement MUA Unit, a schedule of payments has been added to the lease amendment.

To limit the Region's financial obligations in the proposed lease amendment, the Region is only responsible for replacement cost payments of the MUA Unit and any future replacements up to the end of the current lease term on December 31, 2031, and any extended term, if applicable.

5. Financial Considerations

The annual repayment cost of the MUA Unit is included in Corporate Services 2023 Operating Budget.

6. Local Impact

The South Services Centre is open to both the public and staff and it is imperative that this facility continues to be maintained to the Region's high standards.

7. Conclusion

The lease amendment is required to cost effectively allocate maintenance, repair and replacement obligations between the landlord and the Region in connection with the building. The changes made will keep additional rent low and will limit the Region's financial obligations for payment of the replacement MUA and other replacements of major equipment to the end of the lease term.

For more information on this report, please contact Michael Shatil, Director, Property Services at 1-877-464-9675 ext. 71684. Accessible formats or communication supports are available upon request.



Recommended by:

Dino Basso
Commissioner of Corporate Services



Approved for Submission:

Erin Mahoney
Chief Administrative Officer

October 27, 2023

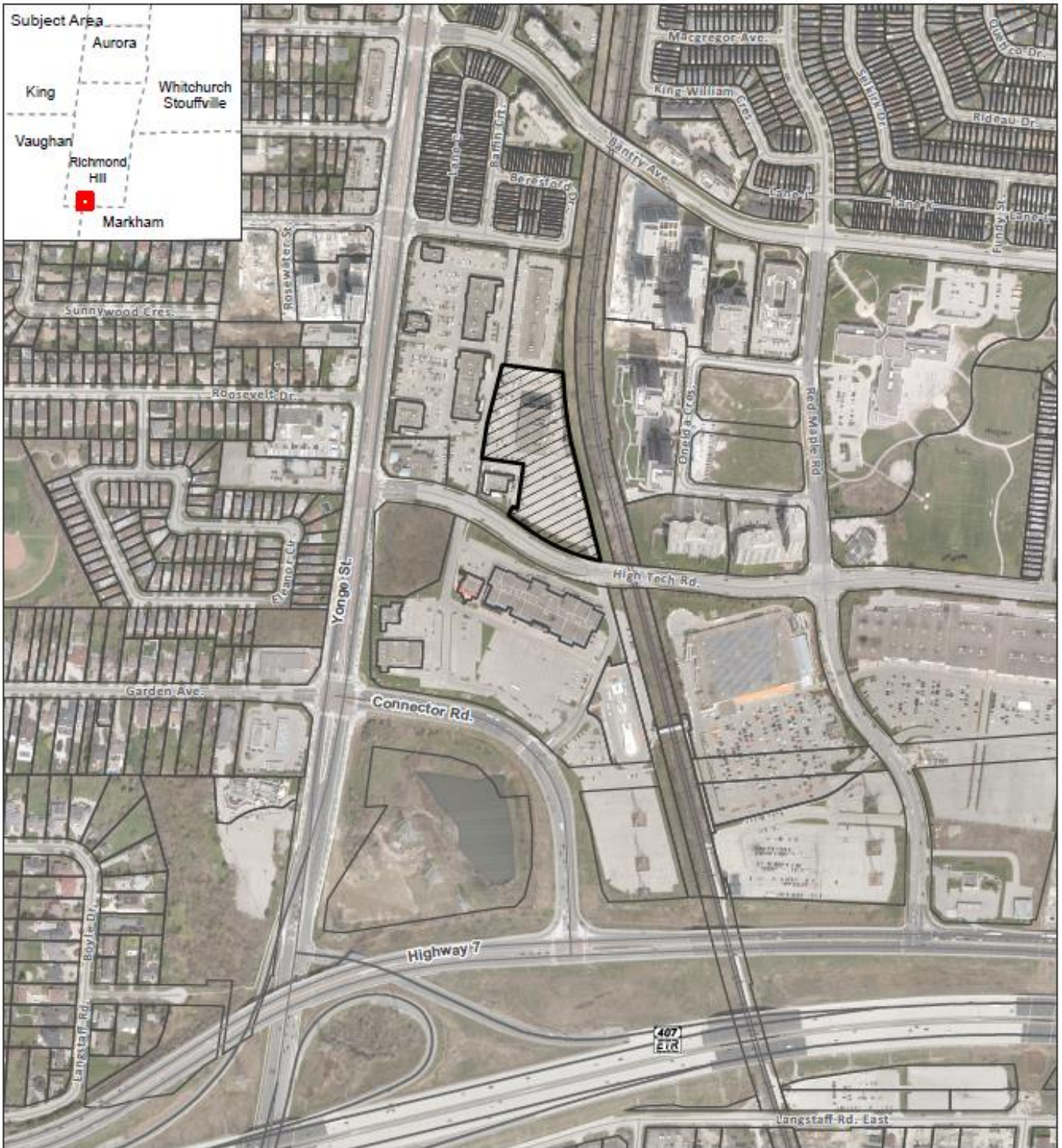
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Appendix A – Property Schedule and Location Map

Property Schedule
Lease Amendment South Services Centre
City of Richmond Hill

No.	Owner	Municipal Address	Legal Description	Summary of amendments
1.	Condor York Holdings Inc.	50 High Tech Road Richmond Hill	Part of Lots 37 and 38, Concession 1 set out as Parts 18, 21, 22, 23, 24 and 25 on Reference Plan 65R-24488, City of Richmond Hill	<ul style="list-style-type: none"> • Region to maintain and repair large scale building components and systems within the leased premises • Landlord to replace large scale building components and systems. The amortized cost of replacements to be included in Operating Costs and charged back to the Region as additional rent • Region shall not be responsible for the balance of replacement cost of the MUA Unit beyond expiration of the lease

LOCATION MAP

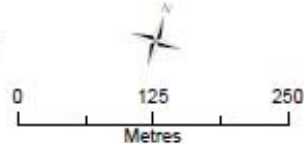


Produced by:
The Regional Municipality of York
Property Services, Corporate Services
August 2023

Data: King's Printer for Ontario 2003-2023

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Location Plan
Lease Amendment
South Services Centre
City of Richmond Hill
November 9, 2023



- Subject Property
- Lease Requirement
- Parcel
- Road
- Railway

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