

## **Union Station Head Lessee – Supplementary Report**

<b>Date:</b>	July 29, 2009
<b>To:</b>	City Council
<b>From:</b>	City Manager Deputy City Manager and Chief Financial Officer

### **CONFIDENTIAL INFORMATION**

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The recommended Head Lessee is Redcliff (Union Station) Inc. (the “Head Lessee”), a wholly-owned subsidiary of Osmington Inc., pursuant to the terms of an offer submitted by Redcliff Realty Advisors Inc. (“Redcliff Advisors”). The Head Lessee’s covenant will be backed by a \$35 million guarantee and indemnity from Osmington Inc., which will run to the end of the second year following the commencement date of the initial term of the Head Lease Agreement.

Redcliff Advisors is a division of the Redcliff Realty Group, and provides acquisition, disposition, development, and portfolio and asset management services on behalf of a variety of pension fund clients. Its portfolio consists of over \$3.3 billion of office, retail, industrial and multi-residential properties and 25 million square feet of space on behalf of Canadian institutional investors. The Redcliff Realty Group is a wholly-owned subsidiary of Osmington Inc., which is one of Canada’s largest private real estate companies. The Osmington group has a development portfolio of properties with a total built out area in excess of 5.0 million square feet.

In terms of retail activity, Redcliff Advisors manages nine dominant regional shopping centres in Canada. The following is a sample representation of Redcliff Advisor’s retail portfolio:

- Intercity Shopping Centre, Thunder Bay
  - 456,688 sq.ft.
  - 102 stores/services
  - 4.8 million customer-visits per annum
  - major tenants – Sears, Zellers, Homesense, SportCheck
  - opened 1982, redeveloped in 1996 and 2005
  
- Centre Mall, Hamilton
  - 800,000 sq.ft. (when redevelopment completed in 2010)
  - 60 stores/services (28 new under construction)
  - major tenants – Canadian Tire, Shoppers Drug Mart, Metro
  - opened 1955, renovated 1970 and 1982, currently under redevelopment

- Eastgate Square, Stoney Creek
  - 547,661 sq.ft.
  - 100+ stores/services
  - major tenants – Wal-Mart, Fortinos, Sears, LCBO, Jack Astor’s, Beer Store
  - opened 1973, renovated in 2006, expanded in 2007
  
- White Oaks Mall, London
  - 700,000 sq.ft.
  - 190 stores/services
  - major tenants – The Bay, Wal-Mart, SportChek, and H&M
  - opened 1993, expanded in 2006
  
- Woodside Square, Scarborough
  - 300,000 sq.ft.
  - 85 stores/services
  - major tenants – Toronto Public Library
  - opened 1977, renovated and expanded in 2007

Redcliff Advisors has also recently won 8 Buildings of Excellence awards for properties managed in the GTA.

Redcliff Advisors’ broad representation in the retail marketplace positions it to take advantage of strong relationships with a variety of tenant groups that will facilitate the successful leasing of Union Station following redevelopment, but also to maximize tenant relationships and retail occupation in the interim.

At its December 11, 12, and 13, 2007 meeting, City Council adopted a process and criteria for the selection of the head lessee which included the requirement for a minimum of 50% of the equity participation of the head lessee to be from a Canadian Pension Fund.

Since that time, economic circumstances have created significant barriers to the financial industry and pension funds to investing in real estate transactions. Consequently, during the course of the head lessee selection process, all of the pre-qualified proponents, with the exception of Redcliff Advisors, removed themselves from the selection process. During the final step in the selection process of the recommended Head Lessee, which is the confirmation of pension fund support, and following negotiations of the terms of the head lease, the City was advised that the recommended Head Lessee could not secure the participation of a pension fund at this time. Nevertheless, the parent company of the recommended Head Lessee has committed its own resources to the transaction by agreeing to back the Head Lessee with the \$35 million guarantee and indemnity noted above.

City staff recommend acceptance of the recommended Head Lessee on the basis of the following: (1) the participation of a pension fund cannot be secured at this time; (2) the recommended Head Lessee is a wholly-owned Canadian subsidiary of a company with sufficient financial covenant to support this transaction; (3) the selection process was completed fairly; and

(4) the negotiated head lease terms and conditions achieve the City’s objectives and are considered acceptable.

In accordance with Council direction, the head lessee selection process has been reviewed by a Process Monitor. This process has ensured that all of the candidates have been dealt with in a consistent manner. The Process Monitor concluded that City Staff and its third party agents conducted the consultation and evaluation process in a manner that was in keeping with the published instructions.

The negotiated terms that will form the basis for the formal Head Lease Agreement will be based on Redcliff Advisors’ offer dated June 24, 2009 (including the Osmington guarantee/indemnity dated July 28, 2009) with such modifications and additional terms as deemed appropriate, the principal terms of which can be summarized as follows:

Leased Premises	<ul style="list-style-type: none"> <li>The areas identified for Commercial Uses within the station, being principally on the new lower level and at grade in the Great Hall and East and West Wings (estimated to be approximately 160,000 square feet of Rentable Area)</li> </ul>
Term	<ul style="list-style-type: none"> <li>50 years, with 25 year renewal option</li> </ul>
Up-Front Rent Payment (2016)	<ul style="list-style-type: none"> <li>\$10 million, subject to adjustment by \$62.50 per square foot down from 160,000 square feet, if the initial Rentable Area of the premises is less than 140,000 square feet</li> </ul>
Minimum Annual Rent	<ul style="list-style-type: none"> <li>\$2.25 million in each of Years 1 – 5 (with schedule of escalations every 10 years thereafter)</li> <li>subject to adjustment in each year of the Term of \$14.00 per square foot down from 160,000 square feet if the initial Rentable Area is less than 140,000 square feet</li> <li>if in any year after year 25, the Net Operating Income is less than two times the Annual Minimum Rent, Annual Minimum Rent is adjusted to 50% of Net Operating Income for that year</li> </ul>
Participation Rent	<ul style="list-style-type: none"> <li>50% of Net Operating Income above Minimum Rent after deducting an amount equal to Annual Minimum Rent from net operating income (assuming that Annual Minimum Rent forms part of the expenses deducted in calculating net operating income)</li> </ul>
Additional Rent	<ul style="list-style-type: none"> <li>Head Lessee pays taxes, operating costs and a formula based proportionate share of common area costs, with a</li> </ul>

	CPI adjusted cap
Base Building Work	<ul style="list-style-type: none"> <li>• Head Lessor to create the Commercial Premises “base building” space</li> </ul>
Fit-Up	<ul style="list-style-type: none"> <li>• Head Lessee is fully responsible for all tenant leasehold improvements</li> </ul>
Uses	<ul style="list-style-type: none"> <li>• Head Lessee has the exclusive right to operate all Commercial Uses within City owned areas of the Station, with the right to undertake Commercial Uses in other station areas with agreement of the users of such other areas (e.g., Metrolinx, VIA, Bank of Nova Scotia)</li> <li>• Head Lessee shall have the exclusive right to erect and operate all commercial signage and other forms of commercial advertising in Union Station provided the signage meets the established signage criteria, the revenues apply to Participation Rent and provided that they obtain approval from the other users of Union Station for use within such other areas (e.g., Metrolinx, VIA, Bank of Nova Scotia)</li> </ul>
Special Events	<ul style="list-style-type: none"> <li>• Head Lessee has the exclusive right to run commercial special events in the City owned common areas of the Building in accordance with a co-ordinated schedule, with the revenues to apply to Participation Rent</li> <li>• Either the Head Lessor or the Head Lessee (according to a program to be agreed to) would run non-commercial special events in the City owned common areas of the Building</li> </ul>
Transfers	<ul style="list-style-type: none"> <li>• Restrictions on transfers and change of control without Head Lessor approval (which may be unreasonably withheld if requested before first anniversary of public opening) with exceptions for affiliates and certain pension funds and other large institutions if the Head Lessee or another approved party retains the asset and property management role</li> </ul>
Conditions	<ul style="list-style-type: none"> <li>• Parties’ obligations under Head Lease Agreement shall be conditional upon satisfactory arrangements and approvals being in place with key stakeholders, such as Metrolinx, VIA and Provincial and Federal Governments, required to proceed with Revitalization, by reasonable outside dates to be set out in Head Lease Agreement</li> </ul>

The Head Lessee will be the leasing manager of the retail/commercial components of the Station from the fall of 2009 until 2016 (i.e., when the new retail concourse is planned to be ready for the Head Lessee and its tenants). For carrying out such duties the Head Lessee will receive a management fee of a minimum of \$350,000 or 4% of the annual gross revenue for the retail and commercial components of Union Station. This fee is consistent with current industry standards for this type of activity.