



Commercial & Investment Real Estate Report

How the Terms of Commercial Leases Can Effect Property Values.

Most of my business involves representing Sellers in the sale of mixed-use investment properties under 20,000 square feet. Many times I don't have the benefit of being involved in the lease negotiations of the commercial tenants that occupy space in the buildings I sell in order to advise on lease terms that would enhance property value. Although I strongly recommend that landlords retain a lawyer to draft commercial lease agreement, a lawyers top priority is protecting their client's interests rarely focuses on making the property more desirable when it comes time to sell.

I thought this would be a great opportunity to outline a 'wish list' of the clauses that would most benefit Landlords down the road when they eventually decide to sell their property.

Sale/Demo Clause

This allows the Landlord/Seller to obtain vacant possession of the leased premises in the event of a sale or demolition of the building. As almost half my sales of storefronts are purchased by those who intend to occupy a part of the building this is an important provision to have as it opens the property up to users who are usually willing to pay a premium over investors. Normally 6 months notice is given to the Tenant to vacate. This is sometimes a difficult clause to sell to a Tenant especially if the Tenant is investing a significant amount of leasehold improvements in to the space, but it can have a huge impact on sale price. If a Sale/Demo clause can't be negotiated in the initial term try and insert it in any option periods or offer to compensate the Tenant for any unamortized leasehold improvements that the Tenant has invested if the clause is exercised.

Taxes and Operating Expenses

All commercial leases, especially in this hot market, should be fully Net or triple Net leases. In other words, the Tenant pays all taxes and operating expenses over and above the Net or Base Rent. If there is one commercial Tenant on the main floor and apartments above, the Tenant should pay all the commercial taxes and BIA levies described on the property tax bill in equal monthly instalments together with their proportionate share of building insurance, water and other oper-

ating expenses including heat and hydro if they are not separately metered. It's becoming common practice in larger buildings that Tenants pay a management fee of 15% on operating expenses and realty taxes collected by the Landlord. In addition, larger Landlords are collecting the amortized cost of repair and replacement to heating, cooling, plumbing, and electrical systems and the replacement of the roof. In other words, they are collecting on a proportionate basis, each year, 1/20th of the cost of a new roof each from their commercial tenants. HST is applicable on all operating expenses.

Covenant

Consider obtaining personal guarantee's or an additional security deposit of 2 to 6 months rent for Tenants who don't have a long track record. The personal guarantee can be limited to say, the first 2 years of the lease and the deposit could be reduced over time by allowing the Tenant to use month of the deposit as rental payment on the anniversary of their lease. Increasing the Tenants covenant will not only give you more peace of mind that the Tenant will fulfill its obligations under the lease agreement, it will allow a Buyer of your property to feel more confident that they can depend on the income represented. It can also assist a Buyer in obtaining financing to close the deal.

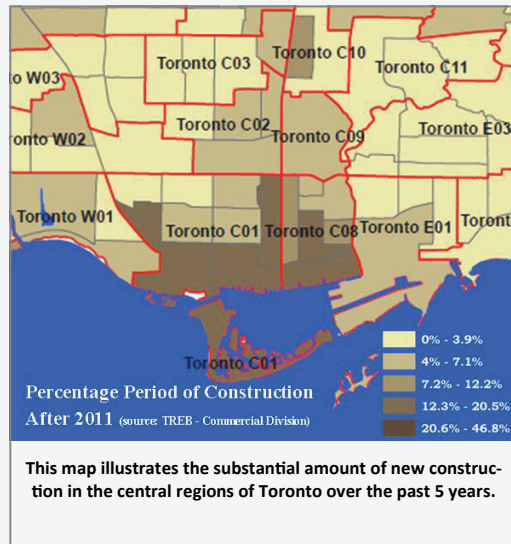
Options to Renew

I generally suggest that options be limited to 1 additional five year term and that Tenants must give notice to the Landlord 6 months prior to the end of term or the option is forfeited. Options should always be at market rates at time of renewal. I try and steer away from arbitration settlement in the event of a dispute on market rates as the process can be costly.

Rentable vs. Usable Square Feet

When a commercial Tenant uses common space in the building to access their unit, parking, storage room or washroom, a proportionate amount of the common area should be added to the Tenants usable area. I've seen office buildings where the Rentable area is over 20% more than the Usable area.

As always, I'm available if you would like to discuss leases or any other real estate issues.



Don Mulholland's Recent Real Estate Sales:



40 Laird Dr.
Asking Price: \$2,600,000

- Located in emerging retail node. Plaza being constructed across the street.
- Built 2000. almost 6,000 sf.
- Fully Leased, 4.5% Cap Rate



39 Madison Ave.
Sold Price: \$1,825,000

- Boutique Offices comprising 1,805 sf front building & 1,167 sf Coach House.
- 2 car pkg. Steps to Subway, U of T, Yorkville & Green P.



2988 Dundas St. W.
Sold Price: \$990,000

- 854 sq. ft. single storey bldg
- 14.09' x 173. Lot
- Located in the Junciom
- Purchased by Developer as part of mid-rise condo site.



137 Roncesvalles Ave
Sold Price: \$7,000,000

- 20,652 sq. ft. above grade. Com/Res.
- 10,000 sf Retail-50' frontage
- 8 loft apartments on 2nd floor with 15' ceilings.



465 King St. E #5/6
Sold Price: \$869,900

- Mixed Use Com/Res.
- Beautifully Reno'd 2 level, 2 bdrm apt. - owner occupied.
- Main Floor Tenanted.
- King & Parliament area.

Latest Blog posts at www.DonMulholland.com:

- How are Realty Taxes calculated for mixed-use building in Toronto?
- Cloud based Property Management solutions for do-it-yourself owners.
- 5 reasons to love the Bloor bike lane pilot.

Lower West End of Toronto - Market Report

Traditionally Queen W. has always set the pricing bench mark for Lower West End commercial, mixed-use real estate. However, as the graph below shows, intensification has recently driven up property values at higher year over year increases on many other major streets in the area.

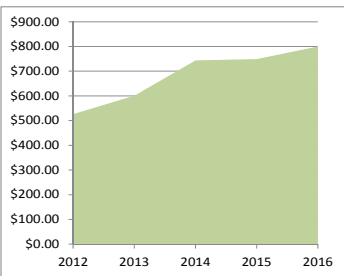
Please contact me for a more in-depth analysis of sales in your immediate area.

Don Mulholland is a proud member of the following organizations:

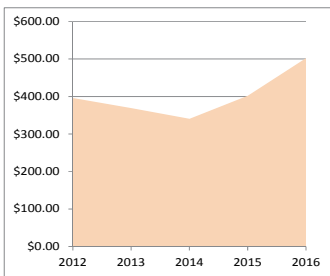


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Commercial Real Estate's Global Standard for Professional Achievement

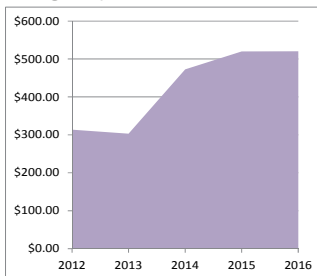
Queen St. W. (Spadina to Dufferin)



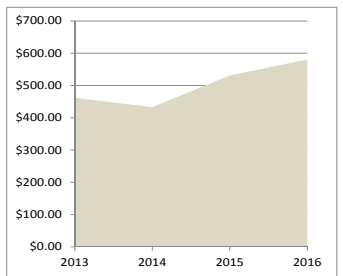
Dundas St. W. (Spadina to Dufferin)



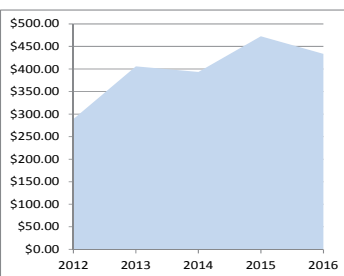
College St. (Spadina to Lansdowne)



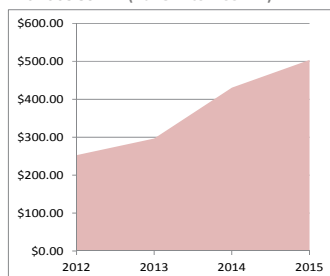
Roncesvalles Ave.



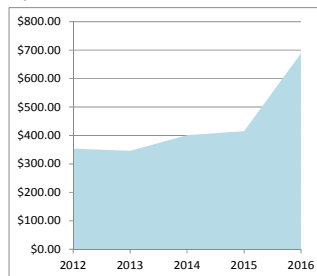
Queen St. W. (West of Dufferin)



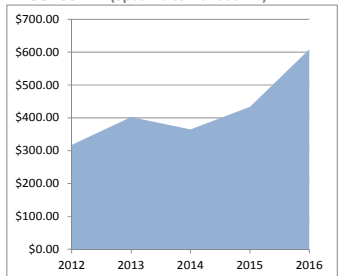
Dundas St. W. (Dufferin to Bloor W.)



Spadina Ave.



Bloor St. W. (Spadina to Dundas W.)



The graphs above show the average sale per sq. ft. of existing building above grade as reported on MLS® and are used to illustrate year over year change (2016 is year-to-date). Sales prices vary by block. Many factors effect property values such as location, size, configuration, use, taxes, operating expenses, condition of the property and development potential. Please call me for a free, no-obligation, evaluation of your property.