



Questions and Answers

1000-25 Sheppard Avenue West
Toronto, ON M2N 6S9
Tel: 416 224-1100
800 339-3716
Fax: 416 224-8168
800 268-0496
www.peo.on.ca

PEO's Purchase of 40 Sheppard Avenue West

Enforcement Hotline:
416 224 9528 Ext. 1444

How much did the building cost?

The purchase price is \$22,575,000.

What is the appraised value of the building?

The appraised value is \$22,300,000. This is based on the rental income the building generates. The land value and replacement cost of the building are considerably higher.

Why did PEO pay a premium for the building?

Council established a tight location criterion to best serve members and applicants; 40 Sheppard Avenue West best matched the established criterion. However, it was not on the market. Typically a premium of 10 per cent is required to acquire a property that is not listed. PEO is only paying about 1 per cent premium.

When does PEO take ownership?

The deal closed on March 11, 2009.

How big is the building?

It is an eight-storey building with a floor plate of about 14,000 sf. The building has slightly over 100,000 sf of rentable area.

How old is the building?

The building is 21 years old.

How much of the building will PEO use?

PEO currently uses just over 30,000 sf at 25 Sheppard Avenue West. But space is at a premium and PEO needs additional space to meet its current needs. Council determined that finding 50,000 sf would meet PEO's medium term needs. PEO will grow into the 50,000 sf as it needs it over the next five years. While PEO did not want to become a landlord, the additional space provides opportunity for PEO to grow in the long term without having to move.

When will PEO move?

PEO's current lease expires December 31, 2009. However, 40 Sheppard Avenue West is currently 95 per cent leased. So PEO will have to move in a piecemeal manner. We expect to renovate the vacant space and likely begin moving some activities in September 2008. PEO will work with the tenants to attempt to free up enough space to substantially move the operation by the end of December. However, some activities may have to be done at another location until adequate/suitable space is available. In the worse case scenario, it would take until the first quarter of 2012 to have 50,000 sf available for PEO's exclusive use.

How is the \$20/member fee increase going to be used?

The \$20/member (\$5/retiree) annual fee increase approved by members in February 2008 and effective May 1, 2008 translates into an about \$1.3 million contribution to a building fund. There is a need to take out a \$14.1 million mortgage to acquire 40 Sheppard Avenue West. PEO was able to negotiate a 10-year, fixed-rate mortgage with an amortization period of 15 years to try to match the members' contributions through the \$20/member fee increase. This mortgage requires an annual payment of \$1,329,000.

Will the building cost more than the current accommodations cost?

No, under the *Municipal Act*, PEO qualifies for reduced municipal taxes, if it owns a building. Based on the proportion of the building used by PEO, its municipal taxes will be reduced by about \$400,000 annually. In addition, the net rent in the building is \$6 sf less than the current location and operating costs are about \$1.50 less than the current building. PEO will have 50,000 sf for about the same cost as its current 30,000 sf.

Why buy now?

PEO had a 15-year lease at its current location that expires December 31, 2009. A building purchase is a long-term decision and real estate in good locations traditionally maintains its relative value. The current tough economic conditions have driven down mortgage rates. PEO will have a 10-year, fixed-term mortgage for less than 5 per cent. In November 2008, the same mortgage was more than 6.5 per cent. This translates to almost \$2 million less in expenses over the 10-year term of the mortgage.