Overview

The Real Estate Department is responsible for managing real estate, executing real estate transactions, developing policy for the strategic use of university property, and acting as a resource for senior officers and university divisions on real estate issues.

Some of the activities of the department generate revenue and the consolidated financial information which follows summarizes the results of that activity. For the most part, the activities that generate revenue relate to the management of rental properties not in university use, or of space in university buildings used by third parties. An integral component of that management involved the creation and ongoing development of a faculty housing program including the formation of The University of Toronto Faculty Housing Co-operative Inc.

The department also engages in a variety of activities which do not generate any revenue, but which are necessary, and which we have categorized broadly as corporate real estate activities. These appear in the business plan as a cost since staff time is expended on them with no offsetting revenue. These activities include negotiation and execution of property transactions, including purchases of property, negotiation of commercial leases for university use, negotiation of easements, rights-of-way, and other property instruments, negotiation of zoning variances and representation of the university at zoning and other municipal tribunals.

Summary of Operating Results Current Fiscal Year and Projections

The forecast for the current fiscal year shows revenues at $6,421,185 and expenses at $5,601,084 with operating results of $820,101 for the year before commitments and transfers. The budget proposed for 2004/05, is for revenue to be $5,927,963 expenses to be $5,997,134 with operating results of ($69,172) before commitments and transfers.

There is a decrease in revenue from fiscal 2004 to 2005. This is due to a decrease in institutional and commercial revenue. Two significant licence agreements contributing to institutional revenue have terminated during fiscal 2004. There is also decreased commercial activity at the office building at 500 University Avenue and at the Medical Arts Building in 2005.

There are increases in operating costs generally from 2004 to 2005. The majority of the increase is due to the new accounting treatment of capital renewal – major maintenance expenditures. Effective fiscal 2005, capital renewal, which tends to relate primarily to the residential properties, is to be financed from operations rather than from borrowing additional funds. In addition, capital renewal – major maintenance expenditures are to be expensed in the year incurred rather than capitalized and amortized. This change was identified in the department's budget submission to the Business Board last year. The new accounting practice for the Real Estate Ancillary is the standard practice for other ancillary operations of the University.

A reserve for major maintenance or capital renewal had not been created in prior years. As noted in last year's budget submission, a capital renewal allowance has been created this fiscal year to set funds aside for future capital maintenance of the residential properties. The reserve appears on the Statement of Cumulative Surplus, Schedule 2 and is based on 1.5% of the assessed value of these properties.

During fiscal 2006 the Real Estate budget requires a cash flow injection of $469,041 from General University Funds. This is due to the expectation that the Medical Arts Building will only be 50% leased during fiscal 2006 since most leases are scheduled to terminate June 30, 2006. Therefore, the cash flow generated by the building will not be able to carry the annual debt service cost of $1,202,942. The plan excludes commercial activity from the Medical Arts Building from fiscal years 2007 - 2009. It is assumed that the building will be in full University use by then and that general University funds will begin to carry the annual debt service and operating costs of the building going forward.

The Department is currently negotiating a new agreement with the City of Toronto for the payment of Grants-in-lieu of Property Tax. The University is exempt from the payment of property taxes, however, Grants-in-lieu of Property Tax represents the equivalent of property taxes on properties that are not used for institutional purposes and that are revenue producing. The new agreement with the City includes a proposal that grants will not be paid on properties used for faculty housing. The City is in agreement in principle with this and we expect the agreement to be ratified shortly.

Faculty and Tenanted Housing

The University owns most of the residential property in the northwest quadrant of the St. George campus, also known as the Huron-Sussex area. This area has been a challenge since the University first began acquiring properties in the 1960's for institutional expansion. The combination of factors which have made it a challenge include: zoning changes which reduced the available density by half and which deliberately excluded most institutional uses; rent controls, entrenching a low revenue base which initially reflected plans for imminent demolition and redevelopment; Landlord/tenant legislation, a primary objective of which in the case of residential tenants is to provide security of tenure.

An important point to note is that in the 1970's, when the full extent of constraints placed on the University's ability to use this property became apparent, the University made a deliberate decision not to challenge the restrictive zoning imposed by the city, not to remove existing tenants in favour of permissible University residential uses, and not to acquire more property in the area. This decision was taken because the judgment made at the time was that the issues being faced in this part of the campus were affecting more pressing and important requirements for the balance of the University's property on the St. George Campus.

These decisions were revisited in the course of developing a new Real Estate Strategy in 1995. In particular the value of the real estate assets in the northwest campus to the University was considered. It was acknowledged in this review that if a decision about these holdings were to be made purely from an investment perspective, the decision would have to be to sell the property and invest the proceeds elsewhere. The decisions taken then were that the ownership of this property was in the long-term strategic interest of the University, that an effort should be made to consolidate ownership in the area rather than to divest, and that non-core property assets should be sold instead.

The University's plans for the area currently call for the creation of a "University Village", providing primarily housing for members of the University community, including students and faculty. Consistent with the University village concept, and, in an effort to convert tenanted housing wherever possible to more productive university uses, the University with Business Board approval formed the <u>University of Toronto Faculty Housing Co-operative Inc.</u> in 1996. This corporation enables the university to invest in the creation of faculty housing on an economic basis without the constraints of rent control and landlord tenant legislation. The faculty housing program is directed at new faculty on a limited term basis and is intended to assist in the faculty recruitment effort.

The residential housing remains expensive to maintain since the average age of the housing is 100+ years and since until the development of a faculty housing program, the properties were of limited utility to the University and as a consequence were not considered to warrant significant investment in maintenance and repair. In recent years a decision was made to raise the standard of repair. The funds invested in the most recent years have affected the profitability of the housing in the short-term. A long-term outlook is necessary. It is appropriate to review the University's Real Estate Strategy on a periodic basis to take account of changing circumstances. For the near term future the real estate strategy will be reviewed and one objective of this review will be to examine opportunities to reinvigorate efforts to make more productive use of these assets.

Up to and including fiscal 2004, funds required for annual capital renewal as well as for the creation of new apartments were borrowed from the operating fund. Loans taken for the residential properties are to be paid back monthly over 10 years. Capital renewal expenditures where funds were borrowed have been capitalized and are being amortized over 15 years. Commencing with fiscal 2005, capital expenditures will be funded from operations and will be expensed in the year incurred. Please see Table A for a summary of debt incurred to date.

During fiscal 2003/04, $690,000 was borrowed for the purpose of planned capital renewal of existing faculty housing including roof replacements, masonry repairs, eaves and downspouts replacements, as well as the creation of five new one-bedroom apartments for new faculty. The new apartments increased the available housing to new faculty by 12%; as at September 2003, there are 46 new faculty apartments. The stock in visiting faculty apartments has not changed and remains at 20 furnished apartments. The visiting faculty program is operated outside the co-op. The total number of apartments now available to new and visiting faculty is 66. The business plan does not anticipate further conversions of tenanted properties to faculty housing in 2004/2005. During 2005, the plan incorporates capital renewal work to existing faculty housing estimated at $230,000 to be funded from operations.

While the primary focus of effort in this area is reclamation of tenanted housing, and growth of the faculty housing program, it was concluded in 2001 that it is necessary to begin spending substantially more on capital renewal for these properties than in the past. There are several reasons: repairs are necessary, there is political pressure to increase maintenance, and ultimately the faculty housing program will benefit. It is also a requirement of the Tenant Protection Act to keep the properties in a state of good repair. To the extent possible the cost of these capital improvements/repairs will be recovered through the rent control process, although caps on rental increases extend the timeline of the recoveries. For the immediate future the repairs will affect operating results of the ancillary. There are 69 tenanted housing units. During fiscal 2003/04, $300,000 was borrowed for the purpose of planned capital renewal of tenanted housing. This work included roof replacements, eaves, fascia, and downspout replacement, masonry repairs, and chimney repairs, as well as upgrades to fire code compliance. During 2005, the plan anticipates further capital renewal work to tenanted housing at an estimated cost of $175,000 to be funded from operations.

Commercial Activity

The Medical Arts Building is 84% leased as at January 2004; University departments now occupy 9,119 square feet in the building. The current plan calls for most commercial leases to terminate by 2006 so that the building can be used for University purposes. The building's cash flow will therefore not be able to support the annual debt service cost of $1,202,942 in fiscal 2006. General University funds will need to pick up the expected cash flow deficit of this operation of $469,041 in fiscal 2006 and will need to carry the annual debt service costs starting fiscal 2007. The office building at 500 University Avenue has only four remaining leases including the School of Continuing Studies which is expected to vacate by July 2004. The plan assumes the other three leases will continue.

Proceeds from the two commercial leases at Graduate House contribute to the payment of the original cost of the shell space of $565,000 to the operating fund over a 25-year period. Net income from this commercial activity is distributed to the Graduate House Residence (55%) and to the University (45%).

The operating plan includes a provision for new commercial/retail space at the newly built Woodsworth College Residence. Net income in fiscal 2005 is marginal due to the planned start up costs and the expected commencement of the leases. The commercial activity at this building is expected to generate a profit in 2006. The plan includes the repayment of the cost of the commercial shell space of $432,000 to the operating fund over a 25-year period. Please see Table A for a summary of debt.

Corporate Real Estate

Several new capital acquisitions have either been completed or are in the process of being negotiated. Properties acquired in recent years include a commercial office building at 500 University Ave. for departments of the Faculty of Medicine ($15.6 million); a student faculty

University of Toronto

OFFICE OF THE VICE PRESIDENT BUSINESS AFFAIRS

TO:	Business Board
SPONSOR:	Catherine J Riggall, Interim Vice President Business Affairs
CONTACT INFO:	416-978-7473 email catherine.riggall@utoronto.ca
DATE:	March 30, 2004 for April 14, 2004
AGENDA ITEM:	9(b)

ITEM IDENTIFICATION:

Ancillary Operations: Real Estate – 2003-04 Operating Results and 2004-2005 Budget

JURISDICTIONAL INFORMATION:

Business Board reviews and approves the annual budget of the Real Estate Division.

PREVIOUS ACTION TAKEN:

Annual budget for 2003-2004 was approved by the Business Board on April 7, 2003.

HIGHLIGHTS:

The Real Estate Department is responsible for managing real estate, executing real estate transactions, developing policy for the strategic use of university property and acting as a resource for senior officers on real estate matters.

The department was heavily involved in the acquisition of the Colony Hotel (now the 89 chestnut residence), with negotiating leases and with negotiating with the City of Toronto for the payment of Grants-in-lieu of Property Taxes.

The Ancillary is forecasting a small loss for 2004-05, largely as a result of the decline in rental revenues as tenants vacate the Medical Arts building and 500 University Avenue and are replaced with University tenants.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The loss is minor and is expected to be temporary during the period in which Medical Arts is in transition. The Ancillary will be conducting a strategic review of all other properties to ensure that they continue to meet the needs of the University.

RECOMMENDATION:

It is recommended that the Business Board approve the operating budget for the Real Estate Ancillary for 2004-05, as contained in the fourth column of the five Year Operating Plan.

housing complex at 30/35 Charles Street West ($20.4 million) purchased from Ontario Housing Corp; a small institutional property at 56 Spadina Road adjacent to OISE/UT's Institute for Child Study ($0.9 million); The Medical Arts Building at 170 St. George Street ($14.05 million); negotiation of a ground lease with Centennial College for a new Centennial Campus at Scarborough (capitalized at $9.3 million), the Toronto Board of Education properties at College and McCaul Street ($17.0 million) and the purchase of the former Colony Hotel (approximately $66 million) for conversion for use as a student residence. A transaction under negotiation is the completion of a new agreement with the City of Toronto governing grants-in-lieu of taxes. Finally, over $2 million per year is expended on space leased on the periphery of the campus for departments unable to be housed on the St. George Campus.

Table A - Summary of Debt Recorded in Real Estate Ancillary

	Principal Amount $	**Repayment Terms $**
Capital Renewal of Faculty and Tenanted Residential Properties & Capital Cost of Creating New and Visiting Faculty Apartments	$4,245,076	10 years, 7% (budgeted rate). Actual rate variable based on T-bill rate + 25 basis points
Graduate House Commercial Shell Space	$565,000	25 years, 7% (budgeted rate). Actual rate variable based on T-bill Rate + 25 basis points
Woodsworth College Commercial Shell Space	$432,000	25 years @ 6.75%
Medical Arts Building	$14,259,225	25 years @ 6.941% (note: the operating plan calls for the center to take over this debt effective May 1, 2006