Real Estate Department, University of Toronto
Unincorporated Business Ancillary
Business Plan Fiscal Years Ending 2006 to 2010

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 $6,005,868 and expenses at $5,966,124 with operating results of $39,744 for the year before commitments and transfers. The budget proposed for 2005/06, is for revenue to be $5,745,924 expenses to be $6,171,884 with operating results of ($425,960) before commitments and transfers.

There is a decrease in revenue from fiscal 2005 to 2006. This is due to an anticipated decrease in commercial revenue generated from the Medical Arts Building. Expenses increase from fiscal 2005 to 2006 for these reasons: capital renewal major maintenance increases due to required work that cannot be deferred; grants in lieu of property tax increases due to an expected increase in rates, as well as the inclusion of additional University of Toronto properties where a payment of Grants in lieu of property taxes is now required; loan interest for capital improvements is increasing due to the planned change in interest rate charged.

During fiscal 2006 the Real Estate budget requires a cash flow injection of a minimum of $84,000 from General University Funds. This is due to the expectation that commercial tenants in the Medical Arts Building will surrender their leases early. 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 effective May 1, 2006 (fiscal years 2007 – 2010). It is assumed that the building will be in full University use and that general University funds will begin to carry the annual debt service and operating costs of the building going forward.

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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 University of Toronto Faculty Housing Co-operative Inc. 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 for faculty were borrowed from the operating fund. Loans taken for the residential properties are to be paid back monthly over 10 years. See Table A for a summary of debt incurred to date. 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 full the year incurred.

The total number of apartments available to new and visiting faculty is 66. There are 46 new faculty apartments and 20 furnished apartments for visiting faculty. The visiting faculty program is operated outside of the co-op. The business plan does not anticipate further conversions of tenanted properties to faculty housing in 2005/2006.

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 Real Estate Ancillary. There are 69 tenanted housing units.

Commercial Activity

The Medical Arts Building is 79% leased and University departments now occupy 11,186 square feet in the building. The current plan calls for most commercial leases to terminate by June 30, 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 during fiscal 2006. General University funds will need to pick up the expected cash flow deficit of this operation which is estimated to be a minimum of $84,000 in fiscal 2006 and will need to carry the annual debt service costs commencing May 2006 (fiscal 2007). The office building at 500 University Avenue has only three remaining leases; the plan assumes these 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. 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 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 $72 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 $1.5 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	$4,174,303	10 years, 6% (estimated new rate effective May 1, 2005). Actual rate to date has been variable based on T-bill rate + 25 basis points
Graduate House Commercial Shell Space	$565,000	25 years, 7% (budgeted rate). Actual rate to date has been variable based on T-bill Rate + 25 basis points
Woodsworth College Commercial Shell Space	$432,000	25 years, 7% (budgeted rate). Actual rate expected to be 6.75%.
Medical Arts Building	$14,259,225	25 years @ 6.941% (the Real Estate Budget calls for the center to take over this debt effective May 1, 2006).

University of Toronto
Real Estate Unincorporated Business Ancillary
Five Year Year Operating Plan
Schedule 1

	Actual 2003-04	Budget 2004-05	Forecast 2004-05	Budget 2005-06	2006-07	2007-08	2008-09	2009-10
	$	$	$	$	$	$	$	$
Revenue								
Faculty Housing Rentals	983,829	995,900	1,047,114	1,035,582	1,035,582	1,035,582	1,042,800	1,042,800
Residential Rentals - St. George and Student Co-op	522,330	529,729	533,809	546,904	549,855	551,963	554,071	556,179
Institutional Rentals	283,032	130,000	218,003	183,112	188,112	188,112	188,112	188,112
Commercial Rentals	1,156,981	896,253	957,730	1,043,721	1,148,755	1,224,303	1,313,004	1,343,538
Commercial Rentals - Medical Arts Building	3,137,183	3,266,672	3,091,376	2,814,017	0	0	0	0
Divisional Property Rentals	122,434	110,209	102,256	121,588	121,985	121,949	122,127	123,196
Corporate Real Estate & Development Activities	0	0	0	0	0	0	0	0
Interest	59,436	(800)	55,580	1,000	1,000	1,000	1,000	1,000
Total Revenues	6,265,225	5,927,963	6,005,868	5,745,924	3,045,290	3,122,909	3,221,113	3,254,824
Expenses								
Property Operating Expenses	2,070,290	2,031,099	2,088,275	1,913,934	1,108,238	1,104,486	1,114,052	1,119,593
Capital Renewal - Major Maintenance	0	405,000	359,000	481,961	425,986	258,087	146,714	0
Grants-in-lieu of Property Taxes	1,077,346	1,043,083	1,100,380	1,293,819	576,304	605,536	636,130	668,184
Fees, Salaries, Benefits and Office Expenses	552,506	585,162	580,609	610,669	521,278	540,774	562,315	584,039
Amortization of Capital Improvements	287,302	306,806	373,450	296,300	297,666	299,129	300,694	302,369
Amortization of Medical Arts Building	238,636	240,662	254,984	240,662	0	0	0	0
Loan Interest - Capital Improvements	83,530	283,810	122,239	223,971	198,263	170,998	145,986	121,772
Loan Interest - Medical Arts Building	964,305	962,280	947,958	962,280	0	0	0	0
Central University Overhead	22,838	39,236	39,229	48,288	49,254	50,239	51,244	52,268
Divisional Overhead	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Total Expenses	5,396,753	5,997,138	5,966,124	6,171,884	3,276,989	3,129,250	3,057,135	2,948,225
Operating Results	**868,471**	**(69,176)**	**39,744**	**(425,960)**	**(231,699)**	**(6,341)**	**163,978**	**306,599**
Increase / (Decrease) in Capital Reserve	468,000	63,000	109,000	(13,961)	42,014	209,913	321,286	468,000
Increase / (Decrease) in Investment in Assets	250,613	135,389	220,950	203,913	195,254	141,012	119,262	115,023
Net Operating Results Before Transfers	**149,858**	**(267,564)**	**(290,206)**	**(615,912)**	**(468,968)**	**(357,266)**	**(276,569)**	**(276,424)**

Note

1. Operating Results exclude proceeds from land sales/acquisitions, and from ground leasing of land to others.
2. Effective May 1, 2006, all revenue and expenses, including debt service costs of the Medical Arts Building will not be recorded in the Real Estate Ancillary.

University of Toronto
Real Estate Unincorporated Business Ancillary
Statement of Cumulative Surplus
Schedule 2

	Actual 2003-04	Budget 2004-05	Forecast 2004-05	Budget 2005-06	2006-07	2007-08	2008-09	2009-10
	$	$	$	$	$	$	$	$
I. COMMITMENTS TO CAPITAL RENEWAL								
Capital Renewal - Major Maintenance	0	405,000	359,000	481,961	425,986	258,087	146,714	0
	0	405,000	359,000	481,961	425,986	258,087	146,714	0
Capital Renewal Allowance	468,000	468,000	468,000	468,000	468,000	468,000	468,000	468,000
Net Increase (Decrease) in Commitments to Capital Renewal	468,000	63,000	109,000	(13,961)	42,014	209,913	321,286	468,000
Opening Balance, May 1	0	468,000	468,000	577,000	563,039	605,053	814,966	1,136,252
Closing Balance, April 30	**468,000**	**531,000**	**577,000**	**563,039**	**605,053**	**814,966**	**1,136,252**	**1,604,252**
II. INVESTMENT IN CAPITAL ASSETS								
Amortization of Capital Improvements	287,302	306,806	373,450	296,300	297,666	299,129	300,694	302,369
Principal Portion of Debt Repayment for Capital Improvements	537,915	442,194	594,400	500,213	492,921	440,141	419,956	417,391
Net Increase (Decrease) in Funds Committed	250,613	135,388	220,950	203,913	195,254	141,012	119,262	115,023
Opening Balance, May 1	403,340	634,004	653,953	874,903	1,078,816	1,274,071	1,415,083	1,534,344
Closing Balance, April 30	**653,953**	**769,392**	**874,903**	**1,078,816**	**1,274,071**	**1,415,083**	**1,534,344**	**1,649,367**
III. OPERATING RESERVE								
Net Operating Results after Commitments (schedule 1)	149,858	(267,560)	(290,206)	(615,912)	(468,968)	(357,266)	(276,569)	(276,424)
Transfers:								
(To)from Divisions - Revenue Share	(114,715)	(103,959)	(94,101)	(114,089)	(114,264)	(114,429)	(114,567)	(115,596)
(To)from University - Earmarked Funds	(86,829)	(105,000)	(105,000)	(105,000)	(110,000)	(110,000)	(110,000)	(110,000)
(To)from Operating Fund	0	0	0	0	0	0	0	0
Recovery of Medical Arts expenses from operating fund	0	0	0	83,998	0	0	0	0
Net Change in Surplus(Deficit) for the Year	(51,686)	(476,519)	(489,307)	(751,003)	(693,231)	(581,695)	(501,137)	(502,020)
Opening Balance, May 1	362,704	360,807	311,018	(178,289)	(929,292)	(1,622,524)	(2,204,218)	(2,705,355)
Closing Balance, April 30	**311,018**	**(115,712)**	**(178,289)**	**(929,292)**	**(1,622,524)**	**(2,204,218)**	**(2,705,355)**	**(3,207,375)**
TOTAL CUMULATIVE SURPLUS (DEFICIT) BALANCE	**1,432,971**	**1,184,680**	**1,273,614**	**712,563**	**256,600**	**25,830**	**(34,759)**	**46,244**

Note:
Capital renewal allowance of $468,000 is based on 1.5% of the 2003 assessed values of the properties in the NW quadrant of the St. George campus not in institutional use.