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 $5,524,735 and expenses at $4,998,294 with operating results of $526,440 for the year before commitments and transfers. The budget proposed for 2006/07, is for revenue to be $3,398,212 expenses to be $3,267,618 with operating results of $130,595 before commitments and transfers.

The decrease in revenue, property operating expenses, amortization and loan interest from fiscal 2006 to 2007 is due to the change in use of the Medical Arts Building. The commercial leases in the building with the exception of six ground floor retail leases terminate to make way for the Faculty of Arts & Science's use of the building. As a result, the annual debt service cost of $1.2 million will be taken over by general University funds.

The Department has successfully negotiated 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 confirms that grants will not be paid on properties used for Faculty Housing.

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. The Real Estate plan includes the activity of 80 residential addresses, 142 suites/units. 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 1995 strategy called 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. 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. 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. 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. Loan terms were 10 years; amortization for accounting purposes was 15 years straight-line. Commencing with fiscal 2005, capital expenditures are funded from annual operations and are expensed in full in the year incurred. Funds required for the creation of new apartments for faculty housing are still expected to be borrowed; however, new apartments have not been created since fiscal 2004.

Commercial Activity

As was previously noted, the Medical Arts Building is being converted to academic use. Effective May 1, 2006, General University funds will take over the mortgage on the building. With the exception of a few residual leases and six ground floor retail leases, all remaining commercial leases terminate June 2006. The remaining commercial leases at 500 University Avenue have all terminated. The restaurant operation at Graduate House has shut down. The space is being converted to student use; as a result, General University Funds will take over the portion of the mortgage relating to the previous restaurant space, effective October 1, 2005. A new restaurant operation commenced at Woodsworth College Residence in July 2005.

Corporate Real Estate Activities

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.

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. Property under negotiation for sale, 210 Simcoe Street (estimated sale price $4.05 million). The completion of negotiations resulting in a new agreement with the City of Toronto governing grants-in-lieu of property taxes. Finally, over $1.4 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.

Summary of Debt Recorded in Real Estate Ancillary

Category / Building	Loan Amounts Outstanding as at May 1, 2005	Years Remaining
Capital Renewal of Faculty and Tenanted Residential Properties & Capital Cost of Creating New and Visiting Faculty Apartments	$2,155,970	7 years @ 5.13%
Graduate House Commercial Shell Space (As at Oct 1/05, debt relating to restaurant space, $339,783 taken over by General University funds as space being converted to student use)	$415,303	20 years @ 5.962%
Woodsworth College Commercial Shell Space	$283,306	24 years @ 6.586%
Medical Arts Building (As at May 1/06, debt taken over by General University funds as space being converted to academic use).	$13,506,536	22 years @ 6.941%

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

	Actual 2004-05	Budget 2005-06	Forecast 2005-06	Budget 2006-07	2007-08	2008-09	2009-10	2010-11
	$	$	$	$	$	$	$	$
Revenue								
Faculty Housing	1,061,881	1,035,582	1,036,732	1,045,098	1,045,098	1,045,098	1,045,098	1,045,098
Residential Rentals	541,334	546,904	546,246	549,541	570,132	591,548	610,621	633,656
Commercial Rentals	4,077,656	3,857,738	3,241,525	1,456,547	1,405,060	1,211,085	1,274,975	1,261,038
Institutional & Divisional Rentals	324,165	304,700	669,953	346,027	323,076	289,409	290,158	290,921
Corporate Real Estate & Development Activities	0	0	0	0	0	0	0	0
Interest	80,132	1,000	30,279	1,000	1,000	1,000	1,000	1,000
Total Revenues	6,085,168	5,745,924	5,524,735	3,398,212	3,344,367	3,138,141	3,221,852	3,231,714
Expenses								
Property Operating Expenses	1,805,078	1,940,974	1,946,414	1,263,055	1,211,783	1,167,189	1,170,292	1,177,102
Capital Renewal - Major Maintenance	386,362	481,961	521,961	523,743	275,758	179,150	0	0
Grants-in-lieu of Property Taxes	1,130,011	1,293,820	233,877	476,319	437,159	403,719	410,170	418,577
Fees, Salaries, Benefits and Office Expenses	410,288	430,531	415,490	323,355	334,980	347,153	360,090	373,610
Amortization	654,999	536,961	524,843	254,723	255,218	255,745	256,308	256,908
Loan Interest	1,047,931	1,186,251	1,048,610	113,170	98,148	82,331	65,676	48,138
Corporate Real Estate	279,192	301,386	307,099	313,254	321,418	329,973	339,238	348,776
Total Expenses	5,713,861	6,171,886	4,998,294	3,267,618	2,934,464	2,765,261	2,601,774	2,623,111
Operating Results	**371,307**	**(425,962)**	**526,440**	**130,595**	**409,903**	**372,880**	**620,078**	**608,603**
Increase / (Decrease) in Capital Reserve	81,638	(13,961)	(53,961)	(55,743)	192,242	288,850	468,000	468,000
Increase / (Decrease) in Investment in Assets	156,740	203,913	15,548	29,349	43,876	59,165	75,258	92,196
Net Operating Results Before Transfers	**132,929**	**(615,914)**	**564,854**	**156,988**	**173,785**	**24,864**	**76,820**	**48,407**

Note

1. Operating Results exclude proceeds from land sales/acquisitions, and from ground leasing of land to others.
2. Effective May 1, 2006, annual debt service costs of the Medical Arts Building will not be recorded in the Real Estate Ancillary; a few remaining commercial leases and related property operating costs of the building will continue to be recorded in Real Estate Ancillary.

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

	Actual 2004-05	Budget 2005-06	Forecast 2005-06	Budget 2006-07	2007-08	2008-09	2009-10	2010-11
	$	$	$	$	$	$	$	$
I. COMMITMENTS TO CAPITAL RENEWAL								
Capital Renewal - Major Maintenance	386,362	481,961	521,961	523,743	275,758	179,150	0	0
	386,362	481,961	521,961	523,743	275,758	179,150	0	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	81,638	(13,961)	(53,961)	(55,743)	192,242	288,850	468,000	468,000
Opening Balance, May 1	468,000	577,000	549,638	495,677	439,934	632,176	921,027	1,389,027
Closing Balance, April 30	**549,638**	**563,039**	**495,677**	**439,934**	**632,176**	**921,027**	**1,389,027**	**1,857,027**
II. INVESTMENT IN CAPITAL ASSETS								
Amortization of Capital Improvements	399,262	296,300	252,120	254,723	255,218	255,745	256,308	256,908
Principal Portion of Debt Repayment for Capital Improvements	556,002	500,213	267,668	284,072	299,093	314,911	331,566	349,104
Net Increase (Decrease) in Funds Committed	156,740	203,913	15,548	29,349	43,876	59,165	75,258	92,196
Opening Balance, May 1	653,954	874,903	810,694	826,242	855,591	899,467	958,633	1,033,891
Closing Balance, April 30	**810,694**	**1,078,816**	**826,242**	**855,591**	**899,467**	**958,633**	**1,033,891**	**1,126,086**
III. OPERATING RESERVE								
Net Operating Results after Commitments (schedule 1)	132,929	(615,914)	564,854	156,988	173,785	24,864	76,820	48,407
Transfers:								
(To)from Divisions - Revenue Share	(94,175)	(114,088)	(171,605)	(115,420)	(115,923)	(116,431)	(116,937)	(117,451)
(To)from University - Earmarked Funds	(96,874)	(105,000)	(100,000)	(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	83,998	300,000	0	0	0	0	0
Net Change in Surplus(Deficit) for the Year	(58,120)	(751,005)	593,249	(63,432)	(52,138)	(201,566)	(150,116)	(179,044)
Opening Balance, May 1	311,016	(178,289)	252,895	846,145	782,713	730,575	529,008	378,892
Closing Balance, April 30	**252,895**	**(929,294)**	**846,145**	**782,713**	**730,575**	**529,008**	**378,892**	**199,847**
TOTAL CUMULATIVE SURPLUS (DEFICIT) BALANCE	**1,613,228**	**712,561**	**2,168,063**	**2,078,238**	**2,262,218**	**2,408,668**	**2,801,809**	**3,182,960**

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.