St. George Campus
Residential Housing Ancillary

Overview of Operations and Business Plan for 2007-2012

The Real Estate Strategy approved by the Business Board in January 2007 called for the separation of residential and commercial/institutional activities. The St. George Campus Residential Housing Ancillary serves as the newly constituted Real Estate Ancillary. The commercial and institutional Real Estate functions performed by the previous Real Estate ancillary have been taken on temporarily by the Facilities and Services division, pending the appointment of the AVP Real Estate and Construction.

The Residential Housing Ancillary manages 80 residential addresses with a total of 142 units. Just over half of these units are used for faculty housing, for both newly appointed and visiting faculty, and the remainder is rented to third party tenants. Day to day property management is contracted to Samuels Property Management, with most capital work being supervised and tendered by a University property manager. Rental rates for Faculty Housing are at market, whereas the rents for third party tenanted housing have been significantly constrained by rent control legislation.

The short-term goals of the Residential Housing Ancillary are to manage the Faculty Housing and long-term tenanted housing in the Huron-Sussex area in a fiscally responsible manner, perform necessary repairs and capital refurbishment, maintain good relationships with tenants and explore the conversion of vacant long-term tenanted housing to faculty or student housing. Longer term goals for this department will be developed through consultation with the Real Estate Advisory Board, once it is established.

The Residential Housing Ancillary is part of the Ancillary Services division, reporting to the Director of Ancillary Services. There is one full-time employee, with support provided by the Ancillary Services central accounting and HR teams.

Overview of operations, 2006-07

The forecast for 2006-07 shows the removal of the commercial and institutional revenues, along with associated operating, overhead, financing and salary expenses. Residential rental income is slightly higher than budgeted due to better occupancy rates in Faculty Housing, and successful above-guideline rent increase applications for the long-term tenanted housing.

Capital work completed this year includes work on both Faculty and long-term tenanted housing. Several projects initially budgeted for 2006-07 were not completed due to staff turnover, and will be completed in 2007-08. These include the demolition of a structurally unsound extension, the demolition of a structurally unsound house and the conversion of one house to a 2-unit structure, sufficient to accommodate faculty or student housing.

At the end of this fiscal year, we anticipate an operating deficit of $229,607, and a capital renewal reserve balance of $724,988.

Operating Plan, 2007-08

In 2007-08 we will undertake additional capital work deferred from 2006-07, as described above, as well as continue cyclical repairs. We have budgeted for a slight decrease in rental income from both faculty and long-term tenanted housing; we are currently experiencing a slight decrease in demand for faculty housing, which may be related to the booming condominium market.

We will explore the conversion of 2 vacant houses this year. As described above, there may not be adequate demand for faculty housing, so other possibilities are currently being researched. One such possibility is student family housing. Currently, student family housing operates as a separate residential ancillary with housing provided at the Charles Street apartments. There is still reasonably strong demand for student family housing, and with the graduate expansion we may see these numbers increase. We feel that a student family would be an appropriate tenant for a unit in the Huron-Sussex neighbourhood and would be a good fit with that community. Student family housing is partially exempt from the Residential Tenancies Act and exempt from property taxes.

A decrease to property operating expenses is forecast, as a result of the current property manager using more on-site maintenance labour to do small repair work (rather than call a contractor), as well as forecasted savings on utilities. Our property management fees are a percentage of income, so they will vary as rental income varies. Other operating expenses have been assigned an inflationary increase. Overhead expenses now reflect the reduced cost of administering a smaller department.

Major maintenance expenditures this year will be significant, and will draw down the capital renewal reserve by $389,000, resulting in an end of year balance of $335,988, an amount less than an average year’s spending. This is not a sufficient reserve for housing stock of this age and condition.

Long-range financial plan and assumptions

Rental revenue for faculty and student family housing are budgeted to increase slightly each year of the long-range plan. Rental revenue for third party tenants is expected to decrease slightly, as we are not seeking to replace any tenants who move out with new third party tenants.

Operating costs have been assigned inflationary increases, as have overhead expenses, and the projected major maintenance expenditures have been arrived at through consultation with the property management company and Facilities and Services.

In the long-range plan, average annual capital maintenance expenditures have had to be capped at $200,000 per year in order to arrive at a break-even budget. A more realistic annual expenditure for this ancillary would be in excess of $400,000, based on 1.5% of the properties' assessed value, which has proven to be an accurate calculation of capital maintenance requirements with other university ancillary buildings. Note also that this budget has no room for a significant variance such as a dip in rental income or a spike in utility costs.

Schedule 1A shows the detailed budget according to cost centre. From this, it is clear that the long-term tenanted housing is the source of the financial drain, with revenue from rental income barely sufficient to cover the property operating cost and taxes, let alone any capital maintenance that might be required. With the average rent per unit sitting at $786 per month as of August, 2006, this is not difficult to understand. While the university has been successful in bringing above-guideline rent increase applications to recover some of the costs of capital maintenance in recent years, these increases are capped at 4%, which, on rent of $786 per month is only $377 per year. New residential tenancy legislation enacted in January 2007 has reduced this cap to 3% and has restricted the number of years that such a rent increase can be charged to a maximum of 3 years.

Future Directions

- Long-term strategies for the management of this neighbourhood must be explored in consultation with the neighbours and the City.