# University of Toronto

APPENDIX B TO REPORT NUMBER 116 OF THE PLANNING AND BUDGET COMMITTEE.

OFFICE OF THE VICE PRESIDENT BUSINESS AFFAIRS

TO: Business Board

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AGENDA ITEM: **7**

**ITEM IDENTIFICATION:**

**Real Estate – Strategic Review**

**JURISDICTIONAL INFORMATION:**

The Business Board is responsible for University owned or leased property. This includes approval of acquisition or disposal of real estate and approval of arrangements for the non-University use or development of University property

**PREVIOUS ACTION TAKEN:**

Real Estate strategy was approved in 1995.

**HIGHLIGHTS:**

One aspect of the student experience that is often forgotten is the importance of the physical environment, including buildings, classrooms, athletic and recreational facilities, food service areas and grounds. Long after graduation, when the course content has been forgotten, memories of specific locations and events will linger on, creating a positive memory of the university experience.

The University of Toronto's real estate assets are a critical component to achieving the University's academic mission. However, the importance and potential of these assets has long been under-valued.

This document seeks to develop the University of Toronto's real estate strategy from three perspectives. The strategic questions that have been posed are:

- Have we the land and facilities to meet the University of Toronto planned growth?
- Are we leveraging the value of the University of Toronto real estate assets and maximizing the return on these assets?
- Are we managing our real estate assets in the most effective and professional manner?

**Key Findings**
There is a significant shortage of space and facilities for all three campuses. To meet the projected 2011 enrolment levels and Council of Ontario University ('COU') standards, the additional facilities required are:

- UT St. George – 177,800 NASMS or 3.5 million gross sq. ft or the equivalent of four Robarts Libraries.
- UT Mississauga -27,715 NASMS or 547,000 gross sq. ft. or the equivalent of five new Hazel McCallion Centres.
- UT Scarborough -22,050 NASMS or 435,000 gross sq. ft. or the equivalent of six Arts & Administration buildings.

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Another factor impacting the question of sufficient facilities is the shift in enrolment to graduate levels. Graduate students require up to three times more facilities per person than undergraduates. There is an associated increase in the demand for research facilities which is particularly pertinent for the St. George campus where the bulk of the graduate enrolment increase will occur. At the same time, the research environment is changing and becoming more complex and multi-disciplinary. The conversion or re-purposing of existing buildings to fit the evolving research requirements is difficult and costly.

The use/need for space and facilities is driven primarily by student enrolments. While the current planning horizon is based on a rolling five years, this lead time is too short. In order to acquire land, obtain planning approvals, design and build, a 10 –15 year time frame would be more appropriate, especially considering the urban density surrounding the three campuses. In reality, UT Mississauga and UT Scarborough are land locked due to the surrounding residential properties. Their only option is to expand by increasing the existing density and heights. While UT St. George can migrate beyond its current boundaries, the costs will be huge as there is well developed competition for the commercial space.

The University owns nearly 700 acres of land in the Greater Toronto Region, of which 25 per cent is in Toronto's downtown core. These assets are significantly more valuable than the University's endowment fund and should be managed with the same due diligence, professionalism and rigor as the University's financial assets. It cannot be said that this is currently the practice.

The objective of the Real Estate Ancillary, established in 1999, was to be self sufficient and self-funding as are other University Ancillary groups. It was believed that this organizational structure would encourage a more systematic and businesslike approach to real estate management. This has not happened.

**Conclusions**
The University's facilities requirements, to meet the 2011 enrolment projections, are huge. The existing level of construction activity, which the campuses have undertaken in the past several years, needs to continue. Just to achieve the existing COU standards will require a significant level of building.

To maximize the use of existing lands, creative solutions will have to be found to repurpose existing buildings, demolish and rebuild with greater density. A process needs to be implemented to evaluate whether to continue renovating or to demolish and replace those buildings which have deteriorated to a substandard quality. Formal criteria evaluating the decisions need to be an integral part of the process. In order to fund these activities, an examination of ways to maximize the value of the University's existing land holdings must occur. There are opportunities, but additional real estate expertise is required to maximize the returns.

The lack of a very long term strategic plan for the University impedes longer term space and real estate planning. The 2030 document will address this gap and permit further dialogue about the space limitations of the campuses. In the interim, the continuation of the existing ad hoc decision process is hindering the acquisition and divestiture decisions and constrains the University's ability to act nimbly in the event opportunities do arise. There is a need for real estate expertise to provide the strategic direction and for industry knowledge to assist the University to leverage the value of the University's real estate assets and maximize the return from these assets.

**Strategic Options**

In terms of considering the strategic real estate options available to the University, there are at least two options: continue with the status quo, or enhance UofT's expertise to unlock real estate values. These options are outlined below.

*Status Quo*

The 'status quo' option means continuing to respond to acquisition and divestiture opportunities on an ad hoc basis with limited criteria in place upon which to evaluate our decisions. This approach is not recommended for the following reasons:

i. There is a continuing need for operating and capital funds to maintain the properties/real estate holdings in question. Spending money on facilities that are not required for academic purposes in the immediate or longer term reduces the University's ability to accomplish its core academic mission;
ii. Pressure for additional space especially on the St. George campus requires innovative solutions now;
iii. There are numerous potential real estate transactions in the various formative states. They require real estate expertise to negotiate and successfully conclude;
iv. Revised Master plans require the strategic context upon which to build the detailed plans;
v. Discussions with the City planners about the revised Master Plans are about to commence. There is a need to have a comprehensive understanding of the campuses' future space requirements.

*Enhance UofT's expertise to Leverage the Real Estate Values*

The University of Toronto has an excellent opportunity to realize some of its capital which has historically been tied up in real estate assets. By monetizing this passive capital, funds could be re-allocated into other areas such as reduction of deferred maintenance, construction of new buildings or land acquisition. In order to accomplish this goal and maximize the values, it would be in the best interests of the University to partner with recognized real estate expertise. This must be done in a way that minimizes the risks associated with this approach. These risks include a potential lack of understanding of the differences between a real estate development culture and the University of Toronto culture, community, concerns about the commercialization of the campus and concerns about selling legacy assets.

## FINANCIAL AND/OR PLANNING IMPLICATIONS:

Adoption of a real estate strategy will permit better planning and better strategic decision making. Some costs will transfer from the Ancillary budget to the Operating budget, but these impacts are not material.

## RECOMMENDATION:

Be it Resolved

a. THAT the direction outlined in the Real Estate Review strategic review be accepted, replacing the Real Estate Strategy approved by the Business Board on September 11, 1995;

b. THAT the mandate of the Real Estate Ancillary be limited to the management of the residential properties in the Huron Sussex area;

c. THAT all other functions handled by the real estate ancillary be transferred to central operations within Business Affairs; and

d. THAT a real estate advisory board consisting of 3 to 4 members with demonstrated real estate expertise be established to assist the University of Toronto in evaluating real estate opportunities and strategic directions.