



# University of Toronto

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OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

Memorandum to: Business Board

From: Felix Chee 

For: Meeting of April 8, 2002

Agenda Item: 6(c)

**Item Identification:** **Real Estate Ancillary Budget and Operating Plan 2002-2003**

**Sponsor:** Felix Chee, Vice-President, Business Affairs

**Basis of Business Board's Jurisdiction:**

The Board approves business plans for unincorporated ancillaries (in this case a budget).

**Action Sought:**

Approval of the 2002/2003 budget.

**Highlights:**

Budget has revenues of \$2,312,437, expenses of \$1,937,567, operating results of \$374,870 resulting in a transfer of \$234,862 to general and earmarked university operating funds, and \$89,554 to divisions.

**Real Estate Department**  
**Unincorporated Business Ancillary**  
**University of Toronto**  
**Business Plan Fiscal Years Ending 2003 to 2007**

**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**

April 30, 2002 will mark the third fiscal year that the University's Real Estate Department has operated as an unincorporated business ancillary. Attached is a forecast of operating results for this fiscal year showing revenues to be \$2,199,153 and expenses to be \$1,684,896 with net income of \$514,257 for the year before transfers and commitments. We will meet this year's commitment to the University's bottom line of \$237,089. The budget proposed for 2002/03, is for revenue to be \$2,312,437 expenses to be \$1,937,567 with net income of \$374,870 before commitments and transfers. The amount to be transferred to the University's bottom line in fiscal 2003 is \$134,862. The decline in net income is due to increased commitments for capital renewal to faculty and tenanted housing and increased operating costs of faculty and tenanted housing.

The Real Estate Department does not have reserves for major maintenance or capital renewal. All major maintenance, capital renewal and renovation projects are financed by borrowing from the central operating fund. Repayment plans are put in place at the time of borrowing and interest is charged.

The line item in our business plan, 'Increase in Funds Committed for Debt Service', represents loan payments made in excess of the amount taken for amortization and the amount expensed for interest charges. For example, loans taken for faculty housing renovations are paid back over a ten-year period, however, the capital cost is capitalized and amortized over fifteen

years straight-line. This line item, therefore, brings our income statement back to a cash basis so that only cash on hand is transferred to the University.

### **Faculty and Tenanted Housing**

The University owns most of the property in the northwest quadrant of the 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 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 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 now call for 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. This corporation enables the university to invest in the creation of faculty housing on an economic basis without the constraint 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.

During fiscal 2001/02, \$195,000 was expended on capital renewal of existing faculty housing including roof replacements, masonry repairs, eaves and downspouts replacements. The business plan anticipates further conversions of tenanted properties to faculty housing in 2002/2003 creating five new family sized apartments at an estimated cost of \$357,000, as well as further capital renewal work to existing faculty housing of \$207,392. Operating costs for the program are rising and although the program is not intended to be operated at a profit, rates for both new and visiting faculty will be revised in the coming year.

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 we have 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. To the extent possible the amortized cost of these repairs will be recovered through the rent control process, although caps on rental increases will limit the recoveries. For the immediate future the repairs can only be financed by reducing the net income transferred to the University's operating budget. While renovations for faculty use have been extensive over the past five years, it is now also necessary to increase expenditures on tenanted housing. It is also a requirement of the Tenant Protection Act to keep the properties in a state of good repair. During fiscal 2001/02, \$276,000 was spent on capital renewal of tenanted housing. This work included roof replacements, eaves fascia and downspout replacement, masonry repairs, chimney repairs as well as upgrades to fire code compliance. The business plan anticipates further capital renewal work to tenanted housing in 2002/2003 at an estimated cost of \$464,587.

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.

The following table summarizes the funds to be invested in housing for the purposes of capital renewal and renovation costs for conversion of tenanted units to faculty use. The funds are to be borrowed from the operating fund and are to be paid back monthly over 10 years at an agreed interest rate. Capital renewal expenditures are to be capitalized and amortized over 15 years straight-line.

**Table of Capital Expenditures/Financing for Housing**

|   | 2002-03<br>\$             | 2003-04<br>\$           | 2004-05<br>\$           | 2005-06<br>\$           | 2006-07<br>\$          | Total<br>\$               |
|---|---------------------------|-------------------------|-------------------------|-------------------------|------------------------|---------------------------|
| <b>Capital Renewal &amp;<br/>Creation of New<br/>Faculty Apartments</b> | <b><u>\$1,028,979</u></b> | <b><u>\$308,378</u></b> | <b><u>\$185,000</u></b> | <b><u>\$110,000</u></b> | <b><u>\$60,000</u></b> | <b><u>\$1,692,357</u></b> |

### **Commercial Activity**

With the completion of Graduate House, two commercial leases are now in full operation. Proceeds from the new leases will contribute to the payment of the original capital cost of the space of \$565,000 (fiscal 2001) and annual operating costs. Net income from this activity will be distributed to the Graduate House Residence (55%) and the University's bottom line (45%).

A new lease has been signed with a commercial tenant- the TDL Group, o/a Tim Hortons in the former Royal Bank space at 246 Bloor St. West.

Several ground floor units in properties with Spadina Avenue frontage will be leased in the next two years. The following is the anticipated capital cost of landlord's work that will be required to the space. The funds are to be borrowed from the operating fund and are to be paid back monthly over the initial term of the commercial lease which will likely be 10 years at an agreed interest rate. Landlord's work will be capitalized and amortized over the initial term of the commercial lease.

**Table of Landlord's Work/Financing for New Commercial Units**

|                        | 2002-03<br>\$          | 2003-04<br>\$          | 2004-05<br>\$ | 2005-06<br>\$ | 2006-07<br>\$ | Total<br>\$            |
|------------------------|------------------------|------------------------|---------------|---------------|---------------|------------------------|
| <b>Landlord's Work</b> | <b><u>\$30,000</u></b> | <b><u>\$60,000</u></b> | -             | -             | -             | <b><u>\$90,000</u></b> |

#### **Corporate Real Estate**

Several new capital acquisitions have either been completed or are in the process of being negotiated. Properties acquired 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 (\$14.050 Million). Transactions under negotiations include the purchase of the Toronto Board of Education properties at College and McCaul Street (\$17.0 million); negotiation of a ground lease with Centennial College for a new Centennial Campus at Scarborough (\$9.3 Million); negotiating a new agreement governing payments of grants-in-lieu of taxes with the City of Toronto. Finally, over \$1.7 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.

For newly purchased buildings in transition from tenanted use to University use, the allocation of revenue and expenses while in transition is still under discussion. These include both the Medical Arts Building at 170 St. George St. and the office building at 500 University Avenue. The business plan may require amendment as a result of decisions about allocation of revenues and expenses, since neither appear in the plan as written.

**University of Toronto  
Real Estate Ancillary  
Five Year Year Operating Plan**

|  | Actual<br>2000-01 | Approved<br>Budget<br>2001-02 | Forecast<br>2001-02 | Budget<br>2002-03 | 2003-04          | 2004-05          | 2005-06          | 2006-07          |
|--|-------------------|-------------------------------|---------------------|-------------------|------------------|------------------|------------------|------------------|
|  | \$                | \$                            | \$                  | \$                | \$               | \$               | \$               | \$               |
| <b>Revenue</b>   |                   |                               |                     |                   |                  |                  |                  |                  |
| Faculty Housing Rentals                                  | 746,486           | 866,863                       | 812,935             | 942,131           | 998,873          | 1,035,215        | 1,058,012        | 1,080,931        |
| Residential Rentals - St. George and Other Student Co-op | 517,791           | 511,574                       | 500,809             | 512,409           | 522,222          | 532,231          | 541,241          | 551,654          |
| Residential Rentals - Scarborough                        | 119,377           | 0                             | 52,376              | 0                 | 0                | 0                | 0                | 0                |
| Institutional Rentals                                    | 313,627           | 238,200                       | 225,027             | 223,200           | 228,200          | 233,200          | 238,200          | 243,200          |
| Commercial Rentals                                       | 373,969           | 496,759                       | 502,328             | 549,825           | 603,992          | 611,881          | 620,471          | 630,364          |
| Divisional Property Rentals                              | 74,834            | 77,536                        | 78,026              | 78,551            | 79,174           | 79,809           | 80,457           | 81,118           |
| Corporate Real Estate & Development Activities           | 0                 | 0                             | 0                   | 0                 | 0                | 0                | 0                | 0                |
| Interest   | 65,327            | 36,455                        | 27,652              | 6,321             | 6,447            | 5,576            | 6,708            | 6,842            |
| <b>Total Revenues</b>                                    | <b>2,211,411</b>  | <b>2,227,386</b>              | <b>2,199,153</b>    | <b>2,312,437</b>  | <b>2,438,908</b> | <b>2,493,913</b> | <b>2,545,089</b> | <b>2,594,110</b> |
| <b>Expenses</b>  |                   |                               |                     |                   |                  |                  |                  |                  |
| Property Operating Expenses                              | 571,623           | 587,409                       | 542,956             | 650,522           | 683,509          | 702,752          | 717,098          | 731,606          |
| Grants-in-lieu of Property Taxes                         | 348,469           | 355,216                       | 348,229             | 346,483           | 371,004          | 387,233          | 404,687          | 422,210          |
| Fees, Salaries, Benefits and Office Expenses             | 380,750           | 405,324                       | 405,991             | 426,029           | 439,359          | 452,151          | 466,397          | 481,158          |
| Amortization of Improvements                             | 143,012           | 189,796                       | 209,355             | 250,532           | 277,789          | 290,870          | 299,002          | 303,858          |
| Loan Interest  | 79,190            | 186,102                       | 146,000             | 231,983           | 246,531          | 236,183          | 219,183          | 195,064          |
| Central & Divisional University Overhead                 | 31,617            | 32,365                        | 32,365              | 32,018            | 33,076           | 34,265           | 35,604           | 37,109           |
| <b>Total Expenses</b>                                    | <b>1,554,661</b>  | <b>1,756,212</b>              | <b>1,684,896</b>    | <b>1,937,567</b>  | <b>2,051,268</b> | <b>2,103,454</b> | <b>2,141,972</b> | <b>2,171,005</b> |
| <b>Operating Results</b>                                 | <b>656,750</b>    | <b>471,174</b>                | <b>514,257</b>      | <b>374,870</b>    | <b>387,641</b>   | <b>395,459</b>   | <b>403,118</b>   | <b>423,105</b>   |
| <b>Distribution of Operating Results:</b>                |                   |                               |                     |                   |                  |                  |                  |                  |
| Increase in Funds Committed for Debt Service             | 42,004            | 32,649                        | 83,016              | 50,454            | 77,847           | 101,454          | 128,356          | 156,162          |
| Transfer to Divisions                                    | 73,554            | 101,436                       | 90,389              | 89,554            | 89,842           | 90,117           | 90,328           | 90,530           |
| Transfer to University - Earmarked Funds                 | 126,211           | 100,000                       | 99,934              | 100,000           | 100,000          | 100,000          | 100,000          | 100,000          |
| Transfer to General University Operating Funds           | 400,827           | 237,089                       | 237,089             | 134,862           | 119,952          | 103,887          | 84,434           | 76,413           |
| Funds Remaining in Real Estate / Surplus                 | 14,154            | 0                             | 3,829               | 0                 | 0                | 0                | 0                | 0                |
|  | <b>656,750</b>    | <b>471,174</b>                | <b>514,257</b>      | <b>374,870</b>    | <b>387,641</b>   | <b>395,459</b>   | <b>403,118</b>   | <b>423,105</b>   |

**Note**

1. Operating Results exclude proceeds from land sales/acquisitions, and from ground leasing of land to others.