



TO: Planning and Budget Committee

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DATE: January 29, 2009 for February 4, 2009

AGENDA ITEM: 1

ITEM IDENTIFICATION:

Declaration of Property as Surplus to University Requirements: 245 College Street, Toronto.

JURISDICTIONAL INFORMATION:

Business Board approval of the disposal of University property states that the "concurrence of the Academic Board is required, on the recommendation of the Planning and Budget Committee, to indicate that the property is surplus to University requirements."

PREVIOUS ACTION TAKEN:

Business Board has approved the transaction, subject to the declaration of the property as surplus.

HIGHLIGHTS:

The University acquired 245 College Street in 2007 as part of our strategic interest in influencing the development of sites immediately adjacent to the St. George campus area. A third party subsequently approached the University. It plans to build a residence on the 247 College Street site. Their proposal to the University is for the University to provide a long-term ground lease of 245 College Street. The third party would then build a 30 storey student residence on the footprint comprised of 245 College Street and 247 College Street. In return, the University would receive a to-be negotiated rent of approximately \$350,000 per annum, escalating over time. This on-going revenue stream would be used to enrich student programming and services. We would also have the opportunity to influence the design and operation of this third party residence.

Proceeding with this opportunity would provide University of Toronto students with a convenient, high-quality, much-needed residence opportunity which would compare very favorably with existing third-party residences.

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Further information is provided in the accompanying document.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The University will receive land lease rent from this transaction. In the event of default the University will have several remedies to ensure that the real estate asset is protected.

RECOMMENDATION:

Be it recommended to the Academic Board:

THAT the 245 College Street, property be declared surplus to University requirements.

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Student Residence Proposal

Background

The University of Toronto currently owns land at 245 College St. which was previously leased to the University of Toronto Press. Provisions in the lease of 245 College St. granted the University of Toronto a “Right of First Refusal” (ROFR) to purchase the property. Knightstone Capital had acquired the adjacent site (247 College) in January 2007 and subsequently made an offer to purchase 245 College. The University exercised its ROFR option and acquired the site because of our strategic interest in influencing the development of sites immediately adjacent to the St. George campus area. The developer subsequently approached the University to explore partnerships in support of their plans to build a residence on the site. The developer is in a position to proceed independently to build a residence, but if the two sites were combined, a residence with 1,250 beds could be constructed which would provide a major boost to student housing in the area. For financial reasons, the University chose not to enter into a partnership. Instead a proposal was received for the following land/lease relationship.

The Opportunity

The University of Toronto will lease the land to the developer for 99 years and will receive an annual fee of \$350,000, escalating with the consumer price index over time. This revenue will go to Student Life programs and services and will thus be of direct benefit to University of Toronto students. The developer will build and operate a student residence on the consolidated properties, with a restriction that the use of the site be limited only to this purpose. The residence will provide off-campus housing and will not bear the University’s name. We will promote the residence in the same way that we promote other non-affiliated student housing located in our neighborhoods (such as Campus Co-op, Tartu College).

In addition, the University will have no obligation to fill the residence and no ongoing financial liability. The developer is, however, committed to working with the University to ensure a quality experience for students. This includes entering into a Service Level Agreement that will stipulate expectations of both parties, outline the parameters of the ongoing relationships between the parties, and set out the basic operating standards for the residence. As well, the University will assist and advise the developer in establishing residence life policies and procedures. The University will not set rates, but the developer obviously will have to ensure that the rates are competitive with those charged by both on-campus and off-campus residences.

Student Residence Desirability and Demand

NSSE (National Survey of Student Engagement) data suggests that students living in residence have higher levels of engagement in a variety of meaningful experiences as well as higher levels of satisfaction than students who live off campus. Previous housing reports (Silcox 1988, and Neelands 1999) recommended targets of 22.5% and 28.7% respectively for full-time students living in University housing. Despite the addition of five university residences, we have not reached these targets. Currently 15.4% St George campus students live in residence. Good quality off-campus housing in close proximity to the University is thus of considerable interest to the University, especially when taking into account the directions suggested in our recent planning exercise, **Towards 2030**: that the University should aim to increase its proportion of undergraduate students from other provinces, as well as graduate students and international students, while slightly decreasing the numbers of undergraduate students on the St George campus. We will need not only more housing but different kinds of housing to suit the needs of this evolving student population. Since there are no immediate plans for the University itself to build more student residences, this is an attractive opportunity for the University to facilitate a major expansion of student housing in close proximity to the downtown campus with a high level of service and quality.

At the time Real Estate Operations consulted with the office of the Vice Provost, Student Life to determine the demand for student housing, the Assistant Vice President, Student Life, was already conducting a review of centrally-operated student housing on the St. George campus. As part of that review, the committee examined demand and concluded that, as all on-campus residences were fully occupied, some with waiting lists, there was unmet demand for student housing on the St. George campus. While the University's First-Year Residence Guarantee ensures that priority is given to all first-year Arts and Science students, there are other cohorts who are not well served. These include: upper-year students; students from professional and second entry faculties; graduate students; exchange students, and upper-year international students.

Further, the Housing Office reports that non-affiliated residences in our immediate vicinity are often at capacity as well. These residences make about 2,000 spaces available to University of Toronto students, who comprise 50-80% of the occupants. Clearly, by necessity or choice, our students occupy a significant number of rental beds available in our immediate vicinity. These privately operated residences include: Campus Commons (Gerard/Jarvis), Campus Co-op (various locations in the Annex), New Horizons (Bloor/Dufferin), Primrose Hotel (Jarvis/Carleton), St. Vladimir's Institute (Harbord/Spadina), Tartu College (Bloor/Spadina) and The Residence (Gerrard/Bay). They are independent facilities and rarely offer the supports available in our on-campus residences. The University has little or no influence on standards/quality of student housing or quality and training of the support staff available to students (in rare occasions where such supports are even available).

The developer has also conducted market research which revealed a strong demand for student residences. This research confirmed a severe imbalance between supply and demand.

Due Diligence

The University is aware that some other Canadian universities have worked with private developers to build residence capacity. However, as noted, we were not prepared to consider this arrangement without a meaningful and independent investigation of the implications for any University of Toronto students who might use the facilities. The AVP Student Life, Chief Real Estate Officer and the Director of Ancillary Services accordingly met at length with the prospective operators to discuss the needs of students and the expected standards of university housing. They visited sites currently managed by the prospective operators, viewed those facilities and, most importantly, met with university representatives and management staff to confirm that the operation was indeed meeting institutional needs and standards. They also reviewed the current service level agreements in place at the universities visited.

Advantages to the University of Toronto

There are several opportunities and benefits provided by the proposal:

- Requires no University capital investment
- Provides a revenue stream from a property that is otherwise limited for development due to its size – only 600 sq meters. This money can be used to fund student life programs.
- Has no financial downside to the University given that it is a land/ lease structure.
- Demands no University commitment to guarantee occupancy.
- Requires no ongoing University staff investment in the operation of the residence
- Fulfills a University need to increase the number of student residence beds
- Provides an opportunity for the University to negotiate standards, design, and a service level agreement to meet the standards we expect for our students.
- Provides oversight to the University through membership on the Board of the development.
- Has no adverse impact on demand for existing University of Toronto residences and would support the University's strategy to allocate the current inventory towards meeting the enrolment goals of the University and offering on-campus residence space to the most vulnerable students, IE our first year students and those new to the Toronto area. It could also compete usefully with some of the sub-standard inventory already available on the off-campus market.

Conclusion

Proceeding with this opportunity would provide University of Toronto students with a convenient, high-quality residence opportunity which would compare most favorably with existing third-party residences. It would avoid a capital investment at a time when the University is, to say the least, financially constrained.

It is important to see that the developer will go ahead with a project on the adjacent site if we do not enter into this agreement. The proposed arrangement provides us with the opportunity to influence the design and operation of this third party residence as well as to receive an on-going revenue stream that will enrich student programming and services. There is no policy that prevents the University from entering into this arrangement and in fact there are a number of precedents at other Ontario universities. We have been extremely cautious in our review of this opportunity. In our considered view this is an excellent arrangement and we recommend that the University proceed.

Previous Approvals

- Presentation to the Task Force on the Administrative Examination of Centrally Operated Student Housing on the St. George campus (July 2008)
- Real Estate Advisory Committee (November 2008)
- Business Board Approval (December 2008)

Approval required

Leases of University property to third parties generally require Business Board approval. Given the length of the lease, this land will not be available for any other University purpose for a very considerable period of time. The University has therefore taken the position that the land should be declared surplus, as is required for any sale. While this is not in fact a sale, the lease is of such a length that it is appropriate to have the formal declaration approved by the Academic Board.