

Real Estate Department
Unincorporated Business Ancillary
University of Toronto
Business Plan Fiscal Years Ending 2004 to 2008

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

Attached is a forecast of operating results for this fiscal year showing revenues to be \$6,148,784 and expenses to be \$5,449,542 with operating results of \$699,241 for the year before commitments and transfers. We will meet this year's commitment to the University's bottom line of \$134,862 and there will be additional funds to the University due to commercial revenue from two recently purchased buildings, 500 University Avenue and 170 St. George Street (Medical Arts). The budget proposed for 2003/04, is for revenue to be \$6,241,824 expenses to be \$5,600,545 with operating results of \$641,279 before commitments and transfers.

In fiscal 2006 the Real Estate budget requires a cash flow injection of \$454,501 from General University Funds. This is due to the expectation that the Medical Arts Building will only be 50% leased during fiscal 2006 as all leases are scheduled to terminate June 30, 2006. Therefore, the cash flow generated by the building will not be able to carry the annual debt service cost of \$1,202,942. There is no provision for commercial activity from 500 University Avenue nor the Medical Arts Building in fiscal 2007 and 2008. It is assumed that both buildings will be in full University use. Therefore, it is also assumed that general University funds will begin to carry the annual debt service cost going forward.

The Real Estate Department has not to date created 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. Commencing fiscal 2004, an annual capital renewal allowance will be created to set funds aside for future capital maintenance of the properties of the north/west corner of the campus including faculty housing. The reserve appears on the Statement of Cumulative Surplus, Schedule 2. Included in this schedule, are commitments for debt service. This 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 on a straight-line basis. This line item, therefore, brings the income statement back to a cash basis so that informed decisions can be made regarding operating results.

The Department is currently negotiating 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 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 includes a proposal that grants will not be paid on properties used for faculty housing. The City is in agreement in principle with this but the agreement has not yet been signed. If the agreement is ratified there will be savings on property taxes for faculty housing.

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 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 University's plans for the area now 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 2002/03, \$680,000 was expended on capital renewal of existing faculty housing including roof replacements, masonry repairs, eaves and downspouts replacements as well as the creation of five three-bedroom single-family dwellings for new faculty. This brings the total number of new faculty apartments to 41 as at September 2002. The stock in visiting faculty apartments has not changed and remains at 20 furnished apartments. The visiting faculty program is operated outside the co-op. The total number of apartments now available to new and visiting faculty is 61. The business plan anticipates further conversions of tenanted properties to faculty housing in 2003/2004 creating an additional five new one-bedroom apartments as well as further capital renewal work to existing faculty housing totaling \$551,000. The total number of faculty apartments by September 2003 will be 66.

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 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 will affect operating results of the ancillary. During fiscal 2002/03, \$402,000 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 2003/2004 at an estimated cost of \$420,000.

It is appropriate to review the University's Real Estate Strategy on a periodic basis to take account of changing circumstances. 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 required in 2003-04 are to be borrowed from the operating fund and are to be paid back monthly over 10 years at an agreed interest rate. These capital renewal expenditures are to be capitalized and amortized over 15 years straight-line. In 2004-05, capital expenditures will be funded by the newly created capital reserve.

Table of Capital Expenditures for Housing

	2003-04 \$	2004-05 \$	2005-06 \$	2006-07 \$	2007-08 \$	Total \$
Capital Renewal of Faculty and Tenanted Residential Properties & Capital Cost of Creating New Faculty Apartments	<u>\$971,000</u>	<u>\$245,000</u>	<u>\$120,000</u>	<u>\$120,000</u>	<u>\$120,000</u>	<u>\$1,576,000</u>

Commercial Activity

This year's forecast and next year's budget includes revenue and expenses of the Medical Arts Building at 170 St. George St. and the office building at 500 University Avenue. Medical Arts is 87% leased as at December 2002. University Departments now occupy 4,033 square feet in the building. As leases terminate, more University departments will occupy the building. The plan is for the entire building to be vacated and used for University purposes by June 30, 2006. The building's cash flow will therefore not be able to support the annual debt service cost of \$1,202,942 in fiscal 2006. General University funds will need to pick up the expected cash flow deficit of this operation of \$454,501 in fiscal 2006 and will need to carry the annual debt service costs starting fiscal 2007. The office building at 500 University Avenue is only 20% leased (including the School of Continuing Studies) currently, with the balance of the building occupied by several departments of the Faculty of Medicine. The remaining four leases will terminate at varying dates over the next two years with the last date being January 31, 2006. The Real Estate budget does not carry debt service costs of 500 University, only related operating expenses of the leased space.

The Real Estate budget includes the debt repayment of the original capital cost of commercial shell space at the Graduate House. Proceeds from the two commercial leases contribute to the payment of the original cost of the space of \$565,000 to the operating fund over a 25-year period. Net income from this commercial activity is distributed to the Graduate House Residence (55%) and to the University's bottom line (45%).

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 (\$14.05 million); negotiation of a ground lease with Centennial College for a new Centennial Campus at Scarborough (\$9.3 million). Transactions under contract are the purchase of the Toronto Board of Education

properties at College and McCaul Street (\$17.0 million) and the purchase of the former Colony Hotel (approx. \$65 million) for conversion for use as a student residence. A Transaction under negotiation is the completion of a new agreement with the City of Toronto governing grants-in-lieu of taxes. 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.

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

	Approved							
	Actual 2001-02 \$	Budget 2002-03 \$	Forecast 2002-03 \$	Budget 2003-04 \$	2004-05 \$	2005-06 \$	2006-07 \$	2007-08 \$
Revenue								
Faculty Housing Rentals	837,410	942,131	979,626	1,024,585	1,063,541	1,085,526	1,107,748	1,130,206
Residential Rentals - St. George and Student Co-op	501,694	512,409	495,849	512,359	522,595	537,889	553,967	570,045
Residential Rentals - Scarborough	44,779	0	0	0	0	0	0	0
Institutional Rentals	207,131	223,200	225,903	190,467	125,000	127,000	128,000	129,000
Commercial Rentals	2,242,146	537,572	4,328,166	4,404,794	3,603,912	2,505,250	646,382	678,642
Divisional Property Rentals	95,311	90,803	93,632	100,718	101,033	101,244	101,445	103,729
Corporate Real Estate & Development Activities	0	0	0	0	0	0	0	0
Interest	42,023	6,321	25,608	8,900	4,459	(560)	3,107	3,321
Total Revenues	3,970,493	2,312,436	6,148,784	6,241,824	5,421,540	4,356,349	2,540,649	2,614,943
Expenses								
Property Operating Expenses	1,161,636	650,522	1,830,457	1,950,733	1,707,754	1,392,784	847,505	864,986
Capital Renewal - Major Maintenance	0	0	0	0	245,000	120,000	120,000	120,000
Grants-in-lieu of Property Taxes	729,608	346,483	1,150,002	1,173,740	1,038,597	815,603	426,158	444,751
Fees, Salaries, Benefits and Office Expenses	429,610	426,029	563,412	576,444	568,306	552,293	513,670	534,860
Amortization of Capital Improvements	169,846	250,531	430,715	300,730	301,477	302,276	303,132	304,047
Amortization of Medical Arts Building	35,638	0	222,679	238,636	238,636	238,636	0	0
Loan Interest - Capital Improvements	68,643	231,982	240,000	273,118	274,382	255,449	232,661	207,082
Loan Interest - Medical Arts Building	164,853	0	980,264	964,306	964,306	964,306	0	0
Divisional Overhead	15,000	15,000	15,000	100,000	100,000	100,000	100,000	100,000
Central Overhead	17,365	17,018	17,013	22,838	23,295	23,761	24,236	24,721
Total Expenses	2,792,199	1,937,565	5,449,542	5,600,545	5,461,753	4,765,107	2,567,362	2,600,447
Operating Results	1,178,295	374,871	699,241	641,279	(40,212)	(408,758)	(26,712)	14,496
Increase / (Decrease) in Capital Reserve	0	0	(0)	375,000	130,000	255,000	255,000	255,000
Increase / (Decrease) in Debt Service	145,763	50,454	108,000	115,332	130,834	145,034	166,052	129,915
Net Operating Results Before Transfers	1,032,532	324,417	591,242	150,947	(301,046)	(808,792)	(447,764)	(370,419)

Note

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

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

	Actual 2001-02	Approved Budget 2002-03	Forecast 2002-03	Budget 2003-04	2004-05	2005-06	2006-07	2007-08
	\$	\$	\$	\$	\$	\$	\$	\$
I. COMMITMENTS TO CAPITAL RENEWAL								
Capital Renewal - Major Maintenance	0	0	0	0	245,000	120,000	120,000	120,000
	0	0	0	0	245,000	120,000	120,000	120,000
Capital Renewal Allowance	0	0	0	375,000	375,000	375,000	375,000	375,000
Net Increase (Decrease) in Commitments to Capital Renewal	0	0	(0)	375,000	130,000	255,000	255,000	255,000
Opening Balance, May 1	0	0	0	(0)	375,000	505,000	760,000	1,015,000
Closing Balance, April 30	0	0	(0)	375,000	505,000	760,000	1,015,000	1,270,000
II. COMMITMENTS TO DEBT SERVICE								
Amortization of Capital Improvements	169,846	250,531	430,715	300,730	301,477	302,276	303,132	304,047
Funds Committed for Debt Service / Amortization	315,609	300,986	538,715	416,062	432,311	447,311	469,184	433,962
Net Increase (Decrease) in Funds Committed for Debt Service	145,763	50,454	108,000	115,332	130,834	145,034	166,052	129,915
Opening Balance, May 1	62,146	207,909	258,363	366,363	481,696	612,530	757,564	923,616
Closing Balance, April 30	207,909	258,363	366,363	481,696	612,530	757,564	923,616	1,053,531
III. OPERATING RESERVE								
Net Operating Results after Commitments (schedule 1)	1,032,532	324,417	591,242	150,947	(301,046)	(808,792)	(447,764)	(370,419)
Transfers:								
(To)/from Divisions - Revenue Share	(93,694)	(89,554)	(88,360)	(95,469)	(95,784)	(95,994)	(96,195)	(97,880)
(To)/from University - Earmarked Funds	(79,279)	(100,000)	(100,854)	(100,000)	(110,000)	(110,000)	(110,000)	(110,000)
(To)/from Operating Fund	(836,789)	(134,862)	(392,493)	0	0	0	0	0
Recovery of Medical Arts expenses from operating fund	0	0	0	0	0	454,501	0	0
Net Change in Surplus(Deficit) for the Year	22,770	1	9,534	(44,522)	(506,830)	(560,286)	(653,960)	(578,298)
Opening Balance, May 1	231,134	253,904	253,905	263,439	218,917	(287,913)	(848,199)	(1,502,159)
Closing Balance, April 30	253,904	253,905	263,439	218,917	(287,913)	(848,199)	(1,502,159)	(2,080,457)
TOTAL CUMULATIVE SURPLUS (DEFICIT) BALANCE	461,813	512,268	629,802	1,075,612	829,616	669,365	436,457	243,073