



TO: Business Board

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DATE: April 3, 2013 for April 8, 2013

AGENDA ITEM: 3(b.)

ITEM IDENTIFICATION:

Ancillary Operations: Residential Housing – 2012-13 Operating Results and 2013-14 Budget

JURISDICTIONAL INFORMATION:

Business Board reviews and approves the annual budget of unincorporated Business Ancillaries.

PREVIOUS ACTION TAKEN:

Business Board approved the change of mandate for the Real Estate Ancillary to focus on rental housing at the January 2007 meeting. The 2012-13 Budget was approved at the Business Board meeting on April 2, 2012.

HIGHLIGHTS:

The Residential Housing Ancillary manages 85 residential addresses with a total of 156 units. Just over half of these units are used for faculty housing, for both newly appointed and visiting faculty. There are also 11 units of student family housing and 2 houses are leased to Campus Co-op. The remaining units are rented to third party tenants, who were in the houses at the time the University acquired them.

The forecast for 2012-13 shows a positive variance overall, due to good occupancy rates, market rent adjustments in Faculty Housing, and the cumulative effect of conversions of rent controlled units to market rent units. An operating deficit of \$68,804 is expected for 2012-13. Capital maintenance and renovation costs were extensive again this year. We have increased capacity by two faculty units and two student family housing units this year.

The long range plan assumes continued transitioning of vacated long term rental housing to faculty and student family housing, and cyclical capital maintenance.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

It is the goal of the Residential Housing Ancillary to operate the properties on at least a breakeven basis, to avoid the need for permanent subsidy from the operating budget. Stability should be achieved by 2014-15 as the new management focus assists in increasing revenues to the level needed to cover costs.

RECOMMENDATION:

It is recommended that the Business Board approve the operating budget for the Residential Housing Ancillary for 2013-14, as contained in the five-year operating plan.

**St. George Campus
Residential Housing Ancillary**

Overview of Operations and Business Plan for 2013-2018

The Residential Housing Ancillary manages 85 residential addresses with a total of 156 rental units in the Huron-Sussex neighbourhood. Just over half of these units are used for faculty housing, for both newly appointed and visiting faculty. There are also 11 units of student family housing and 2 houses are leased to Campus Co-op. The remainder is rented to tenants who were in the houses at the time the University acquired them; many have been tenants for over 30 years. Day to day property management is contracted to an external property management firm, with capital work 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 goals of the Residential Housing Ancillary are to manage the housing in the Huron-Sussex area in a fiscally responsible manner, perform necessary repairs and capital refurbishment and maintain good relationships with tenants. Units vacated by long-term tenants are refurbished when funds permit, and are reoccupied by University tenants (i.e., faculty or student tenants). The type of student housing best suited to the neighbourhood is student family housing; these are often graduate students, many of whom have children of their own and appreciate the amenities and quiet atmosphere that the neighbourhood offers. Student Family Housing and New Faculty Housing both have strong demand which exceeds the current supply.

The Residential Housing Ancillary is part of the Ancillary Services department, reporting to the Director of Ancillary Services. There is one full-time employee, with support provided by the Ancillary Services accounting team. Student Family Housing admissions are supported by the Admissions staff in the Charles Street Student Family Housing office, also part of Ancillary Services. In 2011, the department added a Director (at 50% FTE) to improve supervision/coordination of staff and contractors and enhance neighbourhood relations.

Overview of operations, 2012-13

The forecast for 2012-13 is showing a positive variance as a result of better rental income and a few expense reductions. Market rent adjustments implemented over the last several years in Faculty Housing, high occupancy rates and the addition of newly refurbished market rent units has resulted in a 40% boost to income over the last 5 years.

2 houses previously leased to Campus Co-op were reclaimed this year, to create an additional two units of student family housing, and two units of faculty housing. Other general repair expenses have included window replacements, masonry repair, landscaping and roof work.

We expect this year to also finish a renovation project at one of our two listed heritage addresses, which has been vacant for some time. The project is a combination research project and residential renovation, done in collaboration with the Department of Civil Engineering, and a recipient of funding from the Ontario Power Authority, which will pioneer a method (Nested Thermal Envelope Design) of achieving over 75% energy savings in a residential retrofit. We are excited about the potential for this project to become a showcase for the neighbourhood.

At the end of this fiscal year, we anticipate a net deficit of \$68,804, which is a positive variance of \$128,766 to budget.

Operating Plan, 2013-14

We are budgeting \$424,700 for major maintenance work, which continues to be a significant annual expense in the department, given the age of the houses. Work this year will include window replacements, roof work, masonry/porches and interior repairs.

Demand for housing in this very unique neighbourhood is expected to remain strong, and rents will be subject to annual inflationary increases. Larger periodic rent adjustments will also continue to be made on market-rent units, generally after they are refurbished. Long-term tenanted housing is subject to the rent increase guideline set by the Ontario government, which this year is 2.5%. Whenever possible, we apply for above-guideline increases for these units to cover the cost of capital repairs or extraordinary increases in utility costs, but legislation also caps the amount and duration of these increases, which means that many units in the neighbourhood are already capped and costs of capital work can therefore not be recovered.

Other operating costs have been assigned inflationary increases. Property management fees are calculated as a percentage of gross rental income, utility costs will increase and salary expenses are linked to collective agreements.

Overall, we expect a net deficit of \$107,410 for 2013-14.

Long-range plan and assumptions

We expect to have a break-even budget by 2014-15, and in 2017-18, an old loan that was taken to fund capital repairs will be fully amortized, which significantly improves net income that year and thereafter.

In June 2015, the final two houses leased to Campus Co-op will be reclaimed, and will require full refurbishment. They are in poor condition and will therefore require extensive repairs. As there are no cash reserves available for this work, the ancillary will likely seek approval for borrowing for this project. A rough project cost is shown in Schedule 5 of the budget package,

and projected debt service costs and principle repayment is included in the appropriate lines on Schedule 1.

As funds permit, we will continue to convert vacated long-term tenanted housing to student family and faculty housing, as there continues to be strong demand for this type of housing at the University, and because it is housing which supports the academic mission.

We also recognise that we must be a responsible landlord to our long term tenants, and respect their love of, and tenure in, the neighbourhood. To that end, we have successfully worked to strengthen our relationship with the Huron Sussex Residents' Organization over the last several years. We are currently engaged, along with the HSRO, the University's Campus and Facilities Planning department, University members of the neighbourhood liaison committee and Councillor Vaughan's office, in a planning study for Huron-Sussex which should help develop a sustainable long range plan which will be acceptable to all stakeholders. Part of the planning study will focus on economic sustainability, which is one of the great challenges of the neighbourhood.

Rental revenue is budgeted to increase for all the years of the plan and operating costs have been assigned inflationary increases, as have overhead expenses.

UNIVERSITY OF TORONTO
ST. GEORGE CAMPUS RESIDENTIAL HOUSING ANCILLARY
STATEMENT OF OPERATING RESULTS 2011-12 TO 2017-18

	2011-12	2012-13		Variance		2013-14	2014-15	2015-16	2016-17	2017-18
	Actual	Budget	Forecast	\$	%	Budget	Budget	Budget	Budget	Budget
Revenue:										
Faculty/Student Housing	1,486,876	1,531,244	1,609,601	78,357	5.12%	1,622,912	1,704,058	1,856,460	1,984,564	2,083,792
Residential Rentals	548,270	550,963	555,594	4,631	0.84%	562,582	573,834	585,310	597,017	608,957
Commercial Rentals	-	-	-	-	0.00%	-	-	-	-	-
Institutional and Divisional Rentals	-	-	-	-	0.00%	-	-	-	-	-
Miscellaneous income	-	-	-	-	0.00%	-	-	-	-	-
Interest income	(142)	-	-	-	0.00%	-	-	-	-	-
Total Revenue	2,035,004	2,082,207	2,165,195	82,988	3.99%	2,185,494	2,277,891	2,441,771	2,581,580	2,692,749
Expenses:										
Direct Expenses:										
Property Operating Expenses	898,678	1,041,541	1,023,393	(18,148)	-1.74%	1,047,005	1,067,945	1,089,304	1,111,090	1,133,312
Capital Renewal - Major Maintenance	573,873	482,900	462,537	(20,363)	-4.22%	424,700	385,000	310,000	332,000	427,000
Property Taxes/Grants in Lieu	151,375	154,402	159,373	4,971	3.22%	163,384	160,116	156,914	153,776	150,700
Salaries, Benefits and Office Expenses	67,934	120,055	108,324	(11,731)	-9.77%	106,073	109,255	112,533	115,909	119,386
Legal Fees	13,751	6,500	10,366	3,866	59.48%	10,000	10,000	10,000	10,000	10,000
Insurance	16,233	16,558	16,720	162	0.98%	17,556	17,907	18,265	18,631	19,003
Amortization of Improvements	281,588	331,501	330,630	(870)	-0.26%	377,669	378,934	395,986	398,716	175,322
Loan Interest	63,281	52,155	52,155	(0)	0.00%	50,964	50,964	144,831	142,484	135,171
Finance Fees	4,096	20,000	17,334	(2,666)	-13.33%	32,748	31,389	27,000	24,235	18,515
Total Direct Expenses	2,070,809	2,225,612	2,180,833	(44,779)	-2.01%	2,230,099	2,211,511	2,264,834	2,306,841	2,188,410
Indirect Expenses:										
Departmental Overheads	34,000	32,000	31,000	(1,000)	-3.13%	40,131	40,934	41,752	42,587	43,439
Institutional Overheads	9,612	9,422	9,422	(0)	0.00%	9,602	9,794	9,990	10,190	10,394
Facilities & Services Overheads	9,420	12,744	12,744	0	0.00%	13,072	13,333	13,600	13,872	14,150
Total Indirect Expenses	53,032	54,166	53,166	(1,000)	-1.85%	62,805	64,061	65,342	66,649	67,982
Total Expenses	2,123,841	2,279,778	2,233,999	(45,779)	-2.01%	2,292,904	2,275,572	2,330,176	2,373,490	2,256,392
Net Operating Results	(88,837)	(197,571)	(68,804)	128,766	65.17%	(107,410)	2,319	111,595	208,090	436,356