



Build Toronto
Annual Report 2009



On behalf of **Build Toronto** and its Board of Directors, we are excited to share this abbreviated **Build Toronto Annual Report** for 2009. It is pursuant to the requirements of the *Shareholder Direction* and provides audited financial statements, details from our strategic plan, organizational development, and key milestones from our first 6 months in operation.

Build Toronto is the product of a “call to action” for the City to leverage the value of its real estate holdings through sales, development and leasing, following recommendations of two prominent reports: the *Blueprint for Fiscal Stability and Economic Prosperity*, and the *Agenda for Prosperity*. This was not only vision for ‘what’ we are today, but also for ‘how’ we would deliver to the benefit of our City – the co-operation among industry, labour, educators and orders of government to enhance competitiveness and stimulate sustained economic growth for the benefit of all.

True to our roots, we have been busy acquiring and evaluating City realty assets and putting in place agreements for the transfer to **Build Toronto** of hundreds of millions in assets. We currently have several major projects underway in the pre-development phase, with more projects to be announced shortly. With this pipeline firmly in place, 2011 will prove to be a transformational year for **Build Toronto**.

Thank you for your support over the last many months and we look forward to working with you in delivering exceptional value back to the City of Toronto.

Sincerely,

Mayor David Miller
Chair

J. Lorne Braithwaite
President & CEO

Report to the Chief Financial Officer

Mandate

City of Toronto owned, Build Toronto's mission is to provide entrepreneurial development expertise to the City of Toronto to unlock the value of real estate holdings with a view to enhancing the economic competitiveness of Toronto and furthering the City's policy objectives of building strong neighbourhoods and environmental stewardship. Build Toronto is a development company with a city building mandate that over time:

- Creates a financial dividend for the City;
- Undertakes catalytic development opportunities;
- Undertakes development that attracts and retains employment in the City; and,
- Assists in the creation of liveable neighbourhoods.

Unlocking the value of real estate holdings means both developing surplus lands and enhancing the use of properties used for City operations that have development potential. More specifically, the real estate holdings to be developed are generally underutilized and surplus to the needs of City programs. In some cases, sites have an existing program use that must be accommodated but have capacity for additional development and therein lies the opportunity that defines that portion of Build Toronto's mandate.

The *Shareholder Direction* includes a set of specific objectives for Build Toronto, including:

- Building in an environmentally responsible manner and demonstrating leadership in environmentally sustainable development; and,
- Maintaining standards for architecture, design and public open space with the intent of promoting urban design innovation and excellence that meets or exceeds the expectations of the community.

In addition to the Shareholder Direction, City of Toronto Council has given specific direction on how Build Toronto relates to the City of Toronto's Real Estate Services Division and how it is to assist in the delivery of affordable housing for the City.

Build Toronto will manage its real estate portfolio in a financially prudent manner ensuring that a reasonable return on investment is achieved and development risks are managed appropriately.

Audited Financial Statements

The 2009 Audited Financial Statements are attached in the Appendix.

Planned spending for the 2009 start-up year was just over \$2.4 million. Actual expenditures for the fiscal year were \$4.6 million which included a \$2.3 million financing cost for the acquisition of debt associated with the refinancing of the Toronto Waterfront Studios Inc. (TWSI) transaction (see Results section below). This financing cost will be fully amortized through the repayment of loans by TWSI. Excluding the TWSI financing cost noted above, the expenditures for 2009 were approximately \$2.3 million.

The Corporation received an unqualified audit opinion without any management letter related to internal control issues within the scope of the audit. The Corporation has recommended to the Shareholder the appointment of PricewaterhouseCoopers for the audit of the 2010 fiscal year.

2009 Results

The focus for Build Toronto in 2009 was the establishment of the organization – putting in place the staff and business infrastructure necessary for future success.

As a start-up organization that commenced active operation in mid year 2009, Build Toronto had as its first priority the development of a five-year strategic plan. The strategic plan was approved by the Board of Directors in March 2010. Build Toronto also completed the transfer of a 20% interest in TWSI together with 100% of the lands associated with TWSI's operations from the Toronto Port Lands Company ("TPLC"). Finally, Build Toronto successfully completed the refinancing of a \$30 million loan to TWSI and started negotiation of a long term loan from Infrastructure Ontario ("IO").

Management worked with the City of Toronto to ensure that appropriate regulations are in place to allow for the proper conduct of business and enable Build Toronto to fulfill its mandate. A number of successes in this regard have been achieved, however there continues to be a need for amended regulations (see Requests of the Shareholder).

Key results are described below.

Strategic plan 2010 – 2014

The Build Toronto Strategic Plan 2010 – 2014 Summary is attached in the Appendix. The plan sets out the business context for Build Toronto and identifies three key strategies for the organization:

1. Building revenues through development of properties transferred from the City of Toronto;
2. Creating a long-term sustainable financial plan; and,

3. Delivering City-building value for the City of Toronto.

The expected result from the Strategic Plan is the creation of a skilled, self sustaining real estate development company that creates value for the City of Toronto through:

- Developing an investment portfolio of properties in which Build Toronto retains an active interest and generates on-going revenues from lease payments;
- Securing zoning on surplus lands and skilled marketing of properties for sale; both activities generate revenues in the shorter term; and,
- Undertaking catalytic development, primarily through transit-oriented projects that have economic development, social policy and development stimulus benefits for neighbourhoods.

Through its development activities Build Toronto is committed to supporting the City's affordable housing plan, achieving high environmental and urban design standards.

Organization

A key priority for 2009 was the recruitment and hiring of the Senior Management Team. The Board of Directors named Lorne Braithwaite as Chief Executive Officer and Derek Ballantyne as Chief Operating Officer in May 2009. A skilled and experienced supporting team was approved by the Board in July 2009. This team then focussed on the priorities at hand – development of strategic and operational plans, development of sites, and organizational matters. One priority was the development and implementation of key corporate and operational policies which define the approach Build Toronto will take in the conduct of its business. All major policies governing Build Toronto will be in place in 2010.

The Board established a committee structure in conformity with the Shareholder Direction. The governance model is illustrated in the Appendix attached.

A shared corporate services model supporting TPLC and Invest Toronto was developed and implemented in November 2009, hosted by Build Toronto. Shared service costs are charged to TPLC and Invest Toronto on a cost recovery basis.

Transfer of assets

The core business of Build Toronto is unlocking value in the City of Toronto's real estate portfolio through sustainable development. In 2009, 30 properties were identified as being of potential interest to Build Toronto. Six of these properties were formerly owned by TEDCO. The focus in 2009 was on determining the development potential of these assets and working with the Real Estate Services Division on the due diligence and transfer processes in order to acquire these and other assets. Build Toronto and Real Estate Services have worked collaboratively on the implementation of the City's Real Estate Principles, seeking to identify opportunities within the City's real estate portfolio for development and added value.

Management expects in 2010 to transfer to Build Toronto TPLC assets that have been earmarked for development or asset management. This includes the Corus Quay building which reached substantial completion in 2010. These assets will be used to service interest and guarantee payments for the proposed land loan (see Financial Plan section).

Build Toronto and the City have developed a template agreement for the transfer of lands currently held by the City. This agreement allows Build Toronto to use and develop the lands and to proceed with transfers at a future date once regulatory matters concerning property taxes are resolved (see Requests of the Shareholder).

2010 Business Plan

Background

2010 will be the year in which Build Toronto starts to realize its plans – staff is in place, site assessments are being completed, and the company is ready to undertake a growing number of transactions.

The 2010 Build Toronto Business Plan is based on the Board approved 5 year Strategic Plan (approved March 2010). Business Plan targets are based on:

- Existing portfolio of sites identified in 2009 for transfer / turnover to Build Toronto; and,
- Limited acquisition of new sites from the City.

Management has developed a site review and acquisition strategy for 2010 which includes the review of City and selected City agency sites for development potential, as well as a review of City sites that are over one acre in area or listed as vacant.

Site preparation for sale and development activities will be constrained by the limited timeline available in 2010 to seek City planning and zoning approvals and thereafter achieve final sales or obtain approvals to proceed with development projects. This time constraint may impact realized revenues in 2010. In such cases revenues will be postponed to 2011, but this will not impact Build Toronto operations in 2010.

2010 targets

Based on a careful analysis of the properties currently identified for transfer to Build Toronto, as well as properties identified by the City for transfer during the course of 2010, Management has developed a business plan with the following targets:

- Putting in place transfer, and where applicable turnover agreements for \$250 million of lands;
- Pre-development activity on 12 sites (site assessment, zoning where appropriate, market assessment) – cost \$2.6 million;

- Marketing of 6 sites, sales agreements in place for 2 sites - revenues of \$8.6 million; and,
- Achieving leases for the development of 300,000 square feet of office space to be constructed by 2014.

Financial plan

A key to achieving the 2010 Business Plan and future year targets is the implementation of a financial plan that achieves financial sustainability and a financing facility for the development of investment properties.

Management plans to fund operating and capital cost cash requirements using a combination of property sales, draws from the Land Acquisition Reserve Fund provided by the City ("LARF" - \$10 million repayable loan), and new financings. Of the LARF funding, \$1.8 million relates to 2009 expenses and \$2.5 million is the planned draw for 2010 leaving a balance of \$5.7 million for future years.

The IO financing agreement was negotiated at the end of December 2009 as part of the approach to a long-term refinancing arrangement for the Toronto Waterfront Studios (TWSI) operation at favourable interest rates over a 23 year period. It was intended that the funds would be drawn to replace a bridge loan of \$30 million by May 31st, 2010. Due to ongoing negotiations with the TWSI shareholders, the negotiated IO financing agreement did not close before May 31st. Management has successfully negotiated a 12-month short-term loan with IO in order to repay the bridge loan.

Management will also seek to put in place a land loan of up to \$200 million. The loan will be used to provide both development capital and equity capital for Build Toronto investment properties (primarily office developments). Build Toronto will seek a guarantee from the City of Toronto to ensure the lowest cost for the land loan. (see Requests of the Shareholder).

Management has also been in discussion with the Federation of Canadian Municipalities (FCM) to obtain a \$10 million loan from its Green Municipal Fund for the remediation of a brownfield site in south Etobicoke. It is proposed that the City guarantee this loan in order for Build Toronto to be eligible for the lowest interest rate available to cities and their wholly-owned corporations. Should Build Toronto not be eligible for the lowest rate available then Build Toronto will incur a rate that is approximately 1.5% higher per year in its outstanding borrowings from FCM.

Requirements of the Shareholder

Build Toronto has met all of its obligations pursuant to and has conducted its business in compliance with the Shareholder Direction. These requirements include:

- Establishing a Corporate Governance Committee (renamed the Human Resources and Corporate Governance Committee), and through this Committee establishing key corporate policies and operating procedures;
- Initiating work in 2009 on procurement, equity and other human resource policies; (to be completed in 2010); and,
- Drafting a Memorandum of Agreement with the Affordable Housing Office supporting achievement of affordable housing targets (completed in 2010).

Requests of the Shareholder

As noted above in this report, Build Toronto is seeking support from the Shareholder on three matters:

1. Agreement for a land loan guarantee up to \$200M.
2. Regulatory changes required for the appropriate conduct of business.
3. A Letter of Guarantee to support participation in Ontario Municipal Employees Retirement System (OMERS).

Loan guarantee – development and brownfield remediation

As noted above the Build Toronto Strategic Plan includes the development of investment properties which the Corporation will develop or co-develop. The Corporation may retain a longer term interest in certain properties to provide an on-going source of revenue for Build Toronto and contribute to a long-term financial dividend for the City.

Build Toronto is land rich but cash poor when compared to a mature development company. To develop investment properties equity investment will be required. Build Toronto will seek loans using its land holdings as collateral to finance such equity investments. A City loan guarantee of \$200 million will greatly improve the debt / equity ratio for the Corporation and very significantly reduce borrowing costs. Build Toronto proposes to pay a commercial rate to the City for the loan guarantee.

As indicated above Build Toronto is remediating a brownfield site in South Etobicoke with a view to attracting new employment uses to the area. A City loan guarantee for \$10 million (which has been included in the \$200 million loan guarantee request above) for the remediation of this site will provide Build Toronto with the lowest cost of borrowing from FCM's Green Municipal Fund. Build Toronto is proposing that it pay a modest fee to the City for this guarantee.

Regulatory changes

Build Toronto successfully worked with the City to effect regulatory changes which now allow for the creation of subsidiaries, and the holding of an interest in another company. Both of these changes will enable Build Toronto to more successfully enter into development joint-ventures and manage risk in certain transactions (the TWSI loan is an example of this).

Necessary, and increasingly urgent for Build Toronto, are regulatory changes that will:

- Exempt Build Toronto from paying property taxes (an exemption similar to the one that applies to the City of Toronto) on vacant lands and premises it uses for its own purposes; such exemption will not have any impact on current City or provincial tax revenues as the lands currently are tax exempt; and,
- Confirm the ability of the City to guarantee loans to Build Toronto from commercial lending sources.

Without these changes Build Toronto will attract higher operating costs and financial gains will be reduced. Management continues to work with City of Toronto officials in seeking these regulatory changes.

OMERS letter of guarantee

Build Toronto is a participant organization in the Ontario Municipal Employees Retirement System (OMERS). OMERS requires that Build Toronto post a letter of credit in the amount of approximately \$200,000 in order to participate in the system. This cost can be avoided if the City of Toronto provides OMERS with a Letter of Guarantee. This will provide OMERS with the required security for Build Toronto's participation in the pension fund.

Conclusion

Build Toronto is a start-up organization with six months of operation in 2009. During that time the Corporation was successful in setting out a long-term vision and plan, in developing the organizational capacity to deliver on its mandate, and in starting the land development and sale transaction processes. Results of the efforts in 2009 will be seen in 2010 and beyond.

Appendices

Strat Plan

Organization

Financials

Strategic Plan Summary

A Growth and Revenue Producing Development Company For a Growing Portfolio of City Properties

The inaugural strategic plan for Build Toronto sets the organization on its journey of growth. The strategic plan outlines the business model being used in the management of assets transferred to Build Toronto from the City, the financial and non-financial targets for the corporation, and the priorities for the five-year period ahead.

The company represents a new entrepreneurial model for a city-owned real estate entity. The top rated team of development leaders will partner with private and public sector interests, and access equity markets to develop properties and produce real results - specifically investment properties with long term value yield, dividend streams, economic growth, new employment, and targeted city-building – all to the benefit of the City of Toronto.

Mandate

Build Toronto is a development company with a city-building mandate to:

- create a financial dividend for the City
- undertake catalytic development opportunities
- undertake development that attracts and retains employment in the City
- assist in the creation of liveable neighbourhoods

There are two primary objectives for Build Toronto: to build a portfolio of investment properties that will yield an annual financial dividend for the City of Toronto, and to direct development and management of assets in order to achieve city-building results.

Build Toronto was one of two corporations created following the 2008 Toronto City Council approval of *A New Model To Enhance Toronto's Competitiveness*, a collaborative report with recommendations from two major reviews of the City and its Economic Development and Real Estate activities. Build Toronto Inc. was incorporated on November 2008, and began operation in June 2009, following the appointment of a Board of Directors and the Chief Executive Officer, Lorne Braithwaite.

Business Model

Build Toronto has completed a detailed evaluation and analysis of current lands transferred to it by the City and calculates a build-out potential of close to 14 million square feet of new leasable area. Build Toronto's current land inventory is appraised at close to \$200 million. The

value of properties available to Build Toronto is expected to grow to \$350 million over the 2010-2014 period.

Major “investment properties” (commercial, industrial and mixed-use) will likely be undertaken as joint ventures with the private sector with Build Toronto raising or managing the aggregation of equity capital. The result, long underutilized properties across the City (including prime sites in Downsview, Scarborough, North York and North Toronto) will be transformed and ‘value-enhanced’ into first class mixed-use, and new revenue-generating communities. Properties that have a limited value as long-term commercial investment, or those are primarily targeted to residential development, will be sold on an improved or unimproved basis. This process will be done on a case-by-case basis, following detailed market and business opportunity analysis.

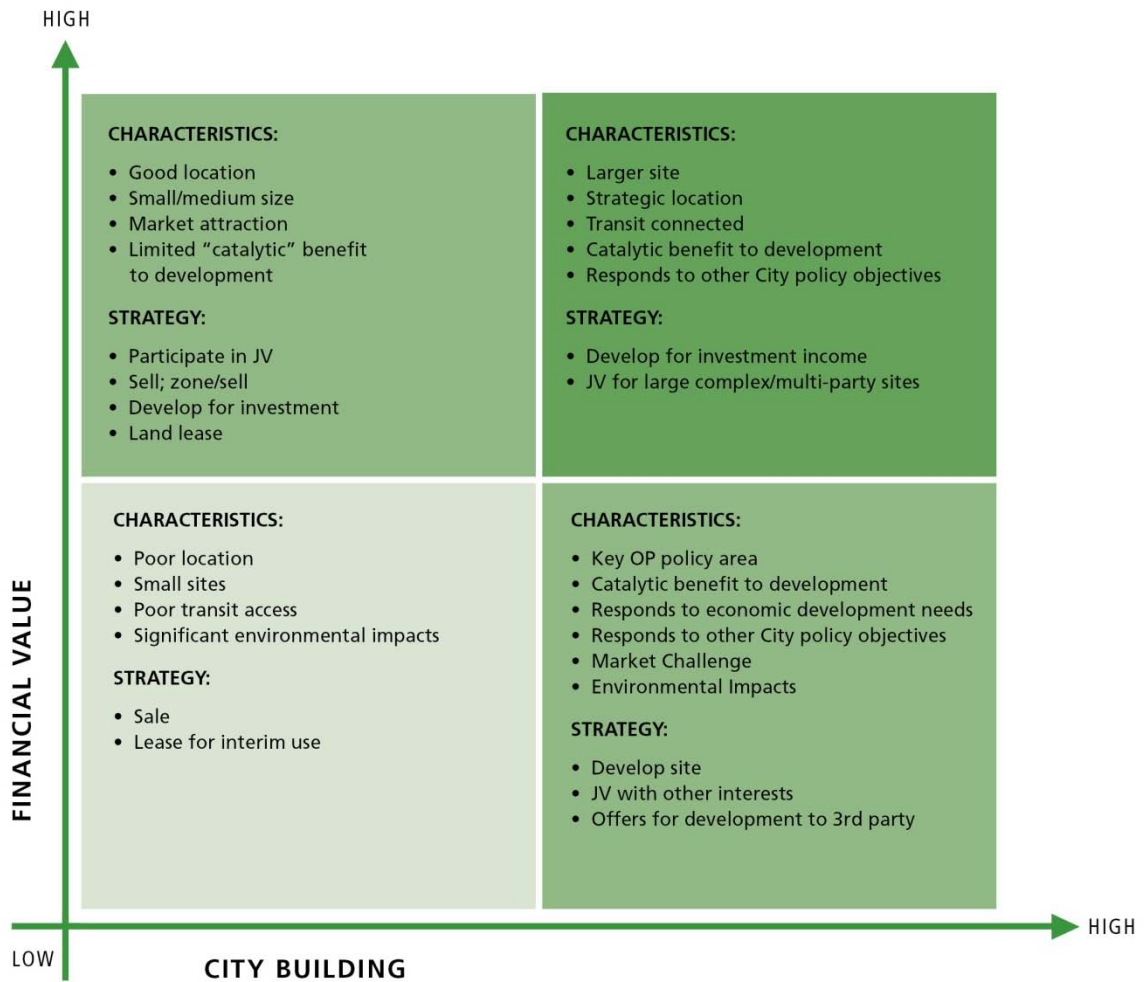
Fig. 1 – Build Toronto Business Model



Outcomes

The outcomes for Build Toronto are based on what can be achieved from available land inventory or other assets put at Build Toronto’s disposal. As noted above, the highest outcome for Build Toronto is the development of investment properties with high value (NOI) and a high contribution to city-building outcomes. The following diagram (Fig.2) illustrates the types of sites in the Build Toronto land inventory and how these support the needs of the corporation.

Fig. 2 – Matrix of Build Toronto Values / Outcomes



Priorities

1. Building revenues

Key goals for Build Toronto are to create a financial dividend for the City of Toronto and to meet city-building objectives. A long-term sustainable revenue stream will benefit the City as this annuity can be built into long-term operating and financial plans. Over time, this value can be captured through asset sales. Building an income stream to support all operating needs will take seven years. This assumes a modest build-out and a period of close to four years before the first commercial development revenues are realized. In order to sustain Build Toronto and generate some equity capital, an aggressive asset management plan is required that maximizes value from the lands that are available for non-commercial purposes or that do not fit with the long-term asset profile.

A goal for Build Toronto is the payback of a \$10 million interim loan fund from the City by 2016 and generating sufficient capital for equity investment in key projects. Operating funds through this period will be generated through the sale of lands which are not “mission-critical” (estimated at \$64 million) together with monies from asset management activities and land loans.

Table 1 - Current Build Toronto Development Potential (NRA sq ft)

	INCOME PROPERTIES	ASSET MANAGEMENT
Commercial Development	4,391,000	
Residential Development		8,618,000
Industrial Development	779,000	
Land Leases (long-term)	50,000	
Land Sales/Short-Term Leases		227,000
Total (NRA sq.ft.)	5,220,000	8,845,000

With over 50% of current assets in the residential category, Build Toronto will either sell, or participate in development of these lands, while meeting the City’s targets of providing land for the construction of 1,250 affordable ownership and rental units over 5 years. Build Toronto will oversee the development of this portfolio working with non-profit or private developers and will work with the City’s Affordable Housing office to fund and deliver this affordable housing.

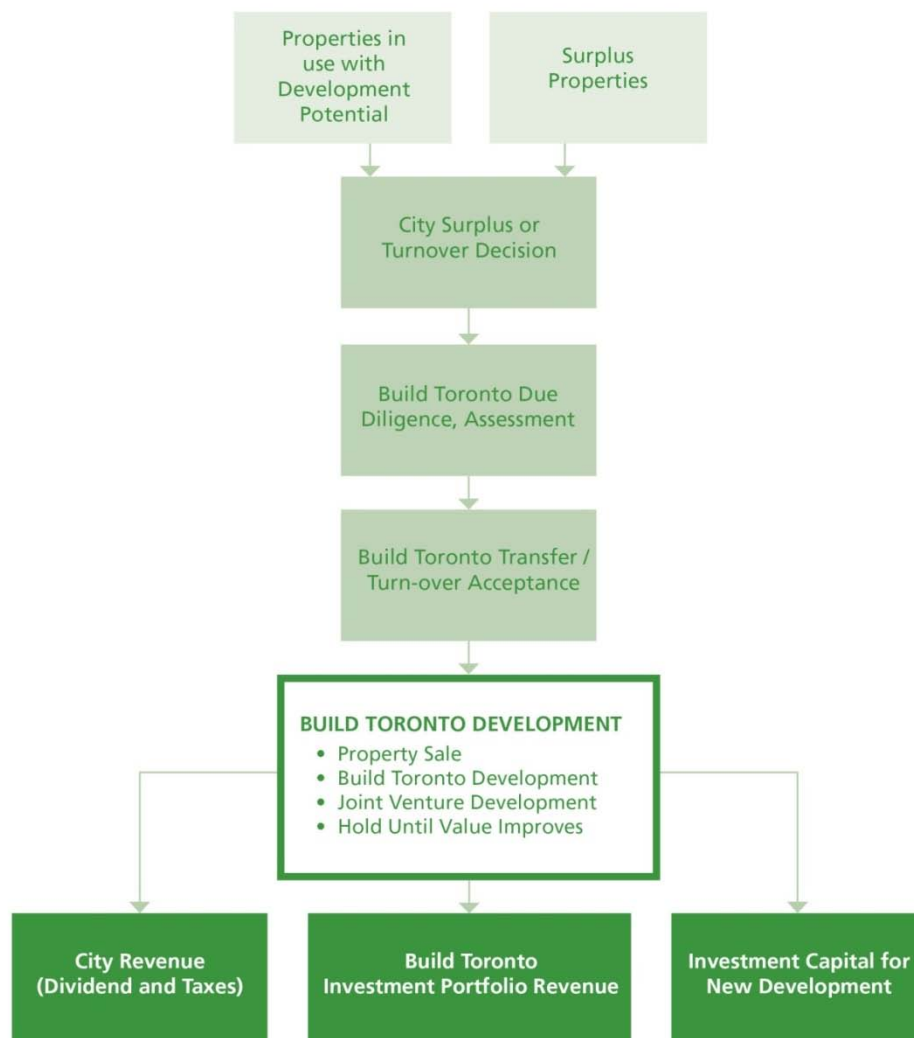
Table 2 – Summary of Potential Investment Income 2010 – 2016

DEVELOPMENT TYPE	ANNUAL NOI (\$ MILLIONS)	TIME FOR STABILIZED NOI (YRS)	RISK
OFFICE	32.7	19% 2014, 81% 2015/16	MED/HIGH
INDUSTRIAL	9.8	2016	MED/LOW
RETAIL	0.4	2013	LOW
STORAGE	3.4	2013	LOW
TOTAL	46.3		

2. Financial Sustainability

There are two key financial challenges facing Build Toronto in the short and medium-term: reaching operational self-sufficiency, and generating sufficient income for equity investment in projects. The timely transfer of properties to Build Toronto is paramount to achieving financial sustainability, growth in revenues and value to the City. Build Toronto will work closely with the City to identify lands with development potential and unlock this value to rapidly achieve operating self-sufficiency as well as generate funds for equity investment in key projects.

Fig. 3 – Process for Acquisition and Development of Properties



In the initial period of this plan, it will be imperative that larger projects with requirements for high-level Build Toronto equity participation start into production in order to create the net income that will provide the financial dividend to the City. Equally important is the continued identification of surplus properties by the City of Toronto and their transfer to Build Toronto in order to maintain an inventory against which Build Toronto can borrow to invest in the development of investment properties.

3. Delivering City Building Value

Build Toronto is responsible for achieving Toronto's city-building objectives and meeting its triple bottom line of economic, social and environmental results. All projects will exceed the City 'green building standard' and demonstrate the highest level of design and architectural excellence. In addition, as many projects as possible will support transit expansion, City 'priority neighbourhoods' growth, and future Transit City 'business corridors' infrastructure.

A key success for Build Toronto is to develop investment properties that have a positive catalytic impact in neighbourhoods. This includes working with the City's Affordable Housing Office to use Build Toronto sites in the delivery of 1,250 affordable ownership and rental housing units.

Implementing the Strategic Plan

Council set up Build Toronto with the stated objective to *"use its lands to enhance Toronto's economic competitiveness by attracting new commercial development that creates desirable jobs and to improve the liveability of Toronto by rejuvenating neighbourhoods and providing infrastructure and amenities."* Build Toronto's Board of Directors is Chaired by Mayor David Miller and Vice-Chair Blake Hutcheson, and represents an incredibly strong and experienced Board with exceptional expertise in the Real Estate and Development business in Toronto and in Canada.

The strategic plan covers the period to 2014, and foresees continuing transfer of lands to Build Toronto, including underutilized properties already occupied by City facilities such as libraries, parking lots and the TTC. Many of these "turnover" properties have high potential for intensification and revenue generation. Build Toronto will rely on the willingness of City operating departments to partner on accommodation solutions for existing facilities that will free up high value sites of which there are many in highly desirable locations.

The Team

Build Toronto is led by a team with deep experience in public and private sector development. Lorne Braithwaite, Build Toronto's CEO, is an internationally known dynamic real estate

developer with strong strategic vision and business acumen gained through public and private company experience in Canada and abroad during a 32 year business career. Derek Ballantyne, Build Toronto's COO brings to the table his strategic leadership experience planning and directing Canada's largest public-private re-development project in Regent Park.

Rounding out Build Toronto's Senior Management Team are Don Logie, Senior Vice President, Development, Winston Young, Senior Vice President and CFO, and John Macintyre, Senior Vice-President, Corporate Affairs. Collectively, Build Toronto's Senior Management Team has the development expertise, financial acumen and the intimate knowledge of the City of Toronto and its unique stakeholder environment required to achieve the mission.