RE:EX16.4 Appendix A

City of Toronto

City-wide real estate review

Real estate vision and transition

SUMMARY REPORT

June 6, 2016

Deloitte LLP

Bay Adelaide Centre East Tower
22 Adelaide Street West, Suite 200
Toronto, ON,
Canada

Mr. David Jollimore
Director, Business
Performance Management

City of Toronto
Metro Hall, 55 John Street, 7th Floor
Toronto, ON   M5V 3C6

June 6, 2016

Dear Mr. Jollimore,

We are pleased to submit the final report for the City of Toronto's City-wide Real Estate Review that has been conducted over the past six months.

During this time, we have worked extensively with you and the City of Toronto's leadership team, and entities under review to analyze, engage, interview and understand the current situation and opportunity for transformation. We wish to thank you and the City's leadership and entity teams in assisting us through the process with data requests, insights, soundings and meetings as we worked through the process. We also wish to thank the City's Real Estate Advisory Panel for their wisdom and expertise throughout the assignment.

As a result of our work, and previous studies completed by the Auditor General and other consultants, it has become clear that the City has a tremendous opportunity to accelerate real estate service delivery to contribute to City-building efforts, deliver value-for-money to Toronto's citizens and businesses, and become a solid steward of the vast properties and lands owned and leased by the City. The following summary report outlines the key findings of the review, recommended approach toward a modernized real estate operating model, and identifies some of the key challenges toward implementation.

If you have any questions, please feel free to contact Sheila Botting directly at sbotting@deloitte.ca (416) 601.4686

Respectfully submitted,

Deloitte LLP

Deloitte LLP

City-wide real estate review

Table of contents

The assignment
Background and purpose

The City of Toronto recently initiated a review of its real estate services delivery model, the Consolidated Real Estate Framework, May 2015. The desired benefit of such review is established in recent studies commissioned under the City's service review program and value-for-money audits conducted by the Auditor General. Both sets of studies identified opportunities to improve delivery of the City's real estate functions. As a result, Deloitte was engaged to provide this City-wide review of real estate delivery across the City of Toronto. The following summary report outlines the key findings of the review, the recommended approach moving forward and some of the key barriers and challenges to implementation.

The City of Toronto Council adopted the Consolidated Real Estate Framework report in May 2015 and directed the City Manager to develop a business plan for implementation, with a view to improving the coordination of real estate services delivery. The purpose of the City-wide real estate review is to implement Council's direction, particularly as it relates to the end-state vision for a real estate service delivery model that that supports the City's long-term strategic objectives, including City-building.

The City's real estate requirements and services are delivered through a range of entities with varying legislative, governance and decision making structures. For the purposes of this assignment, the 15 entities identified below were selected for detailed analysis. The 15 entities may be involved in activities that include or are independent of the City's Real Estate Services (RES) Division. The City's RES Division provides any and all real estate services and support to all other City divisions, including such entities as Fire Services, Toronto Paramedic Services, Children's Services, Court Services and the like.

From an industry perspective, the term "real estate" typically refers to a combination of facilities management and strategic asset management. At the City of Toronto, real estate is organized somewhat differently into two main functions: core real estate and facilities management. In this report, a distinction is made between core real estate and facilities management for the purposes of benchmarking with other comparable organizations and to demonstrate broader opportunities and ensure alignment with the market.

6 Agencies

- Exhibition Place
- Toronto Parking Authority
- Toronto Police Services
- Toronto Public Library
- Toronto Transit Commission (TTC)
- Toronto Zoo

4 Corporations

- Build Toronto
- Toronto Community Housing Corporation (TCHC)
- Toronto Hydro
- Toronto Port Lands Company

5 City divisions

- Affordable Housing Office
- Long Term Care, Homes and Services
- Parks, Forestry and Recreation
- Real Estate Services
- Shelter, Support and Housing Administration

The assignment
Expected outcomes

Current State: Mature Service Delivery Model

Currently, the various City of Toronto entities engaged in real estate activities operate within a relatively **mature service delivery model.** Over time, this approach **has led to the development of entity 'silos'** that make it difficult to achieve broader City-building objectives, including the development of a City-wide real estate strategy, capitalizing on co-location and shared service opportunities, maximizing the value of current City real estate assets and delivering cost efficiencies and savings across the corporation. Since amalgamation in 1998, some changes have been made to the real estate services delivery, notably the **formation of Build Toronto** and the **Toronto Port Lands Corporation** (TPLC), and for many years the existing model has been sufficient to meet City needs.

Future State: New Service Delivery Model

Recently, it has become apparent that a more significant change may be required to delivery value to the City of Toronto ratepayers. The **pace of development** activity has surged. A renewed commitment to City-building and infrastructure investment has been made at the local, Provincial and Federal levels of government. The **City now has an opportunity to take a more strategic approach** to the use of its land and building assets.

The City-wide real estate review aims to take advantage of this opportunity. This Deloitte study followed a **multi-phased process** including: data analytics, stakeholder consultation, a review of real estate service delivery models in comparable jurisdictions (the "jurisdictional review") benchmarking and strategic evaluation and business case development. Recommendations are made with respect to improving the current service delivery model, supporting Council's strategic and City-building priorities, overcoming barriers to the optimization of City-owned assets, developing adequate business and technology support and finding operational efficiencies.

Oversight and project management for the assignment was supported by a **Steering Committee** comprising senior City staff and an **Expert Advisory Panel** to provide industry insight, real estate expertise and advice for the review and the final report to Executive Committee and Council. A **City Project Team** was also put in place to support and direct the assignment.

The current real estate delivery model has evolved since 1998 with the formation of Build Toronto and the Toronto Port Lands Corporation. Building on these initiatives, the City now has the opportunity to **take a more strategic approach** to the use of land and building assets to support City-building goals.

Core real estate and facilities management
The real estate portfolio at a glance

The City-wide review examines Toronto's real estate portfolio across a number of different metrics, including the total amount of building space by major asset type, land, capital and operating expenses, annual development activity and staffing resources, particularly with respect to strategic and operational functions. The sheer size of the portfolio is of note: **106.3 million square feet (SF)**, **28,822 acres of land, $1.1 billion annually in operating costs $1.0 billion in capital and development expenditures** and **$27.0 billion in assessed value,** as provided by the City**.** The **3,177 employees** are devoted almost entirely to facility management. **Staffing for core real estate functions relative to facilities management is limited.**

The City of Toronto has a **very large and diverse real estate portfolio (inclusive of facility management)**. The sheer size of the inventory, level of operating and capital costs, employee resources and property value highlight the importance of the assignment.

1. Building Space and Land Inventory

- **6,976 buildings with 106.3 million SF** of which 49% is multi-residential most of which is with TCHC
- 8,446 properties with 28,822 acres of land of which 64% is occupied by park land

2. Operations

- **$1.1 Billion operating costs** in annual core real estate and facilities management operating costs

3. Capital Expenditures and Development

- **$1.0 Billion in annual portfolio** capital and development costs

4. FTE Resources

- **3,177 FTE's** oversee the portfolio including:
  - o 2,983 FTEs or 94% in facilities management
  - o 194 FTEs or 6% in core real estate functions

5. Property Value

- **$27.0 billion in assessed portfolio** value as provided by the City of Toronto

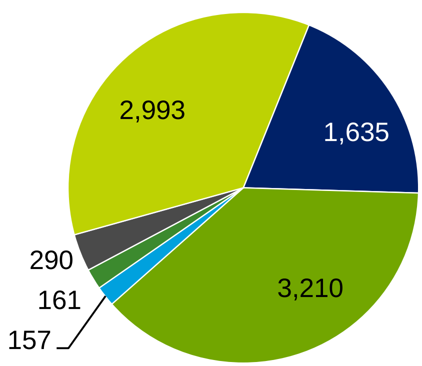
Note: Summary value and percentage totals may vary due to rounding.

Core real estate and facilities management
Properties and buildings

The City of Toronto portfolio includes some 8,446 properties, 28,822 acres of land, 6,976 buildings with over 106.3 million SF and is shown in detail below. Overall assessed value as provided by the City is some $27.0 billion with an annual portfolio operating budget of $1.1 billion, or 10% of the City's overall $11.4 billion operating budget for 2015. The portfolio is substantial and diverse by asset class. Two entities, TCHC & Parks Forestry & Recreation, represent a significant component of these overall portfolio totals. Of the 28,822 acres of land currently under management, over 64% or 18,433 acres alone are housed within the parks, forestry and recreation portfolio and of which 7,830 acres are leased. Of the total building area of some 106 million SF, 50 million SF or 47% are multi-residential housing units controlled by the TCHC.

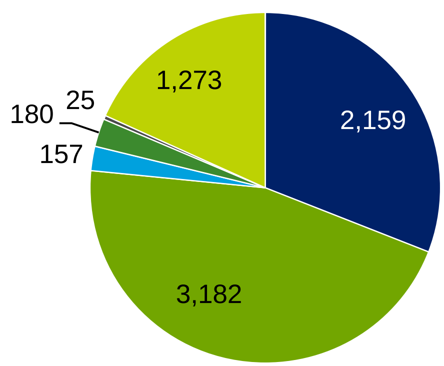
Entity Summary	No. Of Properties	Total Land (acres)	Total Buildings	Total SF (M's)	Property Operating Cost ($M / yr)	Property Operating Cost ($ PSF)
Multi-Residential	1,635	1,209	2,159	51.85	$378.21	$7.29
Mixed-Use	3,210	7,254	3,182	22.15	$297.00	$13.41
Retail (e.g. Libraries, Fire Services etc.)	157	40	157	4.38	$45.82	$10.46
Commercial	161	837	180	12.58	$51.85	$4.12
Parking	290	76	25	4.62	$40.10	$8.68
Special Purpose	2,993	19,406	1,273	10.75	$286.17	$26.63
Total	***8,446***	***28,822***	***6,976***	***106.33***	***$1,099***	***$10.34***
Total excluding TCHC and Parks, Forestry & Recreation	***4,598***	***9,236***	***3,916***	***48.30***	***$662***	***$13.70***

Portfolio Inventory - Properties



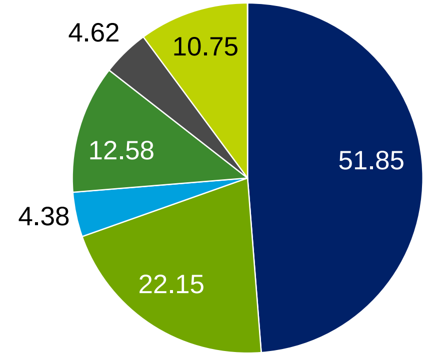
TCHC	Parks, Forestry and Recreation
1,592 properties **or 97%** of multi-residential properties	2,256 properties **or 75%** of all special purpose properties

Portfolio Inventory - Buildings



TCHC	Parks, Forestry and Recreation
2,114 buildings **or 98%** of all multi-residential buildings	946 buildings **or 74%** of all special purpose buildings

Portfolio Inventory – Total SF



TCHC	Parks, Forestry and Recreation
49.8M sf **or 96%** of all multi-residential buildings	8.2M sf **or 76%** of all special purpose buildings

Note: Summary value and percentage totals may vary due to rounding.

Core real estate and facilities management
Employment distribution

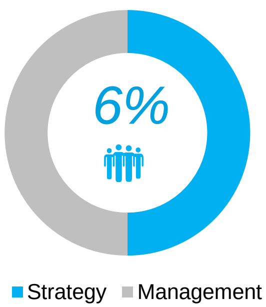
From an internal municipal perspective, the City's real estate function is dominated by task-oriented FTE positions that are **largely focused on day-to-day facility management functions** as required within each of the various entities. As very few of these portfolios are revenue based real estate entities, the dominant function involves the planning and management of the City's capital state of good repair program and day to day operations. Staffing for strategic management functions (core real estate) is limited.

Total employment of 3,177 full time employees (FTE) is distributed heavily towards facilities management

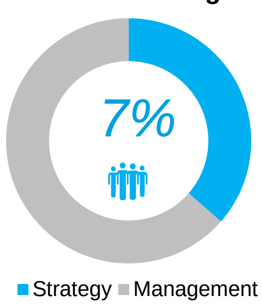
There is currently a total of 3,177 employees in the 15 entities under review, of which nearly all are distributed to facilities management functions.

- Facilities management activities account for 2,983 FTE's, including the 117 FTE's for Capital (Design & Construction) and are by far the largest group, involved in daily operations such as property, project and capital management;
- Core real estate activities account for only 194 FTE's or 6% of the overall FTE base. Within the core real estate total, half (97 FTE's) are engaged in strategic real estate matters such as planning, asset management and development. The remaining half (a further 97 FTE's) are engaged in transactions including accounting and finance, acquisitions and dispositions and various leasing activities;
- Removing TCHC and parks from the analysis does not significantly affect the overall core real estate to facilities management FTE ratio.

Total Portfolio



Total excluding TCHC and Parks, Forestry & Recreation



Real Estate FTE's

Entity	Core Real Estate FTE's	Capital (Design & Construction) FTE's	Facility Management FTE's	TOTAL FTE's
Multi-residential	50	8	1,100	1,158
Mixed-Use	82	76	570	728
Retail	3	4	259	266
Commercial	36	8	97	141
Parking	6	1	53	60
Special Purpose	17	20	787	824
Total	***194***	***117***	***2,866***	***3,177***
Total excluding TCHC and Parks, Forestry & Recreation	***140***	***108***	***1,757***	***2,005***

Note: Summary value and percentage totals may vary due to rounding.

From a real estate services delivery perspective, the overall employment distribution is weighted **heavily towards facilities management. Strategic real estate functions are limited**. Removal of TCHC and Parks, Forestry & Recreation does not significantly change this ratio.

Core real estate and facilities management
Governance and approval

A multi-stage and complex process for decision-making

The City's model for governing real estate operations and decisions is made up of **many different entities, legal structures and legislation**:

- The agencies and corporations operate within a **board governance structure;**
- Some entities operate programs that require real estate but **do not operate or guide real estate operations or processes,** such as the Toronto Zoo. Others, such as Build Toronto, TCHC and Real Estate Services, play a more substantial role; and
- Seven of the 15 entities are **subject to additional legislation** related to their specific mandate and programs including two City divisions; Long-Term Care and Shelter Support and Housing, which may or not be relevant in the broader context of this report.

It is clear that the various entities and their associated governance models, programs and mandates provide complexities for the real estate operations and decision making processes.

Adding to this complexity is the actual decision-making process. At the end of the day, a large and varied group of actors are involved in making real estate-related decisions, including City divisions, the board members and leadership for the agencies and corporations, other professionals and consultants, Councilors and senior City leadership.

City entities with boards	Board?	Legal structure	Governing legislation
Build Toronto	✓ yes	🔴	
Toronto Port Lands	✓ yes	🔴	
Toronto Hydro	✓ yes	🔴	✓ Yes
Toronto Community Housing Corporation	✓ yes	🔴	✓ Yes
Toronto Transit Commission	✓ yes	🟡	✓ Yes
Toronto Police Services	✓ yes	🟡	✓ Yes
Toronto Public Library	✓ yes	🟡	✓ Yes
Exhibition Place	✓ yes	🟡	
Toronto Parking Authority	✓ yes	🟡	
Toronto Zoo	✓ yes	🟡	
City entities without boards		**Legal structure**	**Governing legislation**
Toronto Real Estate Services		🟢	
Toronto, Forestry & Recreation		🟢	
Toronto Affordable Housing Office		🟢	
Long term Care Homes & Services		🟢	✓ Yes
Shelter, Support and Housing		🟢	✓ Yes

🔴 Corporation 🟡 Agency 🟢 Division

A multi-dimensional and **complex governance and approvals process** exists between the City's real estate requirements and decisions from the entities and performance of the City's real estate portfolio.

Key conclusions

Summary interview observations and themes

As part of the stakeholder consultation undertaken for this assignment, interviews were held with leadership from the 15 entities under review. The interview process was undertaken to ensure reliable input from each entity and gain additional perspective to our analysis and review. The feedback received confirmed the key conclusions with respect to governance, decision-making and operations and the wide variation of real estate activity on an entity-by-entity basis.

1. Governance Model	The City's real estate governance model is complex, comprising a **range of different entity mandates, board composition and appointments**, engagement with Councillors and, in some cases, governing legislation.
2. City Building Agenda	The current service delivery model presents challenges for City building as the **range of interests are not aligned** toward an overall City building framework. Specific examples of some key City building objectives that may be impeded by the current model include community hubs, co-location opportunities, the **provision of affordable housing units** and **'freeing up' surplus sites** for mixed use development such as the Etobicoke Civic Centre relocation.
3. Operations and Processes	Real estate operations and processes are **not cohesive or standardized across the City**. The relative lack of formal information flow was identified as a concern, and **points to the opportunity** to take a more strategic approach in adopting best practices city-wide to become more operationally efficient.
4. Real Estate Expertise	Real estate expertise is distributed across the broader organization with the majority of employees focused on day-to-day facilities management. This **skills imbalance** results in the risk that some entities may be making real estate decisions that may not benefit from sufficient expertise.
5. Decision-Making and Approvals	Decisions and approvals are currently made through a multi-stage process involving many different constituents including executives and staff, board members, City departments, Council and ratepayers.
6. Coordination among entities	The mechanism for coordinating specific opportunities that could lead to city building and the broader public good could be improved. Entities tend to operate within individual silos, limiting coordination and potential for decisions that could lead to higher and better development opportunities such as the co-location of some entities.
7. Technology Platform	The lack of a comprehensive technology platform for the City real estate properties and processes limits the ability to make timely and informed decisions with proper business cases on a City-wide basis.

Jurisdictional review

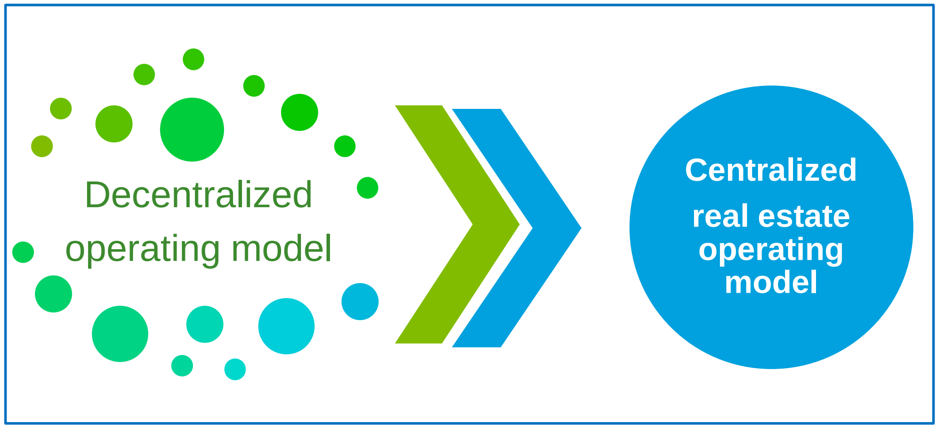
What others are doing

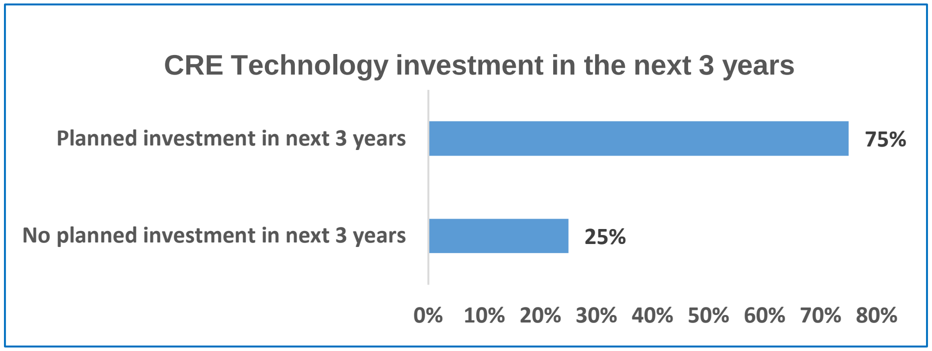
The purpose of the jurisdictional review was to review the operations of **other relevant corporate real estate (CRE) organizations** that could provide relevant insights and benchmarks this assignment, including Infrastructure Ontario, Public Works and Government Services Canada (PWGSC) and Shared Services BC. **Recent research undertaken** by CoreNet and Deloitte with respect to the emerging CRE marketplace was also reviewed to highlight the key trends and opportunities.

Operational and Strategic Findings

The results of the review show a strong preference for a direct or centre-led operating model and an increased investment in technology. Widely-recognized benefits include:

- **Strategic alignment** – Easier in a centralized model because of the visibility of the portfolio;
- **Cost Reduction** – Centralized control improves property vacancy management and portfolio optimization;
- **Continuous Improvement and Innovation** – Short, medium and long term operational planning allows for constant review of processes and spaces;
- **Economies of scale** – Procurement opportunity to identify and realize increase value for money;
- **Improved data quality** – As shown at right, most of the CRE organizations surveyed as part of the CoreNet and Deloitte research were planning investments in improving services and technology platforms, with a goal of improved reporting on portfolio and operating costs and better strategic portfolio oversight.





Source: Deloitte - CoreNet

Bottom line: Change is underway: Most CRE organizations have experienced a significant CRE operating model redesign in the last 1–2 years or a reorganization is currently being planned/implemented. It is clear that centralized CRE functions are becoming the status quo and Client Relationship Management (CRM), procurement and technology investment becoming an more integral part of the CRE landscape.

Jurisdictional review

City of Toronto in context

City of Toronto comparable on key portfolio management metrics with additional opportunity for efficiencies

A comparison between the City of Toronto with other public sector real estate organizations is summarized in the table below. In order to ensure accurate benchmarking, both Core Real Estate and Facilities Management functions are included, but TCHC and Parks, Forestry and Recreation are removed given their influence on the overall totals and because they are not directly comparable in terms of portfolio.

As shown below, Toronto's combined commercial real estate portfolio and services budget per square foot is **comparable to Infrastructure Ontario** ($14.38 psf versus $13.77 psf) but **lower than PWGSC and BC Shared Services**, at $24.33 psf and $17.19 psf, respectively. This analysis demonstrates that while the City could achieve some minor efficiencies, overall the operational financial metrics are comparable with Infrastructure Ontario and best practices.

Commercial RE portfolio (excludes TCHC, Parks Forestry & Recreation)	City of Toronto	Infrastructure Ontario [1]	PWGSC [2]	BC shared services [3]
No. of Core real estate & capital management FTE's	248	193	3,531	172
Total portfolio area	48.3M SF	45.1M SF	79.4M SF	17.0M SF
Estimated portfolio value ($M's)	$14,378	$15,000	$7,040	$344
Real estate services core budget	$33.1 M	$48.4M	$883.6M	$25.1M
Portfolio budget *	$661.6 M	$572.0 M	$1,047.8 M	$267.0M
Combined Portfolio & RE Services Budget	**$694.7M**	**$620.4 M**	**$1,931.4 M**	**$292.1M**
Capital projects budget	$329.5M	$232.0M	$457.5M	$132.1M
Outsourcing of real estate services?	Minimal**	Yes	Yes	Yes
Key Portfolio Metrics	City of Toronto	Infrastructure Ontario	PWGSC	BC shared services
Combined Portfolio & RE Services budget/SF	**$14.38**	**$13.77**	**$24.33*** **	**$17.19**
No. SF per FTE	194,758	233,472	22,486	98,837
Portfolio value per FTE	$58.0M	$77.7M	$2.0M	$2.0M
Value of capital projects budget per FTE	$1,329K	$1,202K	$130K	$768K
Portfolio value per SF	$298	$333	$89 ***	$20

- Note summary value and percentage totals may vary due to rounding
- * Refers to the operating budget for facilities management including capital project delivery
- ** Core real estate and facilities management functions
- *** PWGSC portfolio is 47% owned vs.Toronto at 92%. PWGSC operating costs would include a
- higher percentage of 3rd party leasing costs. PWGSC owned portfolio value is $188.66 per owned SF.

- 1 Source Infrastructure Ontario Annual Report 2013/2014, & Infrastructure Ontario
- 2 Source PWGSC: Our Portfolio Our Story 2012/2013, Departmental performance report 2013/2014, Ministry Briefing Book Annex D Funding 2015
- 3 Source BC Shared Services MTIC Service Plan Report 2014/ 2015, & BC Shared Services

The City of Toronto overall real estate portfolio **cost structure is consistent with** Infrastructure Ontario (IO) but lower than other benchmarks.

Jurisdictional review

City of Toronto in context

Some minor cost efficiencies may be achievable, but current skills imbalance represents a more significant concern

As shown in more detail at right, from an overall cost per square foot perspective the City's **current real estate service delivery is relatively efficient.** However, as noted, when taken from an overall real estate serviced delivery perspective, the costs are somewhat higher as compared to Infrastructure Ontario (IO) for example. This finding suggests that there may be some minor opportunities for improved efficiency in the current operations.

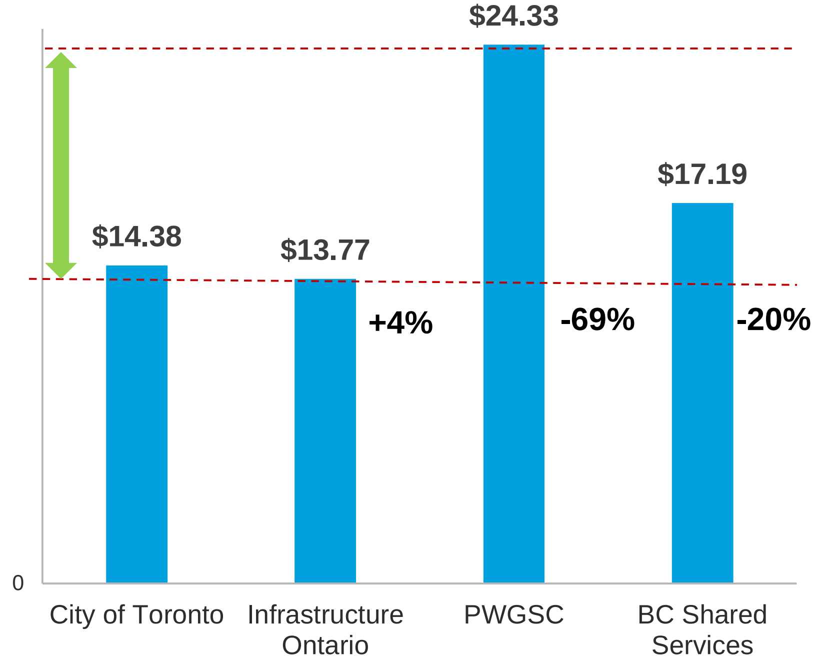
Notwithstanding this potential, the **workforce skills imbalance is of more significant concern**. As shown to the right, 80% of the 248 Core real estate FTE resources are devoted to transactions or facilities and capital planning associated with property management function (facilities management).

Only 20% of the 248 Core Real estate FTE's (excluding TCHC and Parks and Recreation) are devoted to strategic and asset management functions. For such a large portfolio this is a very limited staffing compliment.

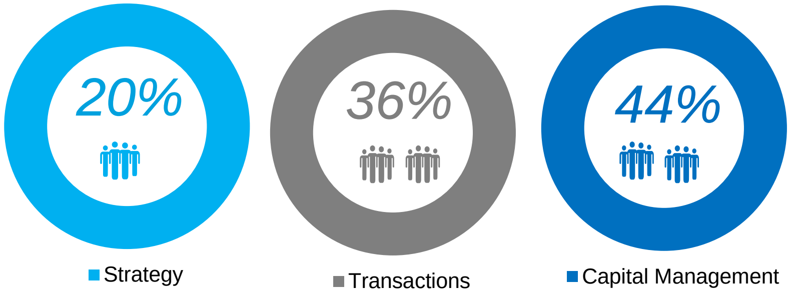
The current **skills balance is the prime concern**: relatively limited resources 20% of the 248 RE FTE's are currently devoted to ensuring the strategic use of the City's land and building assets. There is an opportunity to realign and make better use of existing City assets.

As a comparative benchmark, within Infrastructure Ontario: **54% of the FTE's are focused on core strategic asset management, financing and CRM functions**. An additional 26% are focused on management or transactions, and 20% are focused on capital planning and management.

Combined Portfolio & Core RE Services Budget /SF



Note: Summary value and percentage totals may vary due to rounding.
PWGSC portfolio is 47% owned vs.Toronto at 92%. PWGSC operating costs would include a higher percentage of 3rd party leasing costs.



Skills distribution of City's 248 FTE's

The opportunity for transformation
Five major opportunities for change

Modernize the City of Toronto real estate platform to deliver city-building opportunities

Based on the analyses, consultation and jurisdictional review it is clear that there are **significant opportunities** to create a City-wide real estate enterprise with high performing professionals delivering effective and efficient operations that focus on building the City of Toronto as North America's leading municipality. Based on our analysis and consultation with each of the 15 entities, its is clear that the **'status quo' will not provide the appropriate framework** to unlock land value potential, ensure the strategic use of land and building assets on a City-wide basis or allow for innovation through partnerships and risk management. There are **five key opportunities** for change.

1 Effective operations	**Stewardship of assets and effective and efficient operations**. Current City of Toronto operations are highly fragmented, typically paper and people based and do not lend to a highly efficient organization. There is an opportunity for the City to become more efficient in terms of decision making and approvals processes, alignment of professionals and employees to deliver outstanding projects and clear areas of accountability and authority.
2 City Building	**City building opportunities.** Once a fully effective and efficient operation is developed with high performance technology and processes, City staff will have the opportunity to focus their attention on the marketplace and City-building. There are several opportunities through such activities as co-location of City programs, realigning office space and creating additional density opportunities as well as the ability to develop City assets to serve other community needs, such as affordable housing.
3 Technology & processes	**High performance technology and processes.** Related to efficiency in operations, the current technology platform and work processes for the City of Toronto real estate portfolio and operations is fragmented and challenged in its ability to deliver accurate and timely information about properties, occupants and finances and accountability. There is an opportunity for the City to update its technology and processes to improve decision-making ability.
4 Value for money	**Value for money.** The City of Toronto needs to ensure that any investment in people, property or other resources is highly focused and delivers value for the ratepayers. This is especially crucial given that revenue streams for the City continue to be challenged when matched against on-going and enhanced requirements for programs and services. To this end, there are several opportunities to 'unlock' value from City assets that could be realized.
5 Stakeholder endorsement	**Council, employees and the community endorsement.** The current service delivery model reflects a relatively mature, post-amalgamation program. There is an opportunity to put in place a new, high performance real estate entity that will lead to an improved delivery of real estate services and engagement of City leaders, employees and bargaining agents as well as the community and local Councilors in delivering high quality real estate solutions.

The opportunity for transformation
Portfolio optimization

Annual Cost Reduction Examples

For this assignment, based on the information provided by the City and previous studies, it has been estimated that there is approximately **5-10% in annual cost savings** that could potentially to be achieved through a combination of process improvement, outsourcing and portfolio optimization initiatives. Specifically with respect to the City's real estate portfolio, there are potential opportunities upon full implementation for cost savings and value creation under a modernized service delivery model.

Re-align existing office space within higher density occupancy model

The City is currently considering this in the alignment of its office portfolio through the Office Modernization Program (OMP). As an example of potential portfolio optimization, some current City operations currently occupy office space at some 210-220 SF per employee, which is a relatively traditional model for the use of office space. New government standards are typically in the 130-140 SF per FTE range. For a sample of City inventory, if the existing office space were realigned to higher densities an estimated $12.5 million in annual cost savings could be achieved and a substantial additional amount through the potential monetization of this surplus space.

Value Creation Examples

Cost savings and value from co-location of emergency services

The alignment of City services into common locations can provide cost savings and unlock value from surplus real estate. The City currently has over 180 locations that deliver emergency services. Based on a sample of current locations that could be relocated into existing City-owned real estate, at an approximate cost of $23 million for fit-out improvement to alternate space, the locations could be sold into the marketplace for "higher and better" value for a total of some $95 million. The result is a "net win" to the city of some $72 million.

Creation of additional land development density opportunities

There are several examples that illustrate the creation of additional land development density opportunities in the City. As one example, the City of Toronto's Real Estate Services team has provided a case study of how the redevelopment of 11 Toronto Parking Authority Parking lots could deliver some $104 million in value back to the City. Eleven parking lots could be redeveloped to deliver underground parking, and the air rights could create additional density opportunities for the development community. Similar opportunities exist for other City-owned properties where additional density increments could be created.

Annual Savings

Potential upon full implementation

5-10% savings

Annual savings through a range of cost reduction initiatives

$12.5 million (included above)

Annual savings through realignment of a sample of the City's office inventory

Source: Deloitte based on previous studies and information provided by City Real Estate Services

Value Creation

Potential upon full implementation

Examples

$72 million

Additional value created through sale of surplus lands from co-location of services

$104 million

Additional value created through additional density increment associated with 11 City-owned Parking Lots

Source: City Real Estate Services

Strategic directions

Start the journey toward a centralized City-wide real estate operating model

End-state model consolidates existing service delivery within a board governance structure

Based on the results of the analysis, stakeholder consultation and jurisdictional review there are clearly a number of advantages that could be associated with consolidating real estate services into a centralized operating model. The City of Toronto has the tremendous opportunity to embrace best practices and develop its own real estate service delivery model to bring together the major real estate functions required by the City's various entities and agencies. The recommended structure is shown below with associated timing for end state implementation.

Corporations	Build Toronto	
	*TCHC	RE
	*Toronto Hydro	RE
	Toronto Port Lands Company	
Agencies	Exhibition Place	RE
	Toronto Parking Authority	RE
	Toronto Police Service	RE
	Toronto Public Library	RE
	Toronto Transit Co	RE
	Toronto Zoo	RE
Divisions	Affordable Housing Office	RE
	Long Term Care	RE
	Parks, Forestry and Recreation	RE
	Real Estate Services	
	Shelter, Support & Housing	RE

*TCHC & Hydro for discussion

Real Estate Operating Company (REOC)

Real Estate Focused Entities
(i.e., Strategic Planning & Development)

Core Real Estate Only

Real Estate Services
(i.e., Appraisals, Acquisitions / Dispositions, Leasing Transactions, Capital & Construction)

(IMMEDIATE) **NEXT STEPS 1-2 Years**

REOC
(New Co)

- Client Relationship Management (CRM)
- RE Development
- RE Services
- Shared Support Services
- Facilities Management

2-4 Years depending on consolidation adoption

Stage 1: Policies and Practices

Stage 2: Entities into dev't; All RE FTEs except capital management

Strategic directions
Start the journey towards transformation

Example of core functions in strategic operating model

The chart below provides a representative example of the real estate operating company, and aligns effective private sector operating models with public sector and City of Toronto requirements. By no means is this intended to be an exhaustive representation of the new organization, rather it demonstrates how the various functions and requirements interact to achieve industry best practices and meet the City's needs. A subsequent organizational structure process will need to be completed in order to accurately realign the existing functions within the new operating model. One of the key success factors with this model is the introduction of a Client Relationship Management team (CRM) who is completely aligned with their client, the entity, and delivers strategic real estate expertise through the NewCo to align to the entity's business strategy.

Board of Directors

REOC (New Co)

Client Relationship Management (Program Expertise)

Asset management Focus on property type
- Office/Workplace
- Retail/branches
- Land
- Multi Residential
- Parking
- Other

Development & construction
- Strategy
- Municipal Planning
- Design and development
- Construction

Transactions
- Acquisitions
- Dispositions
- Leasing
- Financing

Shared Services
- Technology platform
- Procurement
- Finance and budget
- Legal and other

Operations
- Property management
- Facility management
- Outsourcing
- Facilities management and property management administration

Client relationship management is a crucial element of success - Ensures continued focus on programs

To address the requirements associated with a more streamlined and effective delivery model, most CRE organizations have developed client relationship management programs that assign a point of contact from the CRE group to the client organization business leader and core team. This is accomplished by elevating the skills and effectiveness of the client relationship managers, and developing the team with tools and coaching to provide a more robust program. The CRM Manager is then backed by the full depth of the corporate real estate delivery organization and ensures that the client's requirements are fully addressed. This degree of specific **program expertise** is crucial for clients such as **Affordable Housing, Libraries** and other entities with specific service delivery mandates as well as real estate requirements.

Strategic directions

Start by aligning real estate processes

Implementation time frame considerations

City leaders need to be actively engaged in the development and implementation of a new real estate operating entity. That said, the preliminary timeframe outlined below highlights the process through which the adoption of best practices and ultimately the consolidation of key functions can occur. This timeframe needs to be carefully evaluated for overall feasibility and implementation risk, as well as the specific barriers and challenges outlined on the following page.

Maturity of REOC

Stage 1
Align all real estate processes

Establish governance to ensure best practices are adopted across all entities

Stage 2
Select entities consolidation

Create REOC framework

Select Entities:
BUILD Toronto, Toronto Port Lands, Toronto Parking (RE) & Exhibition (RE)

Select Core RE Functions:
City RES, Acquisitions/ Dispositions, Transactions Appraisals

Stage 3
Entities and
Select real estate functions consolidation

Consolidate entities into REOC framework

Evaluate success of the framework and consolidate additional entities into REOC framework

Stage 4
Balance of real estate functions consolidation

Consolidate
Balance of Functions

Facility Management Functions

Clients of services

Stage 5
REOC

All major real estate entities
All real estate functions
Full platform to effectively and efficiently deliver
Real Estate Services for the
City of Toronto

Immediate – 2 years

2-4 years depending on consolidation adoption

Next stage: analysis required

Implementation
Overcoming barriers and challenges

Within the context of the current real estate service delivery model, there are clearly a number of barriers and challenges associated with moving to a new service delivery model. A number of key legislative, governance, employee and technology platforms will need to be addressed to ensure a successful transition.

1. Legislative

- Six entities are subject to additional legislation
- City has restricted control under City of Toronto Act over Police Services and Public Library

→

- Identify key legislative barriers to implementation
- Determine which are program versus real estate-based

2. Governance

- Decentralized decision-making presents complexities
- Range of different mandates, regulation, board composition and Councilor engagement
- Local vs City-wide priorities blurred

→

- Explore options for consolidation of property under City control
- Tranched approach to establishing policies to move forward
- Direct divisions to report to functional lead to obtain approval on all transactional real estate matters
- Consider amending aspects of core principles of a real estate strategy

* Council Direction

3, Employees

- Skill imbalance in core real estate and facilities management
- Labour contract obligations and bargaining agent issues
- Attracting obligations of current collective agreements and cost to restructure

→

- Standardize best practices and establish centre of excellence
- Conduct labour resource review
- Develop change management strategy to get shared ownership

4. Data and Technology

- Need for accurate and up-to-date portfolio data identified as high strategic priority
- Lack of appropriate and technology platform limits ability to make good City-wide decisions
- Upfront investment is a key to success

→

- Examine industry best practices and other municipal approaches
- Create technology master plan and ‘road map”

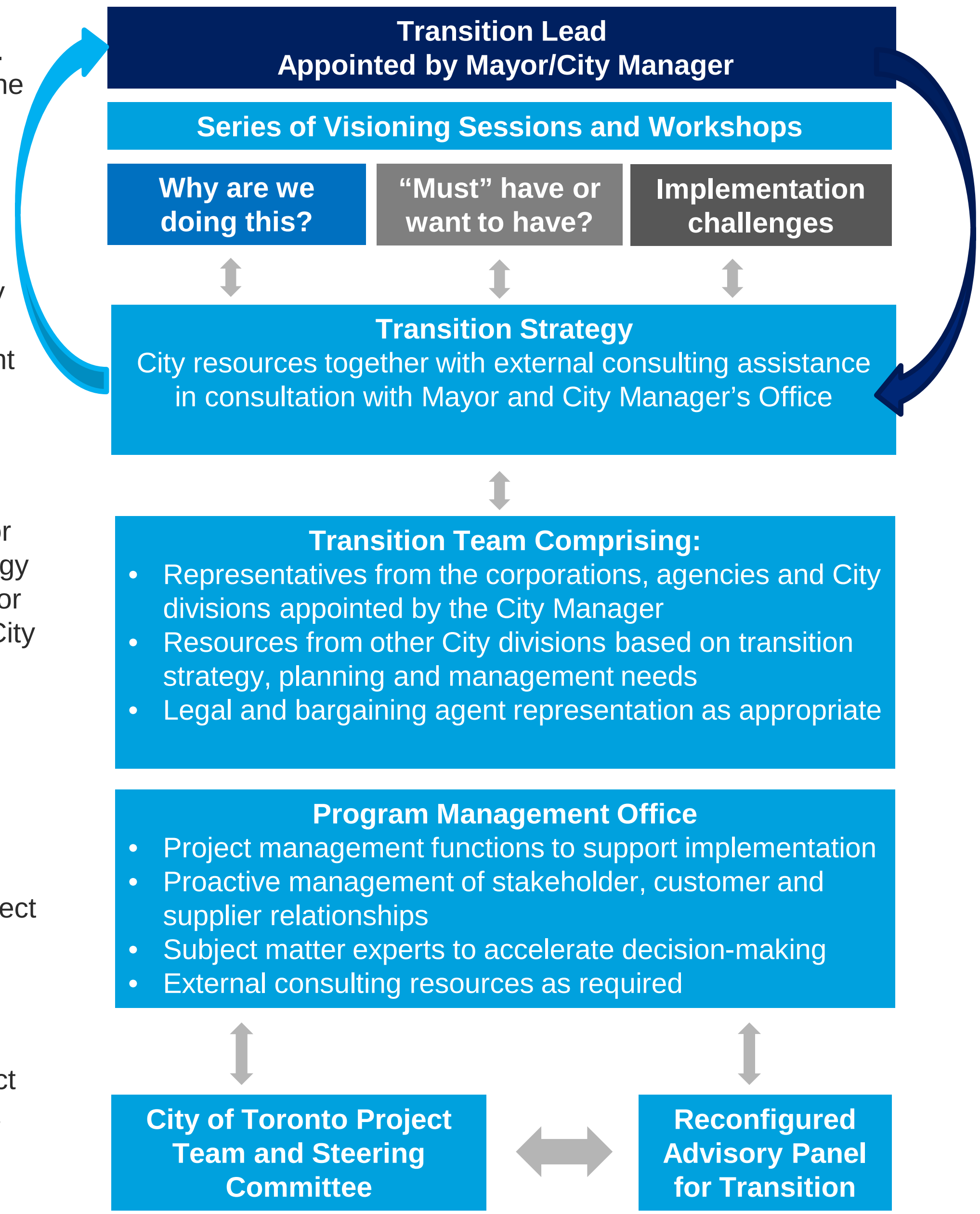
Implementation: next steps

Visioning and transition framework

Implementing the new model will be a challenge. The City will need to embark on a **structured program** to bring entities together over time. Simply announcing the vision and expecting results is not a recommended approach. Instead, **a comprehensive framework** needs to be put in place comprising the following key elements:

- The **appointment of a transition lead, i**deally an individual that is **not** anticipated to be part of the new organization;
- A **series of visioning sessions** and workshops with entity leaders, City staff and management, the Mayor and selected City Councilors. The purpose will be to generate dialogue and achieve buy-in and commitment on matters such as defining the transition, why it is required, individual organization implications and implementation;
- Development of **a Transition Strategy**, including key performance indicators and drivers of synergy, an integration strategy and blueprint for the consolidation of real estate services and workforce transition. Strategy development may require external consulting assistance along with senior City staff resources and oversight from the Transition Lead, Mayor and City Manager;
- Establishment of **a Transition Team** responsible for implementing the transition strategy. The team would comprise representatives from the various entities, other City resources as necessary to support the implementation and legal and bargaining agent participation;
- Establishment of a **Program Management Office,** with appropriate subject matter experts that would support the Transition Team.

This framework is intended to engage leaders in the implementation process, developing a clear plan for success, and aligning key deliverables for the transition process. To this end, it is recommended that the existing City Project Team and a reconfigured advisory panel structure also be retained to support the creation of the new organization.



Limiting Conditions

Limiting Conditions

This document was prepared by Deloitte LLP ("Deloitte") and is provided for the use of City of Toronto (the "City") alone.

Information contained herein is privileged and confidential. This information is not intended for general circulation or publication nor is it to be reproduced or used for any purpose other than that outlined above. Deloitte recognizes no responsibility whatsoever to any third party who may choose to rely on its reports or other material provided to the City.

Unless stated otherwise within the body of this report, Deloitte relied upon information provided by City, and third party sources. Deloitte is not a guarantor of the information upon which Deloitte has relied in preparing the report and Deloitte has not audited or otherwise attempted to verify any of the underlying information or data contained in this report. Although, we have deployed our efforts to ensure a conservative, realistic and transparent approach, the surveyed results and analysis depends on the input from a number of third parties whose opinions may influence the conclusions.

Where required, Deloitte incorporated in the analysis working assumptions based on its understanding of commercial practices as of the date of this report.

All analysis, information and recommendations contained herein are based upon the information made available to Deloitte as of the date of this report and are subject to change without notice.

Deloitte.

www.deloitte.ca