

City-wide Real Estate - Next Phase of Implementation

Date: October 13, 2021

To: Executive Committee

From: Deputy City Manager, Corporate Services

Wards: All

SUMMARY

The purpose of this report is to provide an update on the next phase of implementation of the City-wide Real Estate ("C.W.R.E.") Transformation. The report will provide a summary of accomplishments achieved during the first three-year period of implementation and value delivered to date. It also sets the stage for the continued advancement of the centralization of strategic real estate activities and service functions, in support of City Divisions, Agencies and Corporations (D.A.C.), City-building opportunities, and City Council priorities. In particular, the report addresses three key matters.

1. The report reaffirms the purpose and intent of the City-wide Real Estate ("C.W.R.E.") Transformation and the new Real Estate Service Delivery model ("the Model"), approved by Council in 2017 (EX25.9) through four key principles for strategic investment in real estate. It also makes recommendations to update existing policies to align and enable the new real estate operating Model.
2. The report also provides Council with an update of the City's journey toward centralization of real estate activities and functions across all Divisions, Agencies, and Corporations. In 2017, City Council consolidated real estate authorities related to asset-use and transactions. The next phases will see the establishment of expanded centralized oversight, through capital planning governance and prioritization city-wide, and city-wide real estate asset management practice. Additionally, property management and facility operations functions and accountability will be brought into the Corporate Real Estate Management Division.
3. Finally, the report includes recommendations to ensure the future financial sustainability of CreateTO. The funding method used during its first three years was meant as a temporary funding mechanism and a new approach is required to ensure the agency is sustainably funded.

RECOMMENDATIONS

The Deputy City Manager, Corporate Services recommends that:

Real Estate Authorities and Centralization

1. City Council direct that all City Divisions, and the City Agencies and Corporations identified in Attachment 1 to the report (October 13, 2021) from the Deputy City Manager, Corporate Services operate in accordance with the City's centralized Real Estate Service Delivery Model as approved by City Council on May 24, 25, and 26, 2017 in Item EX25.9 and the report (October 13, 2021) from the Deputy City Manager, Corporate Services.
2. City Council direct that any City Agencies or Corporations that are created in the future be required to operate in accordance with the City's centralized Real Estate Service Delivery Model, unless expressly exempted from doing so by City Council.
3. City Council amend the Municipal Code Chapter 279, Toronto Transit Commission substantially in the form as set out in Attachment 2 to the report (October 13, 2021) from the Deputy City Manager, Corporate Services, effective upon approval, subject to such stylistic or technical amendments as may be required by the City Solicitor.

Strategic Investment and Property Acquisitions / Transfers

4. City Council adopt the following Principles to guide strategic real estate investment:
 - a. The City's real estate assets are to be optimized for City-wide benefit as part of the City-wide Real Estate Model and capital investment in real estate, including state-of-good-repair investments, will be prioritized with a City-wide lens,
 - b. Existing real estate assets that are unlocked through portfolio optimization will be repurposed to meet program needs and city building opportunities as a first priority,
 - c. In the event that City Council determines that a sale of a real estate asset is the best way to maximize its value to the City, net proceeds will be reinvested into real estate assets to support the current and future ability to deliver City programs, either to fund the purchase of new real estate assets and expanded capacity, or to invest in state-of-good-repair as part of life-cycle asset management, and
 - d. The City may, from time to time, proactively acquire real estate assets where lands become available through unforeseen circumstances and/or without identified and/or immediate program requirements. Such strategic real estate acquisitions will be consistent with the City-Wide Real Estate mandate to enable city building and support the City's corporate priorities.

5. City Council adopt the Strategic Acquisition Policy set out in Attachment 3 to the report (October 13, 2021) from the Deputy City Manager, Corporate Services, and rescind the framework for Strategic Property Acquisitions approved by City Council on August 25, 26, 27, and 28, 2014 in Item EX44.22 and authorize an amendment to General Condition (D) of Appendix B of Toronto Municipal Code Chapter 213, Real Property, to reflect this change.

6. City Council direct that a minimum of 20 percent of the land value that is unlocked or generated from portfolio optimization initiatives, as determined by the Chief Financial Officer and Treasurer on a recommendation from the Chief Executive Officer, CreateTO in consultation with the Deputy City Manager, Corporate Services, be deposited in the Land Acquisition Reserve Fund ("L.A.R.F.").

7. City Council amend the "Policy Governing Land Transactions Among City Agencies, Boards, Commissions and Departments and Proceeds from Sale of Surplus City-Owned Real Property" (Clause 1 of Report No. 9 of the Policy and Finance Committee, as adopted by City Council on June 18, 19 and 20, June 2002) as follows:

- Delete clause (7) so that all proceeds from future sales of any real estate assets are directed to the L.A.R.F. to fund future City-wide future real estate capital requirements, and
- Delete clause (9) so that if there is a jurisdictional transfer or sale of land under the jurisdiction of the Toronto Parking Authority ("T.P.A.") which was purchased by the City with parking revenues, the land will no longer be valued at fair market value with all net proceeds going to the Parking Reserve Fund, and T.P.A. will no longer be required to pay fair market value if it is receiving a jurisdictional transfer of land.

8. City Council amend the purpose for the Land Acquisition Reserve Fund in the Toronto Municipal Code, Chapter 227, Reserves and Reserve Fund to read: "Provides funding for various capital projects involving acquisitions of real estate assets and/or significant capital improvements to existing real estate assets to support City Programs and the City's city building objectives."

Financial Matters

9. City Council direct the Chief Executive Officer, CreateTO and the Chief Financial Officer and Treasurer in collaboration with the Deputy City Manager, Corporate Services to identify and implement a new funding model, both operating and capital, for CreateTO as part of the 2022 budget process.

10. City Council direct the Chief Executive Officer, CreateTO, in collaboration with the Executive Director, Corporate Real Estate Management, the Deputy City Manager, Corporate Services, and the Chief Financial Officer and Treasurer to identify net new revenues sources to support CreateTO's operating budget.

11. City Council direct the Deputy City Manager, Corporate Services, the Chief Financial Officer and Treasurer, the Executive Director, Corporate Real Estate

Management, and the Chief Executive Officer, CreateTO, in consultation with the City's Divisions, Agencies and Corporations to establish a City-wide view of real estate capital needs, and governance for prioritization of real estate capital expenditures on a City-wide basis for consideration by the Budget Committee and City Council, starting with land acquisitions and new construction as part of the 2023 budget process and continuing on to state-of-good-repair investment needs in subsequent budgets.

FINANCIAL IMPACT

Impacts from Policy Alignment with the C.W.R.E. model

The proposed changes to the 2002 "Policy Governing Land Transactions Among City Agencies, Boards, Commissions and Departments and Proceeds from Sale of Surplus City-Owned Real Property" will result in a change to future allocation of net proceeds from sale of property, but have no immediate impact to the current commitments in the 10-year capital plan. Rather than being earmarked for use by a specific D.A.C. that has operated a given property for ten (10) years or more, funds will be centralized for decision-making with a City-wide perspective.

In addition, there are no immediate financial impacts to the Toronto Parking Authority ("T.P.A.") from the proposed policy change that will align policy to be consistent with other divisions, agencies, and corporations by eliminating the exception that provides the T.P.A. with fair market value in the event of jurisdictional transfers and/or disposition of assets purchased by the City with parking revenues. When such transfers or sales occur in the future, in addition to net operating revenue losses that may occur, the policy change would result in T.P.A. not receiving cash contributions to its retained earnings that would otherwise have funded T.P.A. future operations and 10-year capital plan.

Given the increased interest in leveraging T.P.A.'s facilities for other City-building opportunities, Financial Planning and T.P.A. will need to closely monitor the cumulative financial impacts to T.P.A. and the City of parking facilities being repurposed for other City priorities. To mitigate the financial impacts to T.P.A. with the removal of the exception, Financial Planning will work with T.P.A. to ensure T.P.A.s' net revenue share agreement with the City continues to provide TPA with access to the retained earnings needed to sufficiently fund its capital program. Further, CreateTO will ensure that parking requirements continue to be met based on a clear articulation of parking need, in consultation with Transportation Planning and other parking stakeholders. CreateTO will also work with T.P.A. to ensure that opportunities to include commercial parking in the joint venture developments of City assets are identified, where appropriate, and transferred to TPA for operation as municipal parking facilities.

Land Acquisition Reserve Fund

The Land Acquisition Reserve Fund is currently a source of funding for real estate related capital both identified through programs' capital programs and for use for unplanned strategic acquisitions. Over the past few years, the uncommitted balance has

varied significantly and is not sufficient to support future requirements. Ideally, the City should maintain an uncommitted balance of \$60-\$80 million in order to be able to acquire property strategically in support of City building and Council priorities. Due to the growing decline of City's surplus inventory available for sale and the change in mandate and approach to asset disposition, this source of funds to replenish the L.A.R.F. is diminishing and not reliable in the future. For this reason, the report recommends that the L.A.R.F. be strengthened to leverage current value for future property acquisition for City needs by allocating a minimum of twenty (20) percent of unlocked value in the event of a change of use of a City property by City Council, based on a recommendation from CreateTO. Based on current projected target for value to be unlocked through portfolio optimization (see table 1 in Comment section), this would represent approximately \$200-\$300 million to be deposited into L.A.R.F. over the next 10-15 years, allowing for an ongoing balance within the targeted range. It is difficult to estimate with certainty when value identified will be realized based on the nature of real estate transactions that can take years to come to fruition.

The CFO and Treasurer has reviewed and agrees with this Financial Impact Statement.

DECISION HISTORY

At its meeting on October 29 and 30, 2019 City Council adopted "The City-wide Real Estate Portfolio Strategy", as the strategic framework to best utilize the City's real estate assets to drive better value and services for the municipality. The report also directed the Chief Financial Officer and Treasurer and the Executive Director, Financial Planning, in consultation with the Deputy City Manager, Corporate Services and the Chief Executive Officer, CreateTO, to establish a consolidated list of City-wide real estate needs and financial commitments on an annual basis, including funded and unfunded City-wide real estate requirements for a 10-year period to inform long-term, strategic portfolio planning.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX9.2>

At its meeting on October 29 and 30, 2019 City Council directed the Chief Financial Officer and Treasurer, and the Deputy City Manager, Corporate Services to align the Strategic Acquisition Policy with the City-wide Real Estate Framework to include a specific City-building focus, and to report back to the Executive Committee.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX9.6>

At its meeting on July 16, 17 and 18, 2019, City Council approved in principle the transfer of Toronto Community Housing Corporation's real estate development functions to CreateTO and/or the City in alignment with the City-wide real estate model, including infill housing opportunities, the functions related to treatment of property and property related transactions and direct the Deputy City Manager, Corporate Services, in consultation with the Chief Executive Officer, CreateTO and the Chief Executive Officer and President, Toronto Community Housing Corporation to complete a due diligence process to ensure an appropriate understanding of the legal, financial and labour

implications of the transfer and report back.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX7.1>

At its meeting on December 5, 6, 7 and 8, 2017, City Council adopted a report entitled "City-Wide Real Estate - Amendments to Municipal Code Chapters and Shareholder Directions", which amended certain municipal code chapters to centralize real estate authorities and decision making on a City-wide basis:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX29.5>

At its meeting on October 2, 3 and 4, 2017, City Council adopted a report entitled "City-Wide Real Estate - Delegated Authorities Framework and Transition Plan", which established a framework for centralizing City-wide real estate authorities with the new City-wide real estate model approved by City Council in May 2017:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX27.12>

At its meeting on May 24, 25 and 26, 2017, City Council adopted a new real estate service delivery model for the City government that centralizes all real estate activities City-wide, including all real estate strategy and portfolio planning, major building projects, developments, real estate transactions and facilities management. Council also directed City staff to recommend a delegation of authority framework for real estate matters in order to centralize real estate authorities City-wide.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX25.9>

At its meeting on July 12, 13, 14, and 15, 2016, City Council adopted a report entitled "City Wide Real Estate Review," which included the directions to move to a centralized real estate operating model, based on recommendations from staff and Deloitte.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.4>

At its meeting on August 25, 26 and 27, 2014 City Council adopted a report entitled "Strategic Property Acquisitions", which authorized funding from the Land Acquisition Reserve Fund ("L.A.R.F."), in the amount of 15 percent of the uncommitted balance in the L.A.R.F. as an approved budget for the acquisition of property that is determined to be strategically important to the City in accordance with a set of evaluation criteria and subject to additional oversight through a modified Delegation of Authority in Certain Real Estate Matters.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.EX44.22>

At its meeting on June 18, 19 and 20, 2002, City Council adopted the "Policy Governing Land Transactions Among City Agencies, Boards, Commissions and Departments and Proceeds from Sale of Surplus City-Owned Real Property" as Clause No. 1 embodied in Report No. 9 of the Policy and Finance Committee. The policy continues to govern land transfers between Divisions, Agencies and Corporations. Clause (7) stipulates that all of the net proceeds from the sale of a surplus property are to be deposited in a City reserve fund for the future capital requirements of the particular ABCD having released the property; and clause (9) of the Policy instituted the requirement that land under the jurisdiction of the Toronto Parking Authority which has been purchased by the City from parking revenue shall be transferred at fair market value.

<https://www.toronto.ca/legdocs/2002/agendas/council/cc020618/pof9rpt/cl001.pdf>

COMMENTS

City Council approved a new Real Estate Service Delivery model (“the Model”) "that centralizes all real estate activities City-wide, including all real estate strategy and portfolio planning, major building projects, developments, real estate transactions and facilities management" in May 2017 (EX25.9). The purpose of this new Model is to manage the entirety of the City's real estate assets strategically through a new, coordinated structure, enabling broader city building and corporate goals to be applied to the City's asset portfolio.

The Model, a result of a review of the City's real estate asset management approach, is designed to produce efficiencies, economies of scale, sharing of resources and skills, and leveraging of technology investments. This conclusion was consistent with previous Auditor General and KPMG LLP reports, both of which recommended pursuing these goals and exploring centralization and integration opportunities among the previously disparate, uncoordinated, and inefficient real estate entities.

The effort needed to implement such a model is significant, but all analyses indicated a substantial return on that investment as well as operational efficiencies available for capture, as detailed further in the report. These gains would considerably increase the capital available to the City to meet its growing needs in a fiscally constrained period.

City-wide Real Estate Service Model Mandate

The new model was formed using a centralized, whole-of-government approach to provide the City with the capacity to manage its real estate portfolio strategically and to apply best-practice standards across the enterprise - all in service of meeting City programmatic needs and applying Council priority lenses (e.g., climate, equity).

The new Model is charged with three overarching goals:

- **Improve Real Estate Asset Stewardship** through integrating industry best-practice with respect to City lands and buildings, including a coordinated portfolio strategy; standardized lifecycle and capital planning; and unified standards and accountability for asset management and operations;
- **Enable Substantially Greater City-Building** by leveraging the City's lands and buildings more strategically, unlocking unrealized value to meet city-building priorities, including strategic development and revitalization projects; and
- **Focus Squarely on Program Needs** by delivering best-practice real estate and facility management services to City divisions, agencies and corporations (D.A.C.s) based on an integrated, enterprise-wide view of collective programmatic needs.

City-wide Real Estate Entities & Functions

To carry out the Council mandate, two new entities were formed to work together to deliver all real estate functions: CreateTO and Corporate Real Estate Management (C.R.E.M.).

1. **CreateTO:** CreateTO is a new City agency – guided by a professional board to inform real estate strategy, portfolio planning, and decision-making – that D.A.C.s work with on real estate matters related to portfolio strategies, land development and redevelopment, and real estate capital planning matters (new construction projects, major renovations, and site planning activities across all real estate asset types). This enables the City to meet Council’s key programmatic and overarching priorities by unlocking value in existing, underutilized assets. CreateTO is further mandated to develop City properties, and its agency structure allows it to partner easily with the private sector to accomplish this. In all of this, CreateTO provides informed, expert recommendations to D.A.C.s, the City, and Council for their consideration—acting as an industry-class advisor to ensure that the highest value of each property can be achieved in line with City goals.

2. **Corporate Real Estate Management Division (C.R.E.M.):** C.R.E.M. is a service delivery-focused City division that integrates previously separate divisions (Real Estate Services, Facilities Management) and sections (Corporate Security, Energy Management, Business Management), and is designed as a single point of service for real estate service delivery. D.A.C.s work with the division for real estate matters related to real estate transactions (i.e., acquisitions, expropriations, dispositions, leases, licenses, and easements) except for exclusions listed in Appendix B to the report EX27.12 (September 12, 2017), and, as they get centralized, property and facilities management functions and activities, including facilities management, security, and property management, construction project management, and asset life cycle management (see Figure 1).

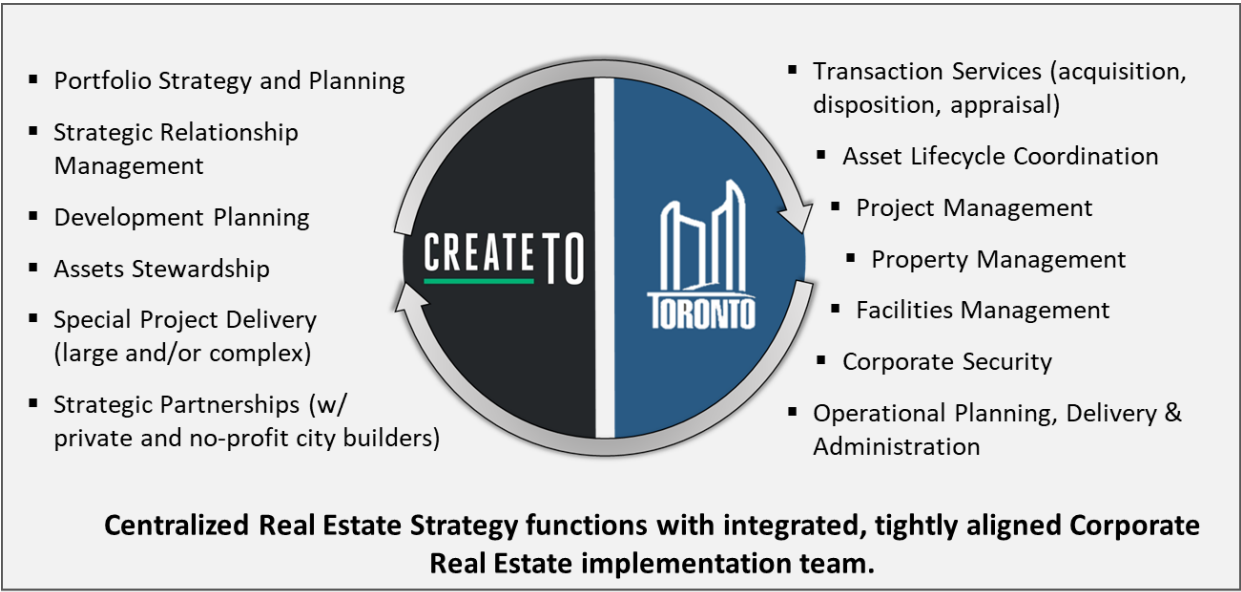


Figure 1: City-wide Real Estate Model Functions at CreateTO and C.R.E.M.

CreateTO and C.R.E.M. are a significant concentration and expansion of the City's real estate in-house skills and capacities, freeing D.A.C.s to focus on their core missions. These new capabilities can then be deployed to maximize value and deliver quality solutions over time as required to meet the City's changing and complex needs.

City-wide Real Estate Service Model Scope

The C.W.R.E. Model is intended to serve all D.A.C.s. CreateTO's mandate extends to all "City divisions, agencies and corporations", as per Chapter 215, CreateTO, of the Toronto Municipal Code. Recommendation No. 1 in the report, clarifies the agencies and corporations that are considered in scope for the Model. They are listed in Appendix 1. In addition, the report recommends that City Council directs that any future City Agency or Corporation which is created would be deemed to be subject to the City-wide Real Estate Service Delivery Model, except if specifically excluded at the time of their creation by decision of City Council.

As was the case during the first three years (the "incubation" period) the Toronto Community Housing Corporation and Toronto Hydro are excluded for the time being from the Model's scope. Having said this, significant work has begun with respect to transferring the development functions of the TCHC to CreateTO, as per City Council decision in 2019 in EX7.1. A separate report will be brought to Council on these matters in early 2022. Toronto Hydro's infrastructure- and regulation-heavy asset portfolio is very complex and will continue to be considered for future opportunities and alignment.

Phased Approach to Centralization and Implementation

There are three centralization and integration phases, each delivering a set of significant one-time and ongoing cost savings and efficiencies. The three phases are as follows, with the first phase currently substantially completed:

1. **Consolidate real estate and asset use decision authorities** to enable City programmatic land use decisions to orient in one, corporate direction and to serve the City's overall interests and needs. This was achieved by Council rescinding the delegated authorities for real estate matters that had been granted to D.A.C.s and funneling them through C.R.E.M. as well as directing that any real estate transaction and asset use decision requiring City Council approval would be done by way of a joint report with the Deputy City Manager, Corporate Services or CreateTO (EX27.12);
2. **Centralize the oversight and management of real estate-related assets** (through capital expenditures planning integration) with the goal of data clarity, fiscal stewardship, and proper governance, all of which will enable strategic investment decision-making (including new construction, major renovations, and state-of-good-repair investment levels and timing); and
3. **Integrate property management and facility operations provision and accountability** into C.R.E.M. to bring efficiencies, coherence, and uniform standards to asset administration and day-to-day servicing of assets—freeing up

programs to focus on their core services, partnering with the Model to meet their real estate needs.

Attachment 2 in the report recommends technical amendments to subsection 279-2.4. Delegated real estate authority in Chapter 279, Toronto Transit Commission of the Toronto Municipal Code to enable the TTC to manage core business activities and be responsive to short term business and operational requirements, without changing the intent of the City-wide real estate model centralization of real estate authorities.

Accomplishments and Value Created (2018-21)

The new Model enabled by the establishment of CreateTO and C.R.E.M., has already led to substantial value delivered back to the City through better, and more efficient unlocking and stewardship of value directly on behalf of the City and its programs—all consistent with the City-wide real estate portfolio strategy outlined by Council in 2019 aiming to make better use of City-owned assets.

In 2019, City Council approved a real estate portfolio strategy to establish guiding principles and directions to make better use of real estate. Eleven (11) asset categories were outlined to be examined, with the City's office portfolio (ModernTO) and transit oriented real estate (allocated to Housing Now) completed to date. To accelerate the analysis of the City's 8000+ properties, CreateTO has digitized all City-owned properties into a GIS platform, which integrates City-owned land with critical planning, development, transit and market data. This integrated access to information improves and accelerates the discovery process for real estate opportunities, leveraging technology to modernize old manual process and generate resource efficiencies. This platform will later host information regarding City real estate needs, so that program demand for real estate can be matched to City-owned supply as a priority based on asset type, timing, and location of need. This collective, City-wide analysis will allow assets to be allocated to City programs most effectively while maximizing asset value.

CreateTO undertook a comprehensive review of City-wide office needs to recommend an office portfolio strategy to better utilize the City's core office assets, and in turn dispose or repurpose office assets that were no longer required. This plan will result in one (1) million square feet of space savings, in addition to significant operating and capital cost savings (approximately \$30 million annually), which can be reinvested in the portfolio and will support building upgrades and other improvements that would not have been possible under the previous, uncoordinated real estate model. In addition, eight properties that are surplus to the office portfolio can be unlocked and repurposed to support other City (non-office) uses and Council priorities.

Another Model-enabled initiative and a clear response to Council priorities is the Housing Now program, which CreateTO is currently implementing in partnership with the Housing Secretariat and other City partners. To date, this program has yielded 5,000 identified additional affordable housing units on 17 sites within the city, more than half-way to the City's goal of 10,000 units by 2030.

C.R.E.M. has worked with CreateTO to administer City properties and assets in a more efficient and streamlined manner. Although its functional responsibilities (see Figure 1)

have not yet been extended to the majority of City properties, this transition is planned in future phases as the division and enterprise mature, however there have been immediate benefits realized with the formation of the division. These include:

- \$1.5 million in operating savings for 2021 alone, due to improved vendor management capabilities, contracting economies of scale, and renegotiated services contracts including electrical safety, elevators/escalators, and pest control
- Provision of physical security services to all City divisions and select agencies including the Toronto Parking Authority and co-located Toronto Public Library sites, providing consistency and efficiency in service delivery across the portfolio
- Development of standardized lease administration practices, which allowed for fast adaptation to the pandemic through a rent deferral program
- Successful transfer of fire and life safety services from several divisions, improving outcomes including an increase in Ontario Fire Code compliance from 40 percent in 2019 to over 85 percent today

Approximately 20 percent of the City-wide portfolio of facilities are under direct capital management of C.R.E.M. with project management and operational support services being provided across the City portfolio, while CreateTO's mandate extends to all D.A.C.s. Even in light of this fact, viewed through a strictly financial lens, CreateTO and C.R.E.M. have already returned significant value—and this will continue into the future, based on projections and contingent on continued centralization progress:

Note: Values cumulative over time	Identified to Date (2018-21)	Ten-year target (by 2031)
Land value unlocked	\$1.5 billion ^[1]	\$2.5 billion
Operating cost savings	\$26 million/yr. ^[2]	\$36 million/yr.
Capital cost savings	\$4.5 million/yr. ^[3]	\$30 million/yr.

Table 1: Cumulative Value Generated by the C.W.R.E. Model (identified and projected)

[1] Unlocked land value identified through portfolio level work, including Housing Now Program, and ModernTO - Workplace Modernization Program

[2] Operating cost savings identified in the ModernTO - Workplace Modernization Program

[3] Capital cost savings identified in the ModernTO - Workplace Modernization Program

The Model's financial return-on-investment is one important measure. Still another is the value in terms of direct benefits to City programs, which represents CreateTO's primary mandate of delivering city-building outcomes. While CreateTO and C.R.E.M. will continue to identify and report to Council on targets, to date the outcomes projected from identified opportunities are as follows:

Affordable housing	5,200 units
Total housing	10,861 units
Office space reduction/savings	1,000,000 square feet
New community space	250,000 square feet
New park lands	170,000 square feet
Greenhouse gas reductions	6,985 tonnes CO ₂ equivalent annually (emissions reductions over baseline)
Employment impact	19,180 direct FTE jobs 11,560 indirect FTE jobs

Table 2: City-building and additional metrics identified to date (2018-21)

Strategic Investment in Real Estate

Consistent with the C.W.R.E. Model and Council's 2019 City-wide Real Estate Portfolio Strategy, the four principles below were developed to articulate clearly the direction set in 2017 by City Council. They are intended to guide strategic real estate investment in real estate. They ensure that real estate asset management decisions are made on a city-wide basis leading to efficient utilization and optimization of both the assets and available capital. At the same time, they direct decisions to be made to protect City assets and real estate capital to ensure a long-term capacity to support Program needs and City priorities.

Principles for Strategic Real Estate Investment

The four principles below re-affirm, in line with the C.W.R.E. model mandate approved by Council in 2017.

1. The City's real estate assets are to be optimized for City-wide benefit as part of the City-wide Real Estate Model and that capital investment in real estate, including state-of-good repairs investment, will be prioritized with a City-wide lens,
2. Existing real estate assets that are unlocked through portfolio optimization will be repurposed to meet program needs and city building opportunities as a first priority,
3. In the event that City Council determines that a sale of a real estate asset is the best way to maximize its value to the City, net proceeds will be reinvested into real estate assets to support the current and future ability to deliver City programs, either to fund the purchase of new real estate assets and expanded capacity, or to invest in state-of-good-repair as part of life-cycle asset management, and

4. The City may, from time to time, proactively acquire real estate assets where lands become available through unforeseen circumstances and/or without identified and/or immediate program requirements. Such strategic real estate acquisitions will be consistent with the City-Wide Real Estate mandate to enable city building and support the City's corporate priorities.

The first principle, based on the notion that all assets are City assets, clearly states that the City should optimize its investments in real estate on a City-wide basis to maximize their value by combining projects, innovating to align with broader City goals, and promoting colocation and mixed uses facilities (with both internal and external stakeholders). This will also allow the City to consider the overall impact of investments on larger outcomes – community, economic, environment, equity, resilience, and others – all in the context of strategic asset management. Finally, it unifies overall D.A.C.s programmatic requirements with broader portfolio planning, more efficiently matching demand with supply.

The second principle frames the strategic portfolio-level work driven by CreateTO, through which assets are optimized and those deemed under-utilized are repurposed to support other D.A.C.s needs and/or City priorities (e.g, affordable housing). It will ensure that real estate optimization and unlocked value support the required investments in real estate under a strategic real estate asset management framework.

The third principle confirms Council's direction that sale of assets should only be only considered as a last-resort option, pursued when a specific strategic outcome facilitated by disposition of an asset is desirable and maximizes the value to the City. In such rare cases net disposition proceeds are deposited in the Land Acquisition Reserve Fund ("L.A.R.F.") and made available to be reinvested into the real estate portfolio based on City-wide needs. This ensures that land and its value are retained and repurposed by the City to meet its current and future needs. Through a combined strategy of retention and reinvestment, the asset portfolio is optimized for the long-term.

Finally, the fourth principle acknowledges that, as part of the strategic management of the City's real estate portfolio, the City may, from time to time, proactively acquire real estate assets where lands becoming available from unforeseen circumstances, in support of City-wide real estate portfolio strategic goals (integration, optimization, intensification and rationalization) or of the City's strategic priorities (affordable housing, resilience, building complete communities, etc.), even if there are no identified program requirements in the 10-year Capital Plan. These acquisitions would be framed by the Strategic Acquisition Policy (Attachment 3) in order to structure these investments in a predictable manner.

These principles form a foundational piece for the C.W.R.E. Model, allowing it to adapt future real estate supply and demand, rather than operating solely on a standardized budget model timeline. Within this strategic investment frame, the City reduces its costs with little additional risk; realized savings can be reinvested to other City priorities.

Advancing the C.W.R.E. Model and Centralization Roadmap

Achievements to date have been successful on the basis of granted authorities and existing resources. Subsequent phases of real estate and facilities management centralization are contingent on additional work to ensure that CreateTO and C.R.E.M. can continue to advance Council's mandate in partnership with D.A.C.s.

Further Improving the Supply-Demand Model

CreateTO will continue to maximize the value of the City's real estate assets for City purposes, focusing increasingly on the matching of programmatic demand with real estate asset supply. This supply-demand approach is accomplished as a partnership between D.A.C.s, CreateTO, and C.R.E.M., and requires appropriate and timely sharing by D.A.C.s of their data related to real estate assets and program requirements.

On the supply side, CreateTO continues to analyse the City's real estate portfolio to identify assets that are currently underutilized. Assets identified in that process will be optimized, rationalized, or intensified to ensure that their future use better supports the City's needs and that the full potential of the City's properties are realized. These strategies by asset category are developed in consultation with C.R.E.M. and other City stakeholders alongside additional more targeted and strategic analysis across various asset types that respond to timely, evolving, or context-specific needs (e.g., geographical area, emergent policy need, Council priority lens).

With respect to programmatic demand, CreateTO is working with D.A.C.s to understand and express the City's real estate needs in terms not of land or space, but rather in terms of the specific outcomes that programs are seeking (e.g., weekly hours of interaction with the public, security levels required, catchment areas served). Findings, once collected, are shared with D.A.C.s' leadership via the Strategic Program Management Committee, which CreateTO and C.R.E.M. jointly operate to ensure coordination and communication with stakeholders. Having a City-wide consolidated view of programmatic needs will provide CreateTO with the required data to leverage the portfolio to respond strategically and efficiently to these needs.

In addition, this more mature supply-demand model – with an integrated, overarching view of both needs and assets, today and into the future – will further allow the City to respond to emerging issues, constraints, and opportunities. For example, the City would be able to ensure a more fair and equitable recovery from the pandemic by directing investments where they can have the best impact. A fully functioning supply-demand model drives higher returns on every dollar allocated.

Portfolio Strategy Update

In 2021, CreateTO staff worked to review and analyse the parking asset category and will be reporting to the CreateTO Board and City Council regarding the parking portfolio in Q4. CreateTO and CREM have also completed a review of the City's industrial portfolio and The City's industrial portfolio initial review has led to identification of several areas where more work is required before recommendations can be made to City Council where there are greater opportunities for co-location among Divisions/Agencies. Opportunities to consolidate will be brought forward to the

CreateTO Board and City Council as businesses cases are established. The City's industrial portfolio has already supplied four of its most valuable assets to the Housing Now program, including Oriole Yard, 140 Merton Street, Danforth Garage and 2444 Eglinton Ave East.

Improving Real Estate Asset Management and Financial Data Consolidation

In order to gain a City-wide, strategic portfolio view and to make effective, efficient recommendations as to real estate asset management, CreateTO and C.R.E.M. need to have visibility into the D.A.C.s' real estate capital spend and needs. At present, however, this is not possible due to the distributed nature of asset management across the entire enterprise.

To begin the effort to achieve this view, CreateTO and Financial Planning are currently working through a multi-year phased implementation of the consolidation of real estate asset management and City-wide oversight and governance of real estate capital budget planning. Having this in place will aid CreateTO to manage the portfolio, develop City properties for municipal purposes, and to deliver service-oriented solutions for D.A.C.s. The integrated view will also help Council and City staff to understand the impact of real estate investment decisions on larger City objectives.

Once the consolidated view of capital has been established, along with a clear governance structure, the intention is to be able to look at real estate expenditures on a City-wide basis, rather than segmented by program or entity as currently the case, and to make recommendations to Council on prioritization and optimization of available funding for real estate as part of the budget process. The goal is to be able to start making recommendations and advising Council as part of the 2023 budget process, with a focus on new development and acquisition first, with other real estate capital expenditures being rolled out in subsequent years.

Aligning the Policy on Treatment of Properties

Two clauses of the 2002 "Policy Governing Land Transactions Among City Agencies, Boards, Commissions and Departments and Proceeds from Sale of Surplus City-Owned Real Property" relative to the disposition or transfer of City-owned land are currently not aligned with the Model's mandate and the strategic investment principles as listed above. Each contributes to suboptimal capital allocation and substantially higher City real estate-related costs today and into the future, which are currently borne by other City priorities, such as affordable housing.

- **Fair-market value requirement for the Toronto Parking Authority.** Transfer and/or sales of assets acquired with funds from the City's parking reserve fund must currently be compensated at fair-market value to the Toronto Parking Authority, disadvantaging City capital budgets and programmatic needs and diminishing follow-on value (e.g., housing units, new park land).
- **D.A.C.-specific reserve fund for operation beyond ten years.** Net proceeds from the sale of a City asset under the operational jurisdiction of a specific D.A.C. for a minimum of 10 years must at present be deposited in a City Reserve

Fund for that D.A.C.'s future capital requirements, further disadvantaging City capital, as it prioritizes the interests of one D.A.C. over the City as a whole.

This report contains recommendations to bring these and the pre-existing, 2002 "Policy Governing Land Transactions Among City Agencies, Boards, Commissions and Departments and Proceeds from Sale of Surplus City-Owned Real Property" policy into alignment.

Real Estate Strategic Acquisition and Land Acquisition Reserve Fund

The ability to strategically acquire property for current or anticipated future need is a critical tool for the City to have as it optimizes and right-sizes its portfolio to support City Programs and achieve its real estate and city building outcomes, under the advisement of CreateTO. To this end, the 2014 Strategic Acquisition Policy (EX44.22) is being updated as part of this report. The proposed revised Policy in Attachment 3 aligns with the C.W.R.E. Model and the strategic investment principles above. The Policy provides a transparent and objective framework to allow the City to strategically and proactively acquire real estate assets. In particular, the Policy will:

- Enable the City to respond to future and anticipated service and program demands based on the Official Plan and program areas' long-term strategies;
- Provide flexibility to purchase property that serves city-wide priorities under circumstances which could not be foreseen at the time of the capital budget process;
- Enable the City to pursue property proactively when it becomes available and respond to favourable opportunities in the marketplace; and
- Reduce overall costs associated with real estate acquisitions and increase efficiency by avoiding missed opportunities.

The Land Acquisition Reserve Fund ("L.A.R.F.") is a primary existing source of funding for this, though it is currently also used to fund other capital projects. The L.A.R.F. needs to be available for strategic investment in real estate on a City-wide basis, in line with the C.W.R.E. mandate, and a minimum uncommitted balance must be maintained and sustained over time to allow CreateTO to make recommendations to Council on the acquisition of properties that support portfolio optimization, enable finding solutions for D.A.C.s programmatic needs, and/or support City priorities (e.g. provision of affordable housing), in situation where funds are not available in the 10-year capital plan.

The report includes recommendations with changes to the L.A.R.F. so that the Fund's purpose is aligned with the City-wide approach to portfolio optimization and that there is a sufficient ongoing uncommitted balance available. This will ensure the City's future capacity to strategically acquire needed properties, based on recommendations from CreateTO, under the proposed Strategic Acquisition Policy (Attachment 3).

The L.A.R.F. will be available to provide funding for real estate capital projects involving acquisitions of real estate assets and/or significant capital improvements to existing real

estate assets to support City Programs and the City's city building objectives. Changing the two clauses in the policy on the treatment of properties mentioned in the previous section will also ensure that funds in the L.A.R.F. contribute to City-wide goals.

Additionally, in light of the now last-case option of outright property disposition, there is limited funds being deposited into the L.A.R.F. Therefore, this report recommends that, in addition to net sale proceeds, a minimum of 20 percent of realized value unlocked by CreateTO through strategic asset management and development be funnelled into the L.A.R.F. so it can be leveraged for future real estate investment. This will ensure that some of the value unlocked today will be available in the future to support strategic portfolio actions. In addition, capturing a portion of the unlocked land value for future requirements is a prudent and forward-looking approach to strategically acquiring real estate properties. Finally, this will empower Council to apply an equity lens on its real estate investments by making funds available on a city-wide basis and for future requirements and priorities.

Continued Centralization of C.R.E.M. Service Delivery

At the same time as efforts are underway to centralize finance, C.R.E.M. will later in 2021 be working closely with D.A.C.s – drawing on experience to date – to continue to co-develop a real estate services and facilities management centralization roadmap. The three-step approach will:

- **Standardize practices within C.R.E.M.** To prepare internally its own operations for future centralization, C.R.E.M. will first address any existing real estate and facilities process gaps and standardize practices within the division, ensuring that its structure is focused on consistent, client-centred service delivery. This work is underway, with organizational structure and process changes to better prepare the division to take on additional properties and real estate functions, and a third-party review is pending to focus on maturing the service delivery model to align with industry best practice.
- **Centralize certain City clients and functions.** Supported by robust transition planning and informed by consultations with client divisions, agencies and corporations to ensure that clients' program requirements continue to be met throughout the centralization process, C.R.E.M. will begin onboarding dependent on client readiness. This process is expected to be complete by the end of 2023.
- **Optimize processes and services delivery.** After onboarding new clients and properties, C.R.E.M. will continue transforming existing processes to reach an optimized service delivery model, regularly monitoring and evaluating the new service structure and arrangements to ensure maximum value to the City.

C.R.E.M. is committed to communicating and working closely with impacted City divisions, agencies and corporations throughout this process to ensure a smooth transition for clients, while ensuring client program needs and services continue to be met. Structural or functional changes will be implemented only when service consistency or quality can be maintained or improved.

Implementing a Sustainable Financial Model for CreateTO

CreateTO's financial model needs to reflect the agency's city-building mandate. As part of the 2017 report (EX25.9) it was agreed that during the 3-year incubation period CreateTO would be self-sufficient, relying upon the cash reserves from Build Toronto and the Toronto Port Lands Company ("the Corporations"), both to fund its operations and to return to the City an annual dividend of \$25 million and \$4.5 million respectively.

A new sustainable funding method is needed to sustain CreateTO's operations into the future. This is the case not only since the incubation period has reached its end, but also because the cash reserves from the Corporations have been depleted to a level where they must be maintained to meet the Corporations obligations; going forward, these reserves will therefore not be available as a source of funding for the CreateTO's operations or dividends.

At the same time and as shown above, CreateTO's mandate and operation – in concert with C.R.E.M. – have returned tremendous value to the City. This value is considered in lieu of future dividends and represents the final transition from the pre-C.W.R.E. Model status quo to the new Council mandate as passed in the 2017 C.W.R.E. report.

Therefore the report recommends that Financial Planning to work with CreateTO during the 2022 budget cycle to identify and implement a stable funding model. Finally, CreateTO as a service delivery agency will be tasked with identifying, in collaboration with CREM and Financial Planning, new sources of operating revenues and/or other City-building benefits that could off-set a portion of its financial needs, along with the contribution from the corporations (reduced from current levels), recoveries from capital budgets for development projects and City contributions.

Conclusion

The Council mandate relative to strategic investment and management of real estate has set the Model on an implementation path that has already delivered significant value to the City through unlocking value in underutilized City property, even during the Model's incubation period.

As it advances further to build a clearer, integrated picture of real estate expenditures in order to provide a City-wide view, CreateTO's strategic real estate capabilities will be expanded to make even better uses of capital. Alongside continued centralization of service delivery and asset management through C.R.E.M., the City's overall real estate capabilities will continue to align with industry best practice—returning more value for each capital and operating dollar allocated to providing D.A.C.s with the spaces they need to deliver City services.

The recommendations in this report will set the stage for a successful next phase of implementation. The mandate of the C.W.R.E. Model is to strategically manage the City's real estate assets, drive cost efficiencies and improved ability to support city building, and leverage the City's portfolio in support of D.A.C.s programmatic needs by unlocking underutilized properties, right-sizing the portfolio and applying a new lens to

facilitate colocation and multi-use facilities. To achieve this, the CreateTO and C.R.E.M. are partnering on a multi-year centralization roadmap.

Staff will continue to report regularly and as required on progress made towards centralization. A review of the C.W.R.E. Model should also be undertaken at some point in the future, when the Model and its forming entities are more mature and a review make sense. CreateTO will also continue to report through their board on key strategic initiatives and asset category plans.

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SIGNATURE

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ATTACHMENTS

Attachment 1 - City-Wide Real Estate Service Delivery Model Scope
Attachment 2 – Amendment to Toronto Municipal Code, Chapter 279, Toronto Transit Commission
Attachment 3 - Strategic Acquisition Policy