CREATE TO

REPORT FOR INFORMATION

Update on the City-Wide Real Estate Report on the Next Phase of Implementation

Date: August 27, 2021
To: CreateTO Board of Directors
From: Director, City-wide Real Estate Program, City of Toronto
Wards: All

SUMMARY

The Deputy City Manager, Corporate Services, will be bringing a report on the next phase of implementation of the City-wide real estate Model ("the Model") to the October 2021 meetings of Executive Committee and Council. The report will provide a summary of accomplishments achieved during the first three-year period of implementation of the Model and the continued advancement of the centralization of real estate functions into the Model, in support of the City's Divisions, Agencies and Corporations' real estate needs, City-building opportunities, and City Council priorities.

Prior to the report going to Executive Committee and Council, it is important that the CreateTO Board, as the real estate advisor to Council, has an opportunity to weigh in and provide feedback on this next phase of implementation. This report to the CreateTO Board seeks the Board's input and endorsement on key elements of the work ahead, including ongoing efforts to strengthen the "supply demand" model; the next phase of the City's roadmap to centralization of real estate functions and activities; and the overall approach and framework to enable the City to strategically invest in real estate, and for CreateTO to advise Council on such matters. The report to City Council will also include key financial recommendations to ensure CreateTO's financial sustainability.

The present report includes high level information and details on these matters, in particular as it relates to impacts on CreateTO as well as on the future ability of the CreateTO Board to fulfill its mandate and responsibility.

FINANCIAL IMPACT

The report from the Deputy City Manager, Corporate Services to City Council will contain recommendations relative to the financial sustainability of CreateTO. It was agreed in 2017 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.

As the Model emerges from this three-year incubation period, a new sustainable funding method is needed to sustain the operations into the future. Accordingly, recommendations effectuate the discontinuation of the dividends that CreateTO returns to the City annually through the corporations. Another and related recommendation directs Financial Planning to work with CreateTO during the 2022 budget cycle to identify and implement a stable funding model. Finally, CreateTO will be tasked with identifying, in collaboration with CREM and Financial Planning, new sources of operating revenues that could off-set a portion of its operating budget, along with the contribution from the corporations (reduced from current levels), recoveries from capital budgets for development projects and City contributions.

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

COMMENTS

The city-wide real estate report will provide Council with an update on progress towards the Model's implementation and its future path as it advances towards centralized real estate asset management strategic planning and servicing. This progress report comes after the initial incubation period of three years and was planned to provide this look-back and set the stage for future growth and needed in-flight clarification.

City-wide Real Estate service delivery Model

C.W.R.E. Mandate and Scope

City Council approved a new City-wide 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 (2017.EX25.9). The purpose of this new Model is to manage all City's real estate assets strategically through a new, coordinated structure, allowing City-wide and corporate goals to be applied to the asset portfolio--all in service to the City's programmatic needs and future planning.

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

CreateTO – guided by a professional board to inform real estate strategy, portfolio planning, and decision-making – has a mandate to manage the City's real estate portfolio, develop City buildings and lands for municipal purposes and deliver client focused real estate solutions to City Divisions, Agencies and Corporations. The agency is responsible for 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).

C.R.E.M. is a new service delivery-focused City division – integrating previously separate divisions (Real Estate Services, Facilities Management) and sections (Corporate Security, Energy Management, Business Management) – designed as a single point of service for real estate service delivery.

The Model is intended to serve all D.A.C.s and CreateTO's mandate extends to all "City divisions, agencies and corporations", as per Chapter 215, CreateTO of the Toronto Municipal Code. The report to Council will clarify this point and will recommend to City Council that any future City Agency or Corporation which is created should be deemed to be in scope for the City-wide Real Estate Service Delivery Model, except if specifically excluded at the time of their creation by decision of Council.

Role of the CreateTO Board

The CreateTO Board has an overarching advisory role as real estate experts to the City of Toronto on all real estate matters as part of the centralized City-Wide Real Estate service delivery Model. The Board makes recommendations to City Council on portfolio, strategic- and development-related matters, including how to develop City buildings and lands to “unlock” value.

In addition, the Board has a fiduciary duty to the agency, as well as to the two underlying corporations, Build Toronto and the Toronto Port Lands Company as cross appointed members of their respective Boards.

Accomplishments and Value Created (2018-21)

Working with its Model's partner C.R.E.M. and in close collaboration with key City and external stakeholders, CreateTO has already identified and generated significant value to the City in its first three years through better, and more efficient unlocking and stewardship of the City's real estate portfolio on behalf of the City and its programs.

City Council approved CreateTO's first City-wide Portfolio Real Estate Strategy in 2019 (2019.EX9.2), which outlines a strategic framework and approach to make better use of City-owned real estate assets. To date, key asset classes have been reviewed at a City-wide, portfolio level with recommendations made to City Council on how to improve portfolio outcomes. This includes the City-wide office portfolio (ModernTO) and a review of City-wide transit-oriented properties, which are being leveraged for the Housing Now program.

These plans, in addition to several site-specific strategies, have identified over $1.5 billion in net value for the City (via unlocked land value and operating/capital cost savings). Key highlights includes:

- 5,000 affordable housing units (Housing Now)
- 100 modular housing units
- 250,000 square feet of community space
- 170,000 square feet of new parkland
- 1 million square feet of office space savings (ModernTO)
- $30 million operating and capital cost savings annually (ModernTO)

Next Phase of Implementation – Strategic asset management and investment in real estate

Strategic Investment in Real Estate

The report to Council will advance key principles to guide strategic real estate investment from a City-wide perspective, and propose a number of changes to existing City policies and financial matters to strengthen the ability of the Model to deliver on its mandate. Consistent with the Model and Council's 2019 City-wide Real Estate Portfolio Strategy ensuring coherent, long-term strategic portfolio and asset management decisions, these principles for strategic real estate investment will guide the centralization roadmap and City-wide approach to real estate asset management.

The intent of the principles is to re-affirm that the City should optimize its investments in real estate City-wide to maximize their value by combining projects, innovating to align with broader City goals, and promoting colocation and mixed uses (with both internal and external stakeholders). This will also allow the City to consider the overall impact of investments on larger outcomes – environment, equity, resilience, and others – all in the context of strategic asset management.

The principles also introduce the notion that the City needs to establish a framework and sustainable funding source to invest in real estate. To this end, the report will make recommendations to update existing policies related to strategic acquisitions and the treatment of properties to align them with the Model and Council's approved Real Estate Portfolio Strategy, with the goal of facilitating this optimization and City-wide prioritization of asset management and investments decisions by City Council.

Further Improving the Supply-Demand Model

CreateTO is charged with maximizing the value of the City's real estate assets for City purposes. To achieve this goal, the agency works in partnership with D.A.C.s – by inventorying city-building priorities and program needs ("demand") and meeting these needs through innovative portfolio-level asset management and real estate solutions that leverage the City's existing real estate portfolio ("supply").

CreateTO will continue to mature the overall real estate "supply-demand model." On the supply side, work is underway with respect to specific asset-type portfolio plans, alongside additional "micro strategies" that respond to timely, evolving, or context-specific needs (e.g., geographical area, emergent policy need, Council priority lens). This work focuses on the assets and how to optimize, rationalize and intensify their current use to better utilize the portfolio. Underutilized assets are unlocked through this process to support Program needs as well as City priorities (e.g., affordable housing).

On the demand management side, the Model will continue to pivot its approach to enable a more strategic lens on the capture and analysis of program needs. Through the staff Strategic Program Management Committee, CreateTO and C.R.E.M. will coordinate a process and governance to capture and organize the City's real estate needs in terms of Program demands, articulated and substantiated based on service outcomes and requirements, such as catchment area, documented service volume, service level requirements, and legislated/mandated requirements. With a more mature supply and demand analysis, the Model will then be able to meet its potential of delivering a fully strategic and rationalized portfolio to meet City demand.

Phased Approach to Centralization and Implementation

The Model is being implemented in phases. The first of these, the centralization of authorities over asset-use decisions and real estate transactions, is complete. The second and third phases, both of which are in planning stages, comprise (1) the continued efforts to centralize the oversight and management of real estate-related assets (through capital and operating expenditures integration), and (2) the further centralization of property management and facility operations provision and accountability into C.R.E.M.

Phase 2 will provide a consolidated view of real estate capital and operating expenditures City-wide. This will allow CreateTO to advise Financial Planning and City Council on prioritization and optimization of available funding for real estate. Work has already began in partnership with Financial Planning with a focus on capital expenditures first, and in particular new capital and acquisitions. Further engagement with the CreateTO Board will take place as this new process and governance are established. It is expected that the new process and governance will be in place for the 2023 budget cycle.

Phase 3 is mainly concerned with the centralization of C.R.E.M. service delivery. This phase comprises of three distinct sequential steps of (1) standardization of practices within C.R.E.M. to prepare the Division for onboarding new clients and assets; (2) centralization of City assets and functions, based on divisions and agencies readiness; and (3) optimization of processes and service delivery, as continued ongoing efforts to monitor and optimize processes and real estate services for City Programs.

Conclusion: key impacts to CreateTO

With respect to components of the report that will be of particular interest and importance to CreateTO, there are primarily three areas.

First, the Council report will provide greater clarity on D.A.C.s' obligation to engage with CreateTO and C.R.E.M. on matters related to real estate asset management and strategic planning. This will allow CreateTO, and its Board, to fulfill their mandate by re-affirming CreateTO's responsibility for all planning and strategic real estate matters. CreateTO's role is also dependent on a bidirectional partnership, including sharing of necessary data and information from D.A.C.s to ensure that proper and timely solutions can be found. At the same time that CreateTO works with individual or multiple D.A.C. partners to determine real estate solutions, its mandate remains to optimize the City's real estate portfolio on a City-wide basis consistent with Council's 2017 mandate.

Secondly, the report will set a clear path forward for the next phase of implementation. The next phase of the centralization roadmap focused on oversight and governance of real estate capital and operating expenditures will further CreateTO's ability to make strategic recommendations to City Council on key real estate asset management and financial investments.

Third, by removing barriers and aligning City policies with the City-wide real estate Model, the report facilitates CreateTO's ability to unlock land value and redevelop City properties with a strategic and maximizing City-wide lens, based on Council's approved Portfolio Strategy and a robust understanding of Programs' needs and Council priorities.

Finally, as detailed above in the Financial Impacts section, the report contains recommendations relative to CreateTO's financial sustainability. This is critical to ensure CreateTO's future and its ability to deliver its mandate and continue to generate significant value to the City.

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SIGNATURE

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