

4 CORNERS ANNUAL REPORT

A Summary Report of the 4 Corners
Strategy Activities for 2020

April 14, 2021



UNIVERSITY OF
TORONTO

REAL ESTATE

4! CORNERS
STRATEGY

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An aerial photograph of a city skyline, likely Toronto, featuring the CN Tower on the right. The image is split horizontally: the top half shows a dense cluster of skyscrapers against a clear blue sky, while the bottom half shows a street-level view of a city grid with a mix of modern glass buildings and older brick structures. A dark horizontal band is overlaid across the middle of the image, containing the text.

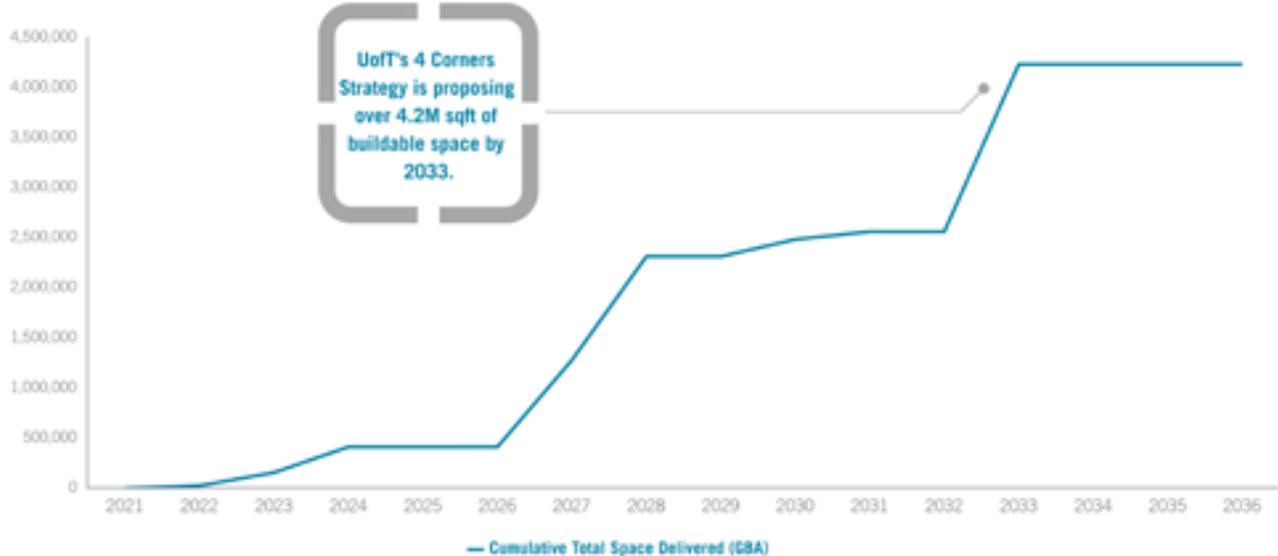
1 EXECUTIVE SUMMARY

Executive Summary

THE 4 CORNERS (4C) STRATEGY was approved by Business Board in November 2018 with double bottom line goals to deliver amenities to support the academic mission and simultaneously grow revenue from sources other than enrolment. The 4C strategy aims to generate \$50 million annually in operating funding over the next 15 years through the development of roughly 4 million square feet of new space devoted to campus services, amenities, innovation and retail spaces.

The 4C strategy is operationalized by the Real Estate department within the University Development and Campus Services (UDCS) ancillary operation, which has a mandate to provide high-quality innovation space, faculty and student housing, and retail space to serve the university community. The positioning of 4C within UDCS ensures that the provision of amenities to support a complete campus is a fundamental focus throughout all stages of planning, design, and delivery of real estate development projects.

FIGURE 1
Total Space Proposed, Gross Buildable Area (GBA)
 15 Year Projection



The COVID-19 pandemic had a significant impact on Real Estate's leasing revenues over the last fiscal year. Tenants with retail operations were hit particularly hard and, despite Federal government subsidy programs, many tenants struggled to meet rent obligations. Leasing revenues declined by 7%, reducing the amount of funding available for reinvestment in development projects in the short term. Nevertheless, 4C is a long-term strategy that involves development projects with extended timelines. Many 4C projects are in early construction or predevelopment stages and current year revenues account for only a small part of the long-term funding strategy.

Looking ahead, it is expected that the university will see a gradual return to normal operations as travel and public health restrictions are eased. Real Estate will continue to monitor economic recovery and will remain flexible in responding to development opportunities as they arise, with careful consideration of available revenues and the university's broader fiscal context.

Despite the challenges of the last year, Real Estate has already made short-term progress toward **three important objectives:**

- **Building foundations**
- **Promoting innovation**
- **Supporting the university community**

In this first year of operations, Real Estate added staff capacity and expertise in the areas of financial analysis and negotiation support and advanced key projects such as the Schwartz-Reisman Innovation Campus and Spadina Sussex Student Residence that will contribute to a sense of community and our City's innovation economy. The Real Estate team also strengthened relationships with its Real Estate Advisory Committee (REAC) comprised of internal and external stakeholders, to help guide the 4C vision and provide feedback on future development opportunities.



An aerial photograph of a city skyline, likely Toronto, featuring the CN Tower on the right. The foreground shows a mix of modern glass skyscrapers and older brick buildings. A dark, semi-transparent horizontal band is overlaid across the middle of the image, containing the text '2 BUILDING FOUNDATIONS'. The number '2' is white, 'BUILDING' is white, and 'FOUNDATIONS' is yellow. A thin teal vertical bar is on the right side of the dark band.

2 BUILDING FOUNDATIONS

Building Foundations

AS ARTICULATED IN THE 4C STRATEGY, the university has taken the approach of building real estate development capacity internally, rather than establishing a subsidiary development corporation. The Real Estate team is responsible for implementation of the 4C strategy and spent a significant portion of its first year establishing a new team structure and recruiting the highly skilled staff required to deliver on the 4C objectives. The team added a new director to lead the overall strategy, a development analyst to develop financial models of potential projects and negotiate optimal deal terms, as well as a leasing analyst and a leasing administrator to secure tenants and innovation partners. The team benefits from collaboration with a commercial property manager within the Facilities & Services portfolio who is dedicated to ensuring properties are efficiently and professionally managed, and a senior marketing manager shared across the divisions within UDCS who brings public profile and recognition to 4C projects and key accomplishments.

While these resources go a long way, a single team cannot manage this ambitious strategy alone. A key driver in the formation of the UDCS ancillary operation was the acknowledgement that complicated, mixed-use projects require close collaboration between many of the university's existing ancillary operations, such as residence operations, family housing, parking, and food services. The UDCS partnership allows the Real Estate department and Ancillary Services to share resources, expertise, and a common goal of providing efficient and cost-effective services to the university while generating revenue to support the university's academic mission.

FIGURE 2
Real Estate Advisory Committee Membership

SCOTT MABURY Co-Chair of the Committee Vice President & Real Estate Partnerships University of Toronto	FAY WU Managing Director NFQ Ventures
GEOFF MATUS Co-Chair of the Committee, President Mandukwe Co-founder of Tricon Residential	GARY BERMAN President & CEO Tricon Residential
JOSH MITCHELL Director, Real Estate University of Toronto	IRA GLUSKIN CIO Irager + Associates Inc.
BLAKE HUTCHESON President & CEO OMERS	JACK WINBERG CEO Rockport Group
	JOHN O'BRYAN Board Chair of Investment Committee CT REIT
	STEVE GUPTA Founder & Chairman Easton's Group of Hotels

Beyond UDCS, the 4C strategy continues to benefit from strong engagement of the 4C Steering Committee, which includes senior leaders from Facilities and Services, Planning & Budget, University Planning Design and Construction, Financial Services, and other senior staff within the Operations and the Real Estate Partnerships portfolio. This contributes to understanding and alignment within the university administration on specific projects and on the goals of the 4C strategy more broadly. The Real Estate team also engages externally with a Real Estate Advisory Committee comprised of deeply experienced real estate executives who are friends and benefactors of the university. The Committee provides sage advice on individual projects, such as Schwartz-Reisman Innovation Campus, as well as broad feedback as the university navigates the challenges of the Toronto real estate market.

In addition to building foundations with internal and external stakeholders, Real Estate created a new website (www.realestate.utoronto.ca) that highlights the 4C strategy and all of its active projects, subscribed to a new leasing and property management software called Yardi, and developed a portfolio model that tracks construction costs, sources of financing, and revenue forecasts for all 4C projects over a 15-year period. These administrative accomplishments may seem small but have been instrumental in building awareness of the strategy, having real-time access to leasing data, and the ability to test scenarios based on market outlook.

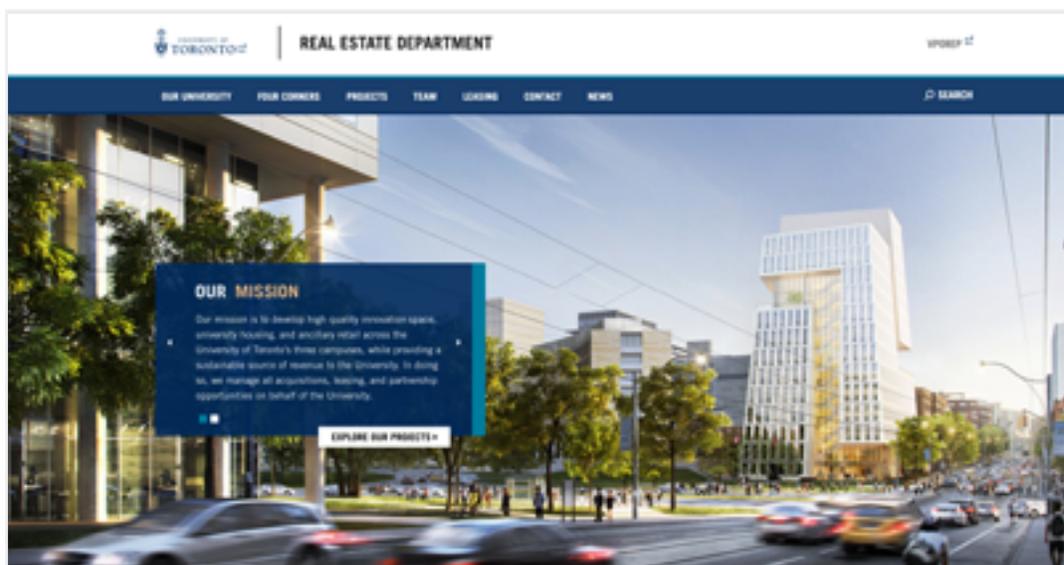


FIGURE 3
Real Estate
Website

An aerial photograph of a city skyline, featuring the CN Tower on the right. A dark, semi-transparent horizontal band is overlaid across the middle of the image, containing the text '3 PROMOTING INNOVATION'. The number '3' is large and white, while 'PROMOTING' is in white and 'INNOVATION' is in yellow. The background shows a dense urban landscape with various buildings and a street running through the center.

3 PROMOTING INNOVATION

Promoting Innovation

AN IMPORTANT 4C OBJECTIVE is to promote innovation space that supports the university's research commercialization efforts. The Schwartz-Reisman Innovation Campus, located at the intersection of College and University directly across the street from the MaRS Innovation Centre, will turbocharge the next wave of Canadian innovation, advancing how AI, biomedicine, and other disruptive technologies can enrich lives.

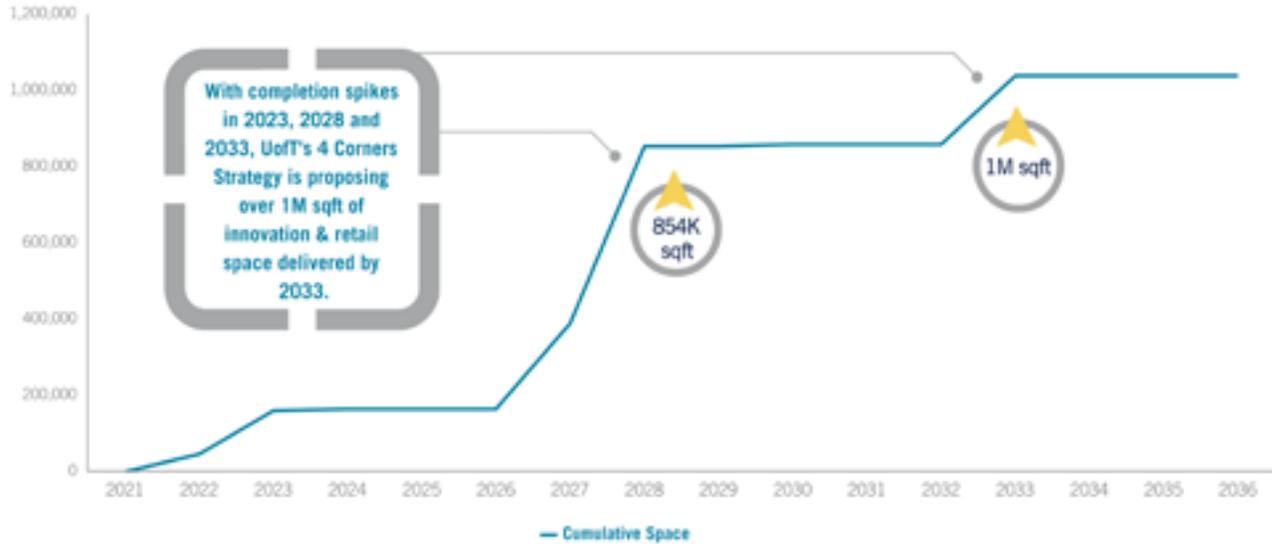
The first phase of the project will provide approximately 250,000 square feet of innovation space focused on advancing the university's strength in artificial intelligence. Anchored by University Entrepreneurship and the Vector Institute, the first phase will also have space for student and affiliate companies, as well as step-up space for scaling AI partners. Designed by the New York based firm, Weiss/Manfredi, Ellis Don began construction of the below



FIGURE 4
Schwartz-Reisman Innovation Campus
Phase 1

FIGURE 5

Total Innovation and Retail Space Proposed
15 Year Projection



grade portion in late 2020 and are about to begin above-ground vertical construction of the superstructure. The Schwartz-Reisman Institute for Technology and Society will be another anchor in the building and have a key role encouraging partnerships across multiple intersecting fields that explore AI.

The second phase, which is to begin construction shortly after the first phase is complete by end of 2022, is anticipated to include over 400,000 square feet of office and much-needed wet laboratory space focused on translating life sciences research and development to commercial companies. Real Estate spent the last quarter of 2020 and beginning of 2021 working with U3 Advisors (the same firm which provided direction on the 4 Corners strategy) to conduct a comprehensive supply and demand analysis for Toronto’s life science ecosystem. Internal and external stakeholder engagement will be truly instrumental in determining the programmatic breakdown of this important asset.

Together, the two phases will be the country’s largest concentration of student and faculty-led start-ups, firmly positioning Toronto as the place for creating new technology companies, jobs, and solutions. The team is very proud of the progress it has made this past year in advancing the first phase through construction, and further studying the life sciences ecosystem in preparation for the second phase.



An aerial photograph of a city skyline, featuring the CN Tower on the right. The image is partially obscured by a dark, semi-transparent rectangular overlay in the center. The text '4 SUPPORTING COMMUNITY' is displayed in white and yellow on this overlay. The number '4' is large and white, followed by 'SUPPORTING' in white and 'COMMUNITY' in yellow. The background shows a dense urban landscape with various buildings, streets, and greenery.

4 SUPPORTING COMMUNITY

Supporting Community

AN INTEGRAL OBJECTIVE OF THE 4C STRATEGY is to support the university community, including students, faculty, and staff, as well as the broader community surrounding its campuses. In particular, 4C accomplishes this objective by building much-needed university housing for its community members. The Spadina-Sussex Student Residence is one of those projects. At 23 stories tall, the residence will provide more than 500 beds for students. This past year, the team finalized construction drawings and budgeting with its

development partner, The Daniels Corporation, to prepare for construction commencement in summer 2021. The positive impact of this new Residence development doesn't stop at the university community; it will provide retail space on the first floor, green space, and a heritage preservation component to contribute to the local sense of place and quality of the pedestrian realm. The team expects the project to be complete in time for the Fall 2024 semester.



FIGURE 6
Spadina-Sussex
Student Residence



FIGURE 7

Harbord Residence
Graduate House Expansion

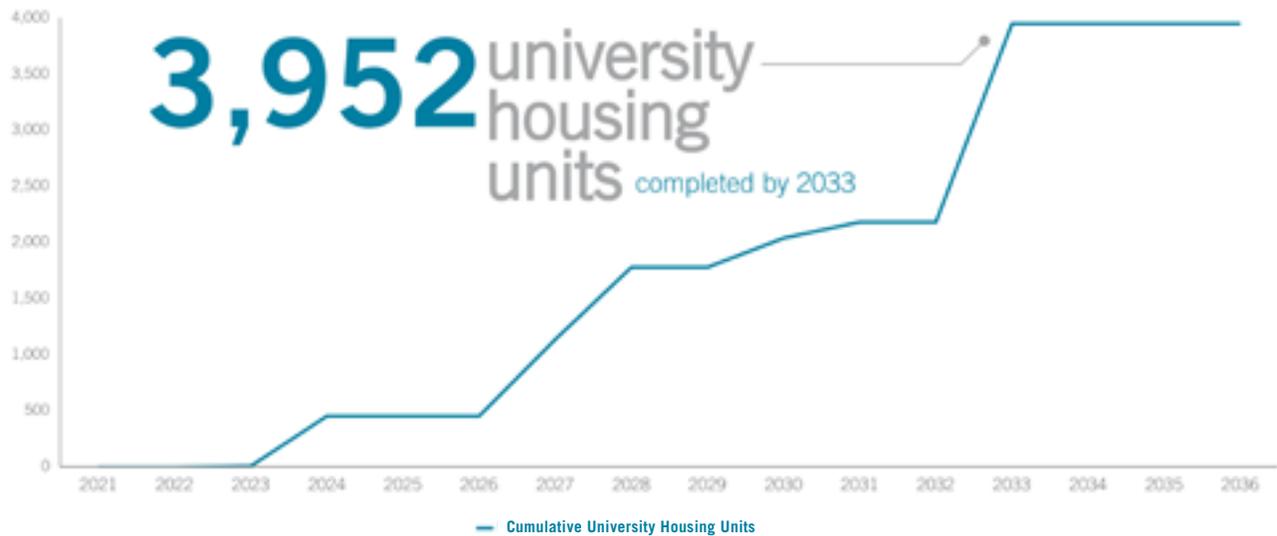


FIGURE 8

730
Yonge Street

FIGURE 9

University Housing Unit Delivery 15 Year Projection



The 4C team also made strides on soliciting community feedback and developing design drawings for the Graduate House Expansion project. Designed by the Los Angeles-based architect Michael Maltzan, the 9-story student residence will provide just under 200 beds for the university's rapidly growing graduate student population. The Residence will be physically connected to the existing Graduate House via two passageways, enriching the student experience for the future graduate community, and adding new collaboration and study space for the existing population. The building will add a progressive rendition of traditional brick façade at an appropriate size for the neighbourhood. It is expected that this project will start construction near the end of 2020 and be completed well before the Fall 2024 semester.

The 4C strategy acknowledges that retail spaces serve community needs and contribute to a vibrant urban environment. In particular, the 4C team made significant progress designing and rehabilitating the retail podium at 730 Yonge Street with its project architect, Cumulus Architects. At almost 40,000 of square feet of retail and office space, the rehabilitation project will improve the façade of the building, reconfigure retail units, expand the loading dock, improve safety, and create a new office and below grade parking lobby. This not only improves the pedestrian experience at a high-profile intersection on one of the city's most prominent streets, but it also improves the retail space for over 1,000 student family residents that live at 730 Yonge Street and at 35 Charles Street just around the corner.

The design is now under City review with hopes to begin construction in Summer 2021.

An aerial photograph of a city skyline, likely Toronto, featuring the CN Tower on the right. The image is overlaid with a dark semi-transparent rectangle on the left side containing the text '5 RISKS'.

5 RISKS

Risks

THE 4C STRATEGY IS A REAL ESTATE STRATEGY. It depends on partnerships with developers and investors, and the availability of risk-appropriate returns for its development projects. If a project costs too much, takes too long to build, or does not generate enough income to justify the investment, the project and its benefits to the university community will not materialize.

There is no doubt that the COVID-19 pandemic had a significant impact on almost every facet of the social, economic, and political lives of the university community and the city region in which it operates. The Real Estate team continues to carefully monitor the specific risks that COVID-19 pose to achieving the objectives of the 4C strategy.

Seed capital derived from existing leasing revenues is necessary to drive forward early conceptual stage development of future 4C projects. Although the 4C strategy anticipates generating sufficient revenues to provide an income stream to the university in the long term, current revenues derived from commercial retail leasing activity on the campus periphery are retained by the UDCS ancillary to fund upfront development costs on future projects.

The university currently has 69 rental agreements that generated approximately \$6.7M in revenue in 2019-20. Given the broad economic impact of COVID-19, the Real Estate Operations saw a 7% drop in revenue in fiscal year 2020-21, down to \$6.2M, and despite projecting an increase of 8% for fiscal year 2021-22 to \$6.7M in revenues, is still well below original pre-COVID forecasts. As a result, there is currently less seed capital to fund appraisals, development studies, and hire staff for 4C projects.

In addition, construction efficiency has declined on almost every construction project in the city as a result of social distancing protocols, shutdowns, supply chain disruptions and other public health restrictions.

The fundamental changes in the way we live and work during the COVID-19 pandemic also pose some risk to future demand and time to full occupancy once current projects are completed. For example, vacancy in Toronto's downtown north submarket hovered around 0.5% before the pandemic, but jumped up to 3.7% by Q4 2020, and up to 5.6% by Q1 2021 as a result of companies looking to sublease their space. Public health restrictions may affect occupancy rates of new residences, or remote work arrangements may drive down demand for innovative new office spaces. Market outlook discussions with the Real Estate Advisory Committee and the university's development partners suggest that demand will likely rebound by the time the first tranche of 4C projects is proposed in 2023-24. Furthermore, specialized innovation spaces, such as the Schwartz-Reisman Innovation Campus, are heavily focused on attracting innovative companies that require in-person collaboration and creativity, and will likely have stronger demand than traditional commercial office buildings.

An aerial photograph of the Toronto skyline, featuring the CN Tower and various skyscrapers. The image is overlaid with a dark horizontal band containing the text '6 FUTURE PROJECTIONS'. The number '6' is white, while 'FUTURE' is white and 'PROJECTIONS' is yellow. The background shows a mix of modern glass skyscrapers and older brick buildings, with a street running through the center.

6 FUTURE PROJECTIONS

Future Projections

GIVEN THE IMPACT OF COVID-19 and the risks noted above, it is likely that the objective of generating positive net income for the university may take longer than originally anticipated. The exact timing of cash flows is still to be determined, but the team is confident that the strategy remains robust and that revenue objectives are still achievable in the long term.

The 4C strategy has accomplished a lot over the last year, but the most promising opportunities are yet to come. There are several key milestones in ongoing projects for the next fiscal year, including groundbreaking events for the Spadina-

Sussex Student Residence, Grad House Expansion, and 730 Yonge redevelopments. Planning continues for the second phase of the Schwartz-Reisman Innovation Campus, and the university expects to announce another large-scale, mixed-use development project on the university's downtown campus soon. The team will also continue to study future pipeline projects under the 4C strategy, including lands within University of Toronto Scarborough and University of Toronto Mississauga campuses as part of a study using the same external consultants that prepared the original 4C strategic framework.

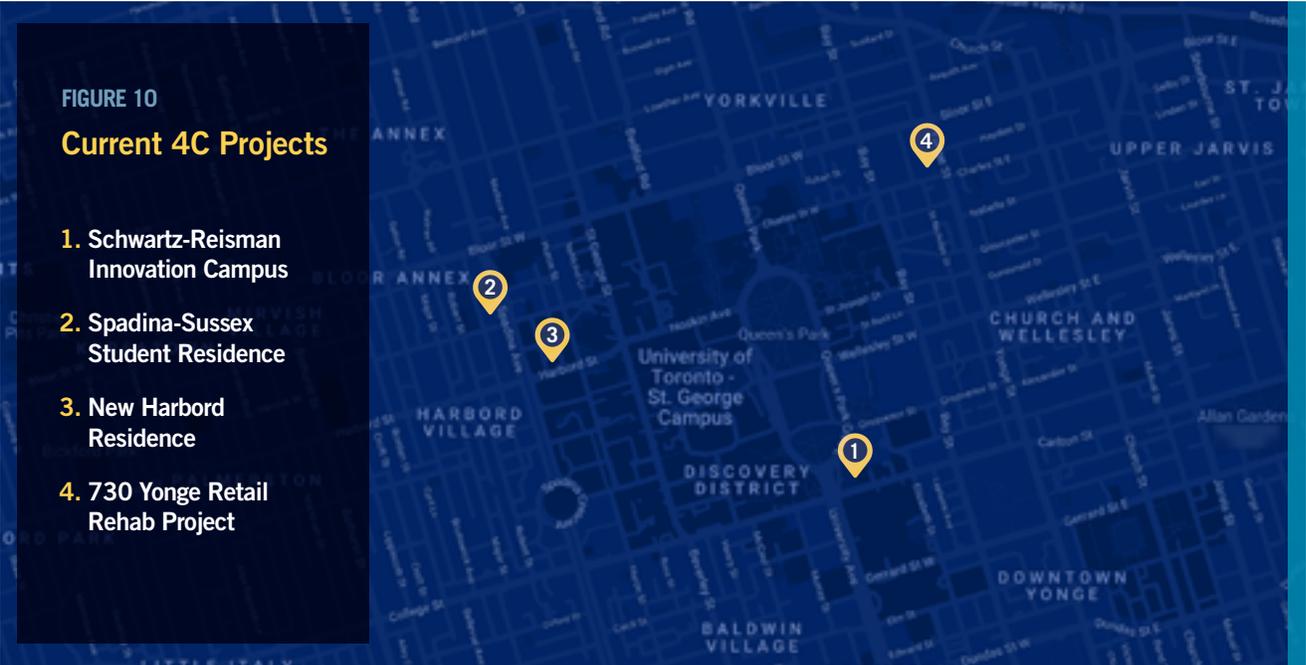
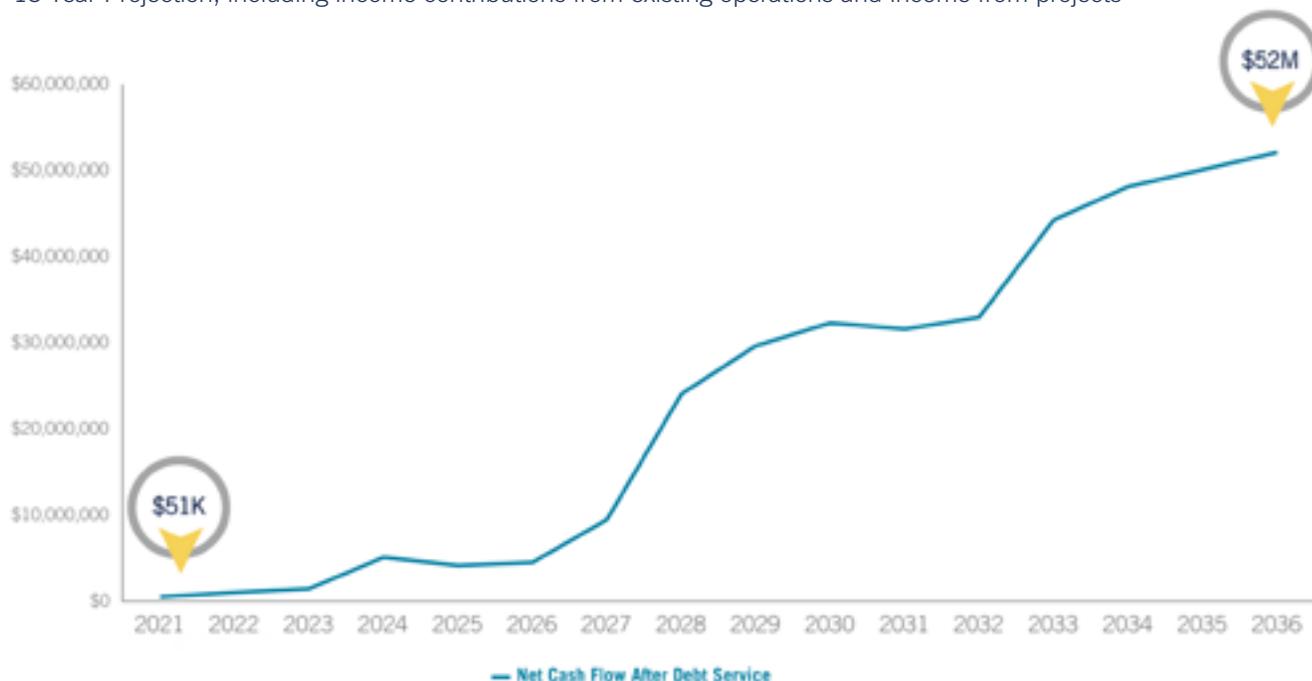


FIGURE 11

Annual Cash Flow After Debt Service

15 Year Projection, including income contributions from existing operations and income from projects



Over the next 15 years, the university will be on track to construct over 4 million square feet of space, delivering more than 3,500 units of housing and 1 million square feet of innovation and retail space. Furthermore, the strategy is on pace to generate nearly \$52M in annual net income for the university by 2036.

Moving forward, many of the accomplishments in the Building Foundations part of this report, such as hiring expertise internally, strengthening interdepartmental ties, formalizing engagement with a seasoned advisory committee, and creating dynamic models for the entire 4C portfolio with real time access to data will prepare the university to adapt quickly to the rapidly changing external environment.

While there have been some immediate tailwinds as a result of the pandemic, there is no doubt the 4C strategy will achieve important objectives for university’s academic mission and provide a steady source of funding for years to come.

FIGURE 12

4 Corners Strategy

