SUBJECT: Summary Report of Real Estate Activity for the City of Hamilton and Approval of Real Estate Staffing Changes in the Development and Real Estate Division (PED05117) (City Wide)

COMMENDATION:

(a) That Report PED05117, summarizing the Development and Real Estate Division’s real estate activities for 2001-2005, be received, for information.

(b) That the following staff positions in the Real Estate Division be approved as follows:

   (i) Temporary Administrative Assistant to Permanent Administrative Assistant.

   (ii) Two Temporary Property Officers to One Permanent Property Co-ordinator.

   (iii) Temporary Senior Planner to permanent Senior Planner – Real Estate position.

(c) That the Part-time Property Co-ordinator position for property leases be extended for a further 18 months.

(d) That the Administrative Assistant, Property Co-ordinator, extension of the part-time Property Co-ordinator and 75% of the cost for the Senior Planner be self-funded through monies received from the sale of properties from the Property Purchase and Sales Capital Account; and 25% of the cost for the Senior Planner– Real Estate be funded from the Development Fee Stabilization Reserve.
EXECUTIVE SUMMARY:

This report is to provide Committee and Council with an overview on the Divisional Work Plan and activities results carried out by the Development and Real Estate Division related to real estate matters.

BACKGROUND:

The Real Estate Section of the Development and Real Estate Division is the focus access point for acquisitions and disposal of land, lease agreements and expropriations. Staff works with a broad and varied client base including industrial/commercial realtors, school boards, provincial agencies, business owners, property owners, developers, landlords, appraisers, legal firms, non-profit organizations and land surveyors. The Section also offers information to clients, both internal and external, with respect to property ownership, statistical information on City holdings, processes, in house appraisal services, etc.

City Council, on September 18, 2001, approved the Delegation of Authority to staff for routine real estate matters, and Item 13 of Report 04-021 of the Planning and Economic Development Committee, City Council, on November 24, 2004, approved the “Procedural By-law for the Sale of Lands”, By-law No. 04-299. Pursuant to Item 21 of Report 01-029 of the Committee of the Whole, staff is required to provide City Council with update reports outlining all real estate transactions pertaining to acquisitions, dispositions and leases.

This report highlights progress and accomplishments of the Real Estate Section since the beginning of 2001.

To effectively summarize real estate activities for the information of Committee and Council, staff has complied statistical sales information, purchases and lease renewals from the year 2001 to present. The following graphs and charts illustrate the incoming revenues through the sale of municipal assets, land acquisition for municipal purposes, as well as lease and lease renewals.
It can be seen from the above graph and table that staff has maintained a consistently high revenue stream in sales of industrial properties and surplus properties which, in part, also assists in meeting Council’s annual projected reduction in operating costs. As Committee and Council can appreciate, the process of selling City owned property is lengthy and time consuming. The process involves the identification of surplus assets through departmental and agency circulation, business case analysis, appraisal reports, environmental and building audit reports, surveys, followed by reports to Council on declaring properties surplus. Only then can the properties be marketed for sale. Further, as part of the Portfolio Management Strategy, as adopted by City Council on November 24, 2004, staff now undertakes a strategic analysis of each investment by examining the highest-and-best use and potential for increased value through rezoning prior to disposal. The time frame to place a City asset on the market takes anywhere from three months to one year. In 2005 to date, staff has processed 45 sales, resulting in sales revenues to the City of Hamilton of approximately $2,618,330. It is further noted, that based on the actual transaction volumes over the past five years, 169 properties had been sold, resulting in sale revenues of approximately $11,144,238. In addition, staff continues to evaluate City owned assets on an on-going basis, coordinated through the new Portfolio Management Committee, with the objective to divest all assets serving non programmed or non-core requirements of the organization.
City of Hamilton Land Acquisition

From a land acquisition perspective, the majority of the expenditures for 2004-2005 have been a result of the Hamilton-Wentworth District School Board declaring a number of their holdings surplus to their needs. In total, expenditures totalling $3,256,700 have been utilized for the acquisition of four school sites to alleviate parkland deficiencies within existing neighbourhoods. The balance of the expenditures relates to acquisitions dealing with approved capital projects involving road re-construction, water and waste, drainage and storm sewer outlets etc. In all, staff has successfully negotiated 28 offers within a timely manner to allow approved capital projects to move forward without delays and to secure the necessary School Board sites. Furthermore, the funding sources for the land acquisitions have been allocated within the respective line department’s capital budgets and through the utilization of the Parkland Dedication Reserve account.

![CITY LAND PURCHASES 2001 - 2005](image)

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Appraisal Services

Under the provisions of Section 268 of the Municipal Act and Council’s approved policies on the disposition and acquisition of properties, staff must obtain appraisals of the fair market value of the assets prior to disposal. In the past, the City had to engage the services of outside appraisal firms to undertake the preparation of all these reports. Due to the costs of this service, and delays which had been encountered due to
individual firm's commitments for other assignments from the private sector, approval had been granted by Council in 2004 to hire an in-house Appraiser, with the anticipation that the cost savings incurred would offset the annual cost for this position. Since the hiring of this position in September 2004, the cost savings incurred through the preparation of 41 in-house appraisals is estimated to be in the range of $120,000. This does not include 105 valuations for cash-in-lieu of parkland dedication, resulting in required payments of $1,505,000 since January 1, 2005 and $2,005,000 during the last twelve month period for the City's parkland reserve account. The cost for an external consultant on an hourly basis ($130/hr. x 1.5 hrs/application) to do this work would have been approximately $24,000, resulting in an additional net savings to the City of approximately $24,000 per year for this service provided in house. The City's Appraiser provides timely advice to staff and the business community on a variety of valuation related issues involving time-sensitive, expropriation files.

Commission Fees

Pursuant to Council policy and the City's Procedural Bylaw for the Sale of Land; land may be sold by one of the following methods: a) Open Market - marketed and negotiated directly by staff. b) Tender Call or c) Brokered – marketed by approved independent real estate brokers.

All expenses associated with any sale of land are paid out of the account to which the funds will be deposited from the sale of the property. Real Estate commission paid to brokers is disbursed from the proceeds of the sale of the land and, in the case of acquisitions, these costs are charged and accounted for within the line departments' related capital budget.

Although the City realizes extensive cost savings associated with fees and commissions by doing this work in-house, staff is of the opinion that for difficult properties, or properties that have substantial development opportunities, it is more appropriate and effective to market these holdings through engaging the services of an outside Broker. The benefit includes effective and greater exposure to the market by having the property listed on the Real Estate Board’s MLS, as well as the brokers’ expertise and network of contacts. Statistics have shown, at times, that through the MLS listing of the City's assets the City has realized greater returns on their assets, exceeding the estimated fair market value due to competitive bids being received for the assets, which otherwise would not be obtained. The increased value on the asset effectively outweighs the commission fees paid, and the City's net revenues still exceed the estimated market value.

The graph and chart below illustrates the increased internal savings and declining expenditures through the in-house marketing of the City's assets since the additional staff complement was added in 2003.
With respect to land acquisitions, negotiations are, in most cases, handled internally, resulting in substantial cost savings to the organization, as noted in the graph below. Increased savings are particularly noticeable after 2003 since the staff complement was increased.
Leases/Renewals

Real Estate continues to be heavily involved in negotiating leases, both where the City is a Tenant and a Landlord. All aspects pertaining to these negotiations are handled in-house, resulting in substantial cost savings to the organization. This has primarily been the responsibility of the part-time Property Co-ordinator, which this report is recommending an 18 month extension to. From a leasing sector perspective, if the service had been outsourced, the City’s costs to the brokerage firm’s, under current contract, would be as follows:

(i) Leases (Commercial/Industrial): fees range from 5% to 8% of the first year’s rent and 2.5% to 4% for the remainder of the lease term. In some cases, commission is paid at a rate of $0.50 per rentable square foot per year.

Using these above rates, with City staff performing this function, the organization’s estimated cost saving just for 2005 in the first year of a five year lease term is $72,000. Taking into account the balance of lease term, this results in annual savings of approximately $33,000, for a net total of $204,000. As there are currently 400+ leases, substantial cost savings is consistently being achieved by this service being performed by in-house personnel.

In conclusion, substantial progress and success has been achieved in the City’s Real Estate portfolio management through the identification and disposal of surplus holdings; the reduction or elimination in annual operating and maintenance costs attributed to the retention of non-core holdings together with capital sales to offset departmental expenditures, cost savings with in-house appraisals, reduction in commissions to outside agencies for sales, acquisition and lease negotiations; all which focus its
objective towards meeting Council’s directive towards cost saving reduction measures to assist with budget pressures.

**ANALYSIS OF ALTERNATIVES:**

By not retaining adequate staff resources in the Real Estate Section, savings will be decreased and expenditures for outside real estate services will increase.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

**Staffing**

City Council, on June 11, 2003, adopted Item 14 of the Committee of the Whole Report 03-016 and approved the following recommendation:

“Hiring of Temporary Staff to facilitate Moving Forward with Divesting in Surplus Properties;

(a) That the Real Estate Section be authorized to hire four FTEs and the Development and Real Estate Division be authorized to hire one FTE, as detailed in Report PD03133, for up to two years, to facilitate moving forward with the rezoning, declaration and sale of surplus properties.

(b) That the positions be self funded through the sale of properties from the City’s Capital – Property Purchase and Sale Account.

(c) That the Ward Councillor be consulted prior to a property being declared surplus.”

The above noted recommendation approved the following five positions to be created for up to two years.

- Property Clerk/Administrative Assistant
- Appraiser
- Two Property Officers
- Planner – Development Division

Four of the above positions had been filled under a two-year contract with the exception of the “Appraisal Co-ordinator” position. As the contract term of the Administrative Assistant and Planner are coming to an end, as of November 2005, approval is being sought to make these positions permanent, full-time positions. The annual cost of these two positions would be approximately $137,500 including benefits. It is anticipated that these two positions would be self-funded through the sale of land with a portion of the Senior Planner’s funded from the Development Fee Stabilization Reserve.
Both the Administrative Assistant and the Senior Planner - Real Estate are critical to the operation of the Division and to implement the strategic direction of Council’s new Portfolio Strategy Plan. The impacts of not filling these positions are:

- The implementation and delivery of the Portfolio Strategy Plan, adopted by City Council on November 24, 2004, will be in effective, particularly since the Planner undertakes a strategic analysis of each investment by examining the highest-and-best use and potential for increased value through rezoning prior to disposal. The impact of not retaining this Planner may result in lost revenues to be received from the sale of surplus lands, especially on complex and high value properties.

- Loss of Secretarial support to the new Portfolio Management Committee, day-to-day administrative functions, i.e. formatting staff reports, answering public/counter enquire, support staff to Divisional Administrative Assistant, circulation notices, dictations, minutes et c., will all severely tax the limited staff resources to perform these functions without the services of the Administrative Assistant.

- As a service department, the Section responds to the need of a number of line departments on a daily basis and the impact of the loss of the Administrative position will also undermine the efficiency of the Section to respond in a timely manner as the current staff complement will become responsible for the day-to-day administration functions.

In order to handle the workload associated with the day-to-day operations of the Real Estate Section, and to provide the expertise in planning issues, and to integrate creative planning with real estate decisions, it is recommended that these two temporary positions, as previously approved by City Council, become full time positions.

With respect to the two temporary Property Officers’ contracts, it is recommended that the two positions be consolidated to one full time permanent position, and that position be elevated to a Property Co-ordinator position. The two positions previously approved by Council had been filled, however, one position has now become vacated, and remains vacant. Due to the time frame remaining on the contract, the filling of the position had been delayed due to a number of factors. The major factor to the delay is that the successful incumbent will require extensive job training to become proficient in performing their duties. By the time the incumbent is proficient in his/her capacity, the current contract will be at an end. Therefore, it is recommended that staff be authorized to fill the current vacancy as a full-time “Property Co-ordinator” with an annual cost of approximately $78,000, and that, upon expiration of the other existing contract position in February 2006, that this remaining position be declared redundant. It is the opinion of staff that by changing the two Property Officers position to one “Property Co-ordinator” and making the position full time, it becomes more attractive for recruitment of qualified candidates who have the expertise in high level negotiations and knowledge in expropriation matters, to apply for such position who would otherwise not apply, if the position was temporary in nature. This became evident when the City had advertised
for the “Appraisal Coordinator’s” position on three separate occasions where no qualified candidates were interested in the position because they were posted on a contract basis (2 years). It became increasingly evident that good candidates are not willing to leave their permanent place of employment to move to a contract position. As a result, City Council, on March 24, 2004, approved the hiring of a new “Appraisal Coordinator” as a permanent, full – time position, as opposed to a temporary position for a period of two years, as approved by City Council on June 11, 2003. Since the hiring of this position in September 2004, the cost savings incurred through the preparation of 41 in-house appraisals and Cash-in-Lieu of parkland reviews is estimated to be in the range of $144,000, which substantiates the need and proves a self funding model for a full time in-house appraiser.

It is further noted the newly adopted Portfolio Strategy Plan identified staffing implications throughout the City Departments with particular focus on the Real Estate Section in the Planning and Economic Development Department to properly evaluate and identify potential land which may be considered surplus to the needs of the City. Implementation of the plan will also require client departments to rationalize their land holdings, and if land is not required for a mandated program use, no final decision should be made to continue to retain the land until a business case analysis is prepared and reviewed by the new Portfolio Management Committee. This will require extensive staff time to be dedicated and priority changes to work programs, to effectively carry out the recommended program. If the business case is deemed insufficient, and justification for retention not deemed satisfactorily in the opinion of the Portfolio Management Committee and the Corporate Management Committee, the property will be added to a “list of potentially surplus property” for review by Council. As a service department, the Development and Real Estate Division responds to various corporate departments and is instrumental in identifying land holdings, as well as assisting line departments in the preparation of Business Case analysis.

It was highlighted by the consultant as part of the Portfolio Strategy Plan that the current staffing situation within the Real Estate Section is inadequate to appropriately manage the City’s real estate portfolio. Based on the comparative staffing levels of the City of Toronto (1 person/84 municipal owned properties), City of Ottawa (1 person/44 municipal owned properties), City of London (1 person/32 municipal owned properties) and the City of Hamilton (1 person/283 municipal owned properties) definitely must impact the day-to-day operation of Real Estate staff in dealing with the identification and disposal of municipal assets.

With the adoption of the Portfolio Management Strategy and with the Real Estate Section taking the lead in its implementation; there is the need, at minimum, to maintain the current staff complement to perform the daily tasks associated with the management of the City’s municipal assets. As noted in the report “while hiring of new staff does represent a new expense, notwithstanding the operational efficiencies that result from efficient portfolio management, the financial benefits that accrue to the Corporation as a result of efficient portfolio management are likely to exceed the incremental costs over the current staff complement. For example, on the disposal of a single surplus property, savings to the organization are realized from a reduction (or
elimination) in annual operating and maintenance expenses attributed to the subject property, together with capital receipts for the sale; resulting benefit should exceed the incremental staff cost. The current staffing situation is inadequate to appropriately manage the subject real estate portfolio”.

The intent of the staffing recommendation of this report is not to increase the current staff complement, but to retain and make the current temporary positions full-time which positions, are critical to the operation of the Real Estate Section as outlined in this report. The recommendation, in fact, proposes a reduction of staff complement by one position. The approximate annual cost in implementing the recommendation to make the three positions full-time permanent would be $215,000, including benefits. As noted in the report, cost savings were realized in the following areas:

- Appraisal Services: $144,000
- Commissions: $168,400
- Lease Negotiations/Renewals: $204,000
- Total: $516,400

Through the hiring of the three contract positions full-time; Administrative Assistant, Senior Planner - Real Estate, Property Co-ordinator and the extension of the part-time Property Co-ordinator, these positions would be self-funded through the sale of municipal assets, reported in-house cost savings, administrative cost recoveries from capital projects and, a portion of the Planner, through the Development Fee Stabilization Reserve.

POLICIES AFFECTING PROPOSAL:

Real Estate Portfolio Strategy Plan.

CONSULTATION WITH RELEVANT DEPARTMENTS/AGENCIES:

Human Resources Department.

CITY STRATEGIC COMMITMENT:

A City that Spends Wisely and Invests Strategically.