INFORMATION ITEM
BOARD/COMMITTEE: BOARD OF DIRECTORS
MEETING DATE: March 26, 2025
AGENDA ITEM: Disposal of the Smith Street Properties

RECOMMENDATION:

The Finance Committee recommends that the Board authorize management to commit to a plan to sell the 1810 Smith Street and 1855 Smith Street properties. The authority to sell the properties takes effect on April 1, 2025.

SUMMARY OF KEY ISSUES:

- Any plan for the Smith Street properties must align with RODS' mission and vision.
- The Smith Street building:
  - requires a major capital investment to ensure its ongoing viability;
  - is largely vacant, and there is little evidence to suggest that RODS needs its unused space; and,
  - cannot easily be repurposed as a rental property, and has no other obvious use to RODS.
- There are financial reporting requirements to be considered prior to approving the sale of the Smith Street properties.

BACKGROUND:

1610 Toronto Street

- On October 30, 2024, RODS' Board of Directors authorized management to commit to a plan to sell the property at 1610 Toronto Street ("Reception House"). The property is expected to be listed for sale as soon as approval for the sale is provided by the IRCC (hopefully in April 2025), and the realtor expects that it will not take long to sell. Net proceeds of the sale are estimated to be $275,000-300,000.
- Going forward, the disposition is expected to be neutral to annual operating results because the IRCC has advised that it will provide an equivalent amount of financial support to RODS with respect to the six units in Harbour Landing that RODS is able to use to provide temporary housing for new arrivals. A small win

may result from RODS being able to earn investment income on the proceeds of the sale. At the interest rates in effect at March 26, 2025, the annual improvement in RODS annual surplus/deficit would be about $9,000.

<u>1810 Smith Street</u>

- 1810 Smith Street is a 25 x 125 foot lot containing 14 parking spots on the west side of Smith Street between 11th Avenue and 12th Avenue. This property was included with 1855 Smith Street in the 2013 donation. The realtor estimates a sale price of $80 per square foot, based on a recent nearby transaction.
- RODS' realtor strongly recommends selling 1810 Smith Street in conjunction with 1855 Smith Street, as the absence of parking would be a significant obstacle to selling the building, and would reduce the sale proceeds.
- The disposition is expected to be neutral to annual operating results because the property is currently used by RODS and generates no revenue. Incremental investment income of about $7,500 per year can be anticipated based on prevailing interest rates at March 26, 2025.

<u>1855 Smith Street</u>

- 1855 Smith Street served as RODS' head office for many years, however operations are now centralized at the Donahue Building. The property is mostly vacant, however the daycare continues to operate there. **If the building is sold, the daycare will have to be moved.** The most attractive destination is a large available space at Woodbine Place, which is next door to the Donahue Building.
- Going forward, the proceeds from the sale of the land and building are expected to be sufficient to finance daycare operations for the foreseeable future.
- The future location of the daycare is a separate decision to be addressed at a later time. **For now, Board members must understand that relocating the daycare will probably lead to increased operating costs that will weigh on annual operating results for the foreseeable future**.

<u>ANALYSIS:</u>

- The ownership of real property is not a component of RODS' strategic plan and is not required for RODS to pursue its mission and vision. The only reason that RODS owns the Smith Street properties is because they were donated to RODS by its former landlord in 2013.
- The Smith Street building is approximately 75 years old. It is structurally sound, but it in need of major repairs. An engineer's report from R.J. England Consulting Ltd. estimates that the Smith Street building requires an investment of $1.4-$2.3 million over the short and medium term to return the building to a condition that would support its long term viability. RODS possesses the funds needed to finance

such a project, however it lacks the expertise to oversee a major construction project, so there would be tremendous risk in proceeding.

- The Smith Street building is largely vacant, and there is considerable evidence to suggest that the unused capacity will not be required for RODS' operations in the foreseeable future. Owning fixed amounts of property is incompatible with RODS' operations, which have traditionally required significant near-term scalability (note: this was also a consideration in the decision to sell Reception House).
- Renting out the unused space at Smith Street is unlikely to be successful, due to extremely limited demand for this type of property (see Appendix). It also raises questions of mission drift and could require an entity reorganization in order for RODS to retain its status as a registered charity.
- For accounting purposes, the aggregate impact of the sale of the Smith Street properties is expected to be a relatively small gain or loss. The sale of Reception House is estimated to create in an accounting gain of $200,000-225,000 which will form a part of the 2025-26 surplus or deficit. This gain will be included in RODS' surplus/deficit for 2025-26.
- There are financial reporting rules applicable to assets held for sale. These rules could trigger unintended consequences in RODS' 2024-25 financial reporting. These consequences can be avoided by delaying the effective date of the recommendation until at least April 1, 2025. Specifically, approving the sale of 1855 Smith Street on or before March 31, 2025 would negatively impact RODS' financial reporting in the following ways:
    - RODS would have to estimate and separately disclose anticipated proceeds for the Smith Street properties to the satisfaction of RODS' external auditor, which could impact RODS' bargaining position in a sale.
    - RODS would need to determine a method for recognizing deferred donation revenue associated with the Smith Street properties. This methodology would be subjective, and would also require agreement from RODS' auditor. It is not known whether the auditor would assess extra fees for assessing this issue and the previous issue, but it would be well within its rights to do so.
    - The property sales would distort RODS' financial statements for two fiscal years rather than one, which means that RODS would not report "normal" operational results until 2026-27.

ALTERNATIVE:

Continued ownership of the Smith Street property; rent out any vacant space.

Advantages:

- Avoids the need to move the daycare.
- Provides a possible source of excess operational capacity, although the availability of this capacity would be constrained by the rental arrangement with tenants.

Disadvantages:

- Renting is likely unviable without a major investment to improve the building, and significant costs would be incurred while the building remains vacant.
- Renting is difficult because the building would not attract many potential tenants and because of persistent high vacancy rates for low quality commercial property.
- RODS is not in the business of being a landlord, and any commercial real estate activity would likely need to be divested to a separate entity in order to avoid jeopardizing RODS' status as a registered charity.

ADVANCED CONSULTATION: N/A

COMMUNICATION STRATEGY: N/A

REQUIRED APPROVALS: Board of Directors

STRATEGIC ALIGNMENT: I1: maximize internal capacities and process efficiency
P2: improve workplace experience and employee retention

TIMEFRAME/CONSEQUENCES OF DEFERRING DECISION: It is estimated that RODS will incur costs of $10,000 per month (plus foregone investment income) from holding vacant property.

APPENDIX – THE COMMERCIAL REAL ESTATE MARKET IN CANADA

Source: CBRE, "Canada Office Figures Q4 2024"

Conclusions:

- Vacancy rates for all classes of commercial real estate (other than trophy) remain significantly higher than pre-COVID levels.
- The highest vacancy rates are seen in the lowest quality buildings. A portion of these buildings will ultimately be repurposed (e.g. converted to multi-family residential housing) or demolished.