



Potential “Union Office/Hall” Real Estate Purchase - 2017

As mentioned at the past several General Membership meetings and Local off campus union update meetings, the Local’s Executive Board is looking into the possible purchase of a building/property for Unifor Local 5555. In maintaining transparency to the membership, this document is provided for informational purposes. During the May General Membership meeting, this issue will be put to a vote.

In this package you will find information on our current investments as well as excel spreadsheets showing cash flow analyse of a potential building purchase at various purchase prices. These give you examples at certain purchase prices versus maintaining the current leases. The figures for leasing are current costs. As our lease expires at Frid Street on July 31, 2017, we anticipate the leasing arrangement costs will be higher than currently indicated.

Executive Board members have met with outside experts (accountant, investment advisors, etc.) and their responses have been in strong support of such a purchase and consider it to be a smart business decision on the part of the Local. It was suggested we move quickly to start this process as the Hamilton area is a very hot real estate market with steadily increasing prices.

A statement of information was released in Hamilton on the radio and in newspapers on January 31st, 2017 as follows:

The CEO of the Realtors Association of Hamilton-Burlington, George O’Neill announced that they expect a double-digit increase in 2017 in this area. He expects the median price of residential properties to rise 12 percent, which would bring the average residential house price to well over 500 hundred thousand. He points out there are three main reasons for the increase. One is the repurposing of industrial lands, and what the City of Hamilton is doing to attract new knowledge industries. Two is the booming health industry in Hamilton which is creating employment. Three, prices in the GTA continue to rise, so people are looking at more affordable housing, which is provided in the Hamilton-Burlington area.

Although the above information pertains to residential real estate, Hamilton commercial real estate has also witnessed substantial increases in recent times and continues to be booming as well.

The 2 main reasons behind this potential purchase are:

- 1) to strengthen our current investment portfolio by including real estate; and
- 2) to discontinue leasing our administrative Union Local space and possibly reduce the size of our current on-campus office space, and instead make a long term investment in Local 5555's future and reap the rewards of increasing property values in our area.

What we have done so far:

- met with our Auditor and discussed financial details, as well as received advice on the mechanics of buying a commercial property
- met with Investment Advisors as to the suitability of real estate as an investment for our Local
- visited other Local Halls to get an understanding of potential advantages/pitfalls
- researched Hamilton area commercial properties to get an understanding of what kind of prices we would be looking at
- looked at our existing offices to determine key usages
- discussed options with a commercial realtor

CONSIDERATION FROM THE INVESTMENT SIDE:

- Commercial real estate investments have historically provided excellent appreciation in value that meet and exceed other investment types. Properties generally can go up in value from internal factors such as proactive management, improvements to the property, and external factors such as supply of, and demand for property in different areas.
- Commercial real estate is a hard asset that has meaningful intrinsic value. The property's land has value, as does the structure itself. It also provides the investor a sense of security as commercial real estate investments do not fluctuate with the same volatility as the stock market. Real estate is one of the few assets that react proportionately to inflation. As inflation goes up, housing values and rents go up.
- As part of a portfolio, real estate allows us to potentially achieve higher returns for a given level of portfolio risk. By adding real estate to a portfolio, we could maintain our portfolio while decreasing risk.

CONSIDERATIONS FROM THE PURCHASING SIDE:

Zoning by-laws:

- Unions / Labour Association are noted in Hamilton's by-laws, and so any property purchased would have to be zoned correctly as well as have the required number of parking spaces.
- Variances are possible in theory, but considering the community near main campus, any large house nearby would be zoned residential, and not likely to be re-zoned. A re-zoning application can take a very long time and may not always end favourably.
- Demand for commercial property is highest in the downtown core of the city, however, West Hamilton is also considered a high demand area simply because of the location to the University and supply is usually very limited.

Space requirements:

- Purchasing our own building would allow us to choose the most ideal space and have full control of how and when it could be used. Currently leased off campus space has restrictions on time of use, weekend use, parking spots, etc.
- Current office space at the administrative office on Frid Street is approximately 2800 sq. ft.
 - four offices
 - reception & waiting area
 - small kitchen/lunch room area which also includes storage
 - extra work stations space
 - board room / classroom space with additional A/V storage area
- Our on campus office is approximately 800 sq. ft.
 - reception area
 - two offices
 - community office/meeting space/ small kitchen area

Note: we will likely maintain an on-campus office location but this could be smaller in size resulting in smaller leasing costs.

Accessibility considerations:

- Access to public transportation (HSR) - possibly LRT
- On-site parking with adequate number of parking spaces. (Note: adequate parking spaces in the downtown core of Hamilton are very difficult to find.)
- Ease of access to the main University campus. Ease of access for numerous off campus sites scattered throughout the Hamilton area (lower and mountain) and Burlington. Ease of access to highway (403) and the Link would be useful.
- Ease of access & easy to find public transportation stops, etc.
- Accessibility / Barrier Free / access for wheelchairs, or those with limited mobility
- Good lighting for evening access both around building and in parking spaces / lot

Potential Future Usage:

These suggestions below are not the top considerations when looking at space, however, these are some things we think are worth keeping in mind when considering properties:

- Events for membership
- Events for larger area community engagement
- Potential ability to apply for liquor licences for events
- Standing Committee space usage
- Retiree's Chapter space usage
- Outdoor space usage – ie. community garden
- Event space for membership access for events not necessarily tied to local
- Donation of space to other groups –ie. other small Unifor Locals may want to share office space, or community groups/charities like the Injured Workers Group, food banks, etc.
- Potential rental of space –ie. hall space, tenants renting office space, etc.
- Potential for higher space requirements in the future

Potential Disadvantages:

- Building maintenance and the potential for costly repairs
- Larger building will generate higher utility costs (this could possibly be offset if rent some space to others)
- Property management – will create additional work. (Additional workload of building purchase and building corporation would need to be absorbed by current Executive Board positions creating no additional staffing requirements)

On Feb. 9th, 2017, the Executive Board of Unifor Local 5555 unanimously endorsed bringing a motion to the membership and recommended Local 5555 use up to a maximum of \$1.5 million dollars from current investments for the purchase of a property/building.

FAQ:

Where are the majority of our members located?

The majority of Local 5555 members are on the main campus of McMaster University. We have approximately 762 members at various off campus locations.

Why don't we just purchase a large house near the main campus?

As indicated in the details package, most homes in and around the main campus are not zoned for commercial activity and a union office / union hall must have correct zoning. Re-zoning can sometimes take a long time to achieve and the results may not always be favourable. We do not want to place ourselves in a situation whereby we have purchased something assuming we can get it re-zoned and then not be successful.

Who will be overseeing the potential purchase?

A potential purchase falls within the purview of the Financial Secretary and Trustees. They will be tasked with overseeing this purchase.

If we have so much money, why can't we just stop paying union dues and have a "dues holiday"?

Dues payment is mandated by the Unifor National Constitution and we are required to pay dues.

Our Locals long standing investment policy requires us to preserve capital and we have always invested conservatively. Investment capital provides a safety net in the event of a strike as we can supplement the National strike pay. The investment funds have been used in the past to fund a large project like the Habitat for Humanity build.

Assuming we could actually take a union dues holiday (which we cannot) it would weaken our financial stability as a Local. Much like a pension plan, Locals need to have constant contributions of dues to maintain stability.

Feedback / Suggestions

Contact: Kim Sardella, Financial Secretary, kim.sardella@unifor5555.ca / 289-389-4860 ext. 3



Unifor Local 5555 current investments (as of Dec. 31, 2016)

Investments with Nesbitt Burns (Bank of Montreal)	\$ 2,156,692.64
Investments held with First Ontario Credit Union	\$ 1,477,704.70
<u>TOTAL INVESTMENT PORTFOLIO VALUE</u>	\$ 3,634,397.34

Assumptions

- 1 The purchase of the building will be financed from existing investments and there will not be a mortgage.
- 2 The building is in move in condition / or any required work would be within the \$1.5 million dollar budget.
- 3 Existing furniture would be moved to the new location and no, or very minimal, furniture additions would be needed.
- 4 Utilize the building and not rent out a portion to anyone else / **OR** / Rent out a section of space to like-minded groups (eg. other local unions, etc.)
- 5 Existing insurance would be continued and building insurance will be added.
- 6 There is no cost to terminate the existing lease or the space could be subleased at a full recovery.
- 7 A management company will not be hired to oversee the building.
- 8 A Building Corporation will be established and entire management of building will be overseen by current in-house Unifor Local 5555 Executive Board.

Unifor Cash Flow Analysis of Potential Building Purchase

Included in this package are two excel spreadsheets titled “Cash Flow Analysis of Potential Building Purchase” using a potential purchase price at \$999,000 with examples of renting out some of the space, and also without rental. After viewing the “Cash Flow Analysis” spreadsheet, the chart below gives a quick overview sample at different purchase prices (\$799,000 & \$1,200,000) and the net savings or (costs) results.

Please note these are only examples and true net savings or costs would fluctuate depending upon actual costs. In most cases the cost estimates we have used are budgeted at the high end for annual operating costs.

Building Purchase Price ↓	With or without rental at \$2,000 per month	<u>Net Cash Flow</u> “Continuing to Rent”	<u>Net Cash Flow</u> “Building Ownership”	<u>Net Savings or (Costs)</u> of Building Ownership
\$799,000	Without rental	-64,425	-49,086	15,339
\$799,000	With rental	-64,425	-25,086	39,339
\$1,200,000	Without rental	-56,635	-62,720	(6,085)
\$1,200,000	With rental	-56,635	-38,720	17,915

Unifor Local 5555

Cash Flow Analysis of Potential Building Purchase @ \$999,000 with NO RENTAL INCOME

Continue to Rent

1,022,980 Note: represents an amount we would invest if not spent on building purchase
 1.90% 19,437 Note: represents annual investment income received from \$1,022,980 @ 1.9%

Annual lease - two locations Gilmour Hall (\$15,486) Frid St. (\$64,500)

-79,986 Note: represents current annual rental costs at both locations

NET CASH FLOW

-60,549 Note: represents interest income less rental expenses

Building Ownership

Cost of purchasing the Building

Purchase price 999,000
 Land transfer tax (2%) 19,980
 Legal fees 4,000

1,022,980

ONE TIME COST OF BUILDING PURCHASE

Costs related to moving

Moving fees -3,000
 Building improvements / signage, locks changed etc. -3,000

-6,000 Note: One time costs associated with moving

Approx. annual operating costs

Commercial property taxes (3.4%)

-33,966 Note: this figure is a maximum number and would likely be less depending on current taxes on property

Maintenance/repairs/cleaning etc

-7,500 Note: this figure would like be lower however a budget amount should be set aside annually for regular building upkeep and emergency repairs etc.

Insurance

-5,000

Utilities (based on a building approx. 4300 sq ft.)

Note: actual utility costs provided by a Hamilton Unifor Local with similar space usage

Gas - \$300 per month -3,600

Hydro - \$325 per month -3,900

Water - \$160 per month -1,920

-55,886 Overall approximate annual operating costs.

NET CASH FLOW

-55,886

NET SAVINGS (COST) OF OWNING

4,663



Unifor Local 5555

Cash Flow Analysis of Potential Building Purchase @ \$999,000 - WITH RENTAL INCOME

Continue to Rent

1,022,980 Note: represents an amount we would invest if not spent on building purchase
 1.90% 19,437 Note: represents annual investment income received from \$1,022,980 @ 1.9%

Annual lease - two locations Gilmour Hall (\$15,486) and Frid St. (\$64,500)

-79,986 Note: represents current annual rental costs at both locations

NET CASH FLOW

-60,549 Note: represents interest income less rental expenses

Building Ownership

Cost of purchasing the Building

Purchase price	999,000
Land transfer tax (2%)	19,980
Legal fees	4,000
	<u>1,022,980</u>

ONE TIME COST OF BUILDING PURCHASE

Costs related to moving

Moving fees	-3,000
Building improvements / signage, locks changed, etc.	-3,000
	<u>-6,000</u>

Note: One time costs associated with moving

Approx. annual operating costs

Commercial property taxes (3.4%)	-33,966	Note: this figure is a <u>maximum number</u> and would likely be less depending on current taxes on property
Maintenance/repairs/cleaning etc	-7,500	Note: this figure would like be lower however a budget amount should be set aside annually for regular building upkeep and emergency repairs etc.
Insurance	-5,000	
Utilities (based on a building approx. 4300 sq ft.)		Note: actual utility costs provided by a Hamilton Unifor Local with similar space usage
Gas - \$300 per month	-3,600	
Hydro - \$325 per month	-3,900	Note: existing costs (telephone, internet etc.) would be maintained
Water - \$160 per month	-1,920	
	<u>-55,886</u>	

Overall approximate annual operating costs.

POSSIBLE RENTAL INCOME

24,000 Possible rental at \$2,000 per month

NET CASH FLOW

-31,886

NET SAVINGS (COST) OF OWNING

28,663

