

Future Use of Research Park Buildings

Financial Viability: Reimagine Land, Property and Facility Assets

Recommendation

That Executive Committee recommend to City Council:

1. That Administration proceed with Option 2, as outlined in the June 28, 2021, Financial and Corporate Services report FCS00541.
2. That Attachment 4 of the June 28, 2021, Financial and Corporate Services report FCS00541, remain private pursuant to sections 16 (disclosure harmful to business interests of a third party), 24 (advice from officials) and 25 (disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act*.

Executive Summary

In 2020, the Edmonton Economic Development Corporation (“EEDC”, now known as “Explore Edmonton”) surrendered the Edmonton Research Park to the City of Edmonton. The City’s responsibilities since the transition have included:

1. ensuring the restrictive covenant is enforced within the Research Park;
2. maintenance and repair of two City owned buildings; and
3. providing property management and lease agreement services to tenants located in the City owned buildings while discontinuing programming to support business incubation activities.

The two City owned buildings include Research Centre One (RC1), located at 9403/9419- 20 Avenue NW, and the Advanced Technology Centre (ATC), located at 9650 - 20 Avenue NW (map in Attachment 1). There are 18 buildings in the Research Park and these two buildings represent eight percent of the total building gross area in the park. Recent building assessment reports indicate these buildings need extensive rehabilitation, requiring approximately \$32 million of capital investment to continue operations.

No City employees work in either building. The space is currently leased to tenants conducting work consistent with the Research Park Restrictive Covenant and Guidelines. Administration has identified two options for the future of these buildings.

- Option 1: Invest and retain ownership to preserve the status quo;

- Option 2 (recommended): Publicly offer the buildings for sale through a competitive bid process assessing submissions based on criteria that contribute to Research Park objectives and city-building outcomes.

Report

Background

The Edmonton Research Park is located immediately east of South Edmonton Common and south of 23 Avenue NW. A restrictive covenant is registered against all Research Park properties to ensure activities honour City Council's direction when it approved the Research Park in 1982. This covenant restricts the use of each property and its future development to support research activities. These restrictions are in addition to the limited permitted uses allowed under the existing land-use bylaws applicable for each Research Park parcel.

Prior to 2020, EEDC managed activities occurring at the Research Park to support business incubation. In 2020, EEDC surrendered the Edmonton Research Park to the City of Edmonton as part of its restructuring to become Explore Edmonton. The continued ownership of these assets is a challenge in the constrained economic environment the City is facing in 2021.

Administration reached out to the newly formed Innovate Edmonton regarding their possible interest in the two City owned buildings in the Edmonton Research Park. Innovate Edmonton advised that they intend to broadly support innovation across various sectors, but its priorities do not include the provision of building operations or property management activities in the Research Park at this time (see Attachment 2).

Building Information

The 41,000 square foot RC1 building was constructed in 1983. It consists of multi-tenant commercial lease spaces with a mixture of wet-laboratory facilities, office spaces and production areas. There are 10 tenants occupying space through short-term lease agreements and 44 percent of available tenant space is vacant.

The RC1 building condition assessment indicates that the building is in fair condition, but requires an estimated \$8.71 million (cost accuracy of - 50 percent to +100 percent) to repair structural, envelope, mechanical and electric systems, as well as to complete renovations to improve leasable tenant space. This work is unfunded and is being considered for inclusion in the 2023-2026 capital budget should the asset remain in City inventory.

The ATC building, constructed in 1988, is 41,500 square feet in area, but, given its unique design, offers only 21,600 square feet in usable building area. The building

consists of multi-tenant commercial office space intended to be adaptable for growth-stage technology companies. There are currently 23 tenants on short-term lease agreements; 46 percent of the available tenant space is vacant.

The ATC building condition assessment indicates the building is in fair condition, but has deteriorating components that need to be addressed, including repair/replacement of major building components (e.g., roof, windows, HVAC, electrical and building entrances) and mold remediation. Estimated repair costs for these issues are \$23.52 million (cost accuracy of - 20 percent and +30 percent). Currently, \$11.92 million of funding is approved for this project in the 2019-2022 Capital Budget, with the remaining scope plan for delivery in a future budget cycle, for an estimated \$11.60 million. If the City retains ownership, the funding required for this second phase will be considered in the 2023-2026 capital budget to complete the rehabilitation work.

Future Building Options

Administration considered a number of options pertaining to the retention or sale of these City owned buildings:

Option 1: The City invests in the required rehabilitation work and retains ownership to preserve the status quo.

This option would see the City make investments to rehabilitate the two City owned buildings. The investment required to complete rehabilitation is estimated at \$32.23 million: ATC at \$23.52 million and RC1 at \$8.71 million. Administration would continue to lease space to existing tenants and seek tenants to occupy vacant space in support of research related activities specific to each building. Annual tax levy funding of \$236,657 will continue to be required to cover net building operating costs and property management services, after considering tenant lease revenues, but no support of business incubation activities will be provided.

Option 2 (recommended): The City would publicly offer the buildings for sale through a competitive bid process assessing submissions based on criteria that contribute to city-building outcomes.

Administration believes that there would be market interest in these two buildings if the City were to make them publicly available. Interest may include firms looking to expand research activities in Edmonton or investment firms with commercial motivation to purchase and manage the properties. The restrictive covenant limiting building and site use within the Edmonton Research Park will remain on title.

If Option 2 is approved, Administration would invite submissions for the purchase of the properties with criteria weighted towards elements that align with The City Plan as well as corporate outcomes, including the Edmonton Research Park, revenue

generation and City cost avoidance. In this option, the City would not plan to undertake any rehabilitation work. The buildings would be listed in their current state and would result in no further building renewal or operating costs incurred by the City. Due to the length of time a sale may require, this option could present the risk of the buildings deteriorating further, but would allow for market transparency.

Analysis

A comprehensive review of all corporate real estate holdings is being completed to enhance financial viability and ensure prudent asset management. The completed analysis for these particular properties includes a review of the following criteria:

Criteria	Findings
Occupancy and Revenue	Both buildings are partially occupied by tenants that pay market rates to lease space from the City. 2021 tenant revenue is forecast to be \$665,095.
Risk Criteria	The ATC building is in fair condition and should not fail prior to a retention or disposal strategy being implemented. However, there may be further unbudgeted renewal costs. Both buildings are not old enough to be considered historically significant. Public offerings of these buildings may impact existing tenants if potential buyers do not renew existing lease agreements.
Maintenance & Operating Costs	In 2020, the City incurred \$901,752 in operating costs for the ATC and RC1 buildings. These costs were offset by \$665,095 in tenant revenue, resulting in a net operating cost of \$236,657.
Known Capital Expenditure	Capital rehabilitation costs for both buildings total \$32.23 million but only \$11.92 million of approved funding is currently available for the ATC building. Of this \$11.92 million in approved funding, \$1.90 million is committed for planning and design. \$10.02 million remains to be committed when the project is ready for delivery.

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Net Gain / Loss if Disposed	<p>The report recommendation will enable Administration to:</p> <ul style="list-style-type: none"> • Reallocate \$11.2 million in approved funding to other facility renewal capital projects, • Avoid another \$20.31 million in capital costs, • Generate approximately \$158,000 +/- annually in property tax revenue, • Reduce demand for tax levy funding by \$236,567 annually, and • Provide the City with additional property sales revenue. <p>(Please note that the City's sales revenue expectations and book value of these properties will remain confidential as to not impact future negotiations.)</p>
Disposal Costs	Nominal costs associated with sale preparations
City Plan Development Alignment	<p>The Edmonton Research Park is identified as a District Node in The City Plan and described within the South Edmonton Common and Edmonton Research and Development Park Area Structure Plan. The City Plan activation schedule forecasts investment in this area beginning around 2055, when the City population approaches 1.75 million.</p>
Additional Municipal Benefit / Purpose	<p>Both buildings support research or business incubation activities that form part of the larger Research Park contributions to the City.</p> <p>The ATC Building has a unique architectural design. Barry Johns Architect Ltd received a Governor General's award of merit for the building design in 1992. While it is not currently listed on the Inventory of Historic Resources, this building may be considered for inclusion in the inventory of historic resources in the future.</p>
GBA+ Considerations	Outlined in Attachment 3
Projected Disposal Revenue	<p>The City's price expectations for both buildings in as-is condition will remain confidential as to not negatively prejudice future negotiations. Potential revenue is described in private Attachment 4.</p>
Supports a Service in Competition with Private Sector	Yes, the private sector leases research and office space to tenants across the City in other locations.

Budget/Financial Implications

As detailed above, these two buildings require an estimated total of \$32.23 million in capital funding to be rehabilitated. This includes \$23.52 million for the ATC building (\$11.92 million currently funded) and \$8.71 million for the RC1 building (\$0 currently funded).

If Council directs Administration to retain these buildings, funding options could include:

- Reprioritizing funding in the facility renewal program. This would reduce funds available for other City facilities by \$20.31 million, and consequently cancel or defer other planned prioritized renewal projects at City facilities.
- Adding this project to the Unfunded Projects List for Council consideration as part of future Supplemental Capital Budget Adjustments.

In addition to the costs of rehabilitation, retaining these buildings would result in an opportunity cost for loss of property sale revenue (Attachment 4). If retention is explored and once the rehabilitation of the buildings are complete, the buildings would require annual tax levy funding of \$236,657 to maintain current service levels given current vacancy rates.

Public Engagement

Administration engaged Innovate Edmonton regarding their interest in these buildings. In addition, ATC and RC1 tenants were surveyed in May 2021 to understand whether there was a strong opinion of the City as landlord, to identify client satisfaction since the change in operation of the property in January and to determine if there has been a material difference resulting from the change in management (City versus EEDC/Explore Edmonton). The majority of tenants were neutral in their response and no risks were identified that would impact a disposition of the property. Public engagement was not undertaken for this report.

If the site is disposed of, it will be listed through a public offering process. Given the sensitive and private nature of negotiations, engagement with the general public is not conducted for individual building sales.

Next Steps

If the recommendation is approved, Administration will proceed to publicly offer the properties for sale. Should the public offering result in an acceptable proposal, Administration would return to the Committee for any required approvals if a sale can not be completed within Administration's delegated authority.

Corporate Outcomes and Performance Management

Corporate Outcome: The City of Edmonton has a resilient financial position.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Unbudgeted facility capital investments are reviewed to establish asset financial viability	Avoided capital investment risk from identified properties repurposed or disposed (\$)	-Building rehabilitation costs are \$32.23 million for both buildings. - Building annual operating costs require \$236,657 in tax levy funding -\$224,000/year ongoing renewal costs	TBD

Risk Assessment

Risk if Recommendation is Approved						
Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Economic	The sale value of the City buildings declines if buildings deteriorate further.	3 - possible	2 - moderate	6 - low	List buildings for sale	Expedited sale agreement to mitigate additional disrepair
Public Perception	Disposition may make it more difficult for City to enforce the existing restrictive covenant.	3 - possible	2 - moderate	6 - low	All research park development permits applications require City review of proposed development to ensure it complies with existing restrictive covenant before permits are issued.	Incorporate provisions into the sale agreement that confirm the new purchaser (and any subtenants) are bound to comply with the restrictive covenant.
Public Perception	Negative public perception of City's efforts to support research activities	3 - possible	2 - moderate	6 - low	Sale of buildings does not preclude the private sector from continuing to lease space to research firms.	Information available to the public on how the building will be used in the future.
Risk if Recommendation is Not Approved						

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Financial	If Option 1 is selected, the City incurs up to \$32.23 million in capital investment to retain these two buildings, or significant loss in value from deterioration.	4 - likely	3 - major	12 - medium	Assess the impact to other City capital projects no longer funded.	Examination of possible future uses which would include City use of space subject to restrictive covenant limitations and available operating funds.
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Attachments

1. Location Map of Buildings
2. Innovate Edmonton Letter
3. GBA+ Analysis for ATC and RC1 buildings
4. Projected Disposal Revenue (Private)

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- S. McCabe, Deputy City Manager, Urban Planning and Economy
- K. Fallis-Howell, Acting City Solicitor