

## SALE OF GREENFIELD RESIDENTIAL/ENTERPRISE LAND DEVELOPMENT HISTORY

### RECOMMENDATION

1. That the December 6, 2021, Financial and Corporate Services report FCS00884, be received for information.
2. That Attachments 6 and 9 of the December 6, 2021, Financial and Corporate Services report FCS00844 remain private pursuant to sections 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*.

### Report Purpose

#### Information only.

City Council is being informed of previous Council decisions relating to the sale of greenfield residential land holdings and the history of Enterprise Land Development with a focus on the recent decision to sell current greenfield land holdings.

### Previous Council/Committee Action

At the November 22, 2021, City Council meeting, the following motion was made:

1. That Administration return to Council with an information report to Council on December 6, 2021, summarizing past Council decisions regarding the sale of the greenfield residential/mixed-use land holdings in the Aster, Schonsee and Goodridge Corners neighbourhoods.
2. That Administration pause the preparation and public offerings of greenfield residential/mixed-use land holdings in the Aster, Schonsee and Goodridge Corners neighbourhoods as approved by Council on May 3, 2021, until Administration returns to Council with the referenced information report.

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## Executive Summary

- This report provides a summary of the information presented to Council since November 2018 about the City's involvement in greenfield land development. The primary focus has been on the financial implications of selling certain greenfield land holdings either as-is or through continued development, alignment with City goals and objectives, and engagement with industry.
- In-depth analysis, informed by consultants PricewaterhouseCoopers, Ernst & Young and Altus Group, has consistently shown that continued development provides the highest financial return to the City and most opportunity to implement actions that align with the goals and objectives of The City Plan.
- External stakeholders have differing opinions: industry groups such as the Real Estate Advisory Committee (REAC) and the Urban Development Institute-Edmonton Region (UDI-ER) have stated that the City should not be in the greenfield land development business, that the analysis did not factor in appropriate risk and that cash flows are not certainties. Small builders that have previously purchased lots from the City support the City's involvement in land development as it provides them with unique opportunities not otherwise available.
- Greenfield land development provides the City with opportunities to take actions that may not be fulfilled by the private sector. GBA+ equity measures include: providing affordable housing in all parts of the city, supporting small businesses and supporting Edmontonians to contribute to Edmonton's climate goals.
- After a broad conversation on the financial implications, engagement, and the best approach to achieve the outcomes of The City Plan, Council voted in favour of selling the land holdings as-is, on May 3, 2021.

## REPORT

### Background

Enterprise Land Development (ELD) is a self-funded program guided by the Land Development Policy (C511) and pays an annual dividend to the corporation per the Land Enterprise Dividend Policy (C516B). The program converts undeveloped greenfield land into fully serviced lots for sale to the public. Previously, there were two development streams: Residential/Mixed Use Land Development and Industrial/Commercial/Investment Land Development (ICI). This work was carried out as part of the Land Development service in the Corporate Business Plan. The City has 972 acres of land set aside for greenfield land development.

Throughout Edmonton's history, various City Councils have had numerous discussions about the City's involvement in greenfield land development, including the merits of the City's involvement, alignment with policies, and different potential business models for participating in land development.

### Previous Discussions with Council

The most recent discussions with Council regarding Enterprise Land Development's involvement in greenfield residential development began in November 2018. A brief summary of discussions

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at Council and Executive Committee is listed below. All previous motions since November 2018 related to Enterprise Land Development can be viewed in Attachment 1.

### **November 5, 2018 - *Memo to Council***

- In response to inquiries Administration provided a memo (Attachment 2) ahead of the Land Governance discussion at Committee.

### **November 6/8, 2018 City Council Meeting - *CR\_5328 Land Governance Strategy***

- Administration provided a report (Attachment 3) for information about the City's proposed Land Management Framework.
- As part of the meeting, Council made a motion requesting the following additional information:
  - An overview of governance strategy for City land assets and an analysis of how land management aligns with City goals and how to further leverage land assets.
  - An update on the Real Estate Advisory Committee work and an update on the current value of land held for Enterprise Land Development or other future municipal uses.

### **November 28, 2018 City Council - *Budget Deliberations***

- Council directed that the majority of funds requested to fund Enterprise Land Development activities (both Residential/Mixed Use and Industrial/Commercial/Investment) be held in abeyance. The funds released were to allow for the fulfillment of ongoing contract requirements.

### **December 4, 2018 - *Memo to Council***

- Administration provided a memo (Attachment 4) outlining a motion for partial funding for Industrial-Commercial-Investment Land Development and partial funding for Residential/Mixed Use Land Development.

### **March 13, 2019 & April 2, 2019 City Council Meetings - *CR\_6613 Land Governance Strategy Update***

- Administration provided a report (Attachment 5) in response to the previous November 6/8, 2018 motion. Private information included with that report is included as Attachment 6.
- Information was shared on specific land holdings used for greenfield land development purposes including values, alignment with City goals, and ongoing work with the Real Estate Advisory Committee.
- Council passed a motion outlining the following:
  - That some funding be released for Residential/Mixed Use and Industrial-Commercial-Investment Land Development and that the rest continue to be held in abeyance.
  - That Administration continue to consult the Real Estate Advisory Committee on: Enterprise Land Development strategy, attracting private investment, disposal of industrial and residential land, updating Policy C511 and opportunities to catalyze key city building areas.
  - That Administration pause greenfield residential development, except for Laurel, and return with the following information: Policy C511 revision recommendations, options for

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disposing of residential development lands and an update on the work done with the Real Estate Advisory Committee.

- That Administration provide proposed amendments to the Land Management Strategy.

### **November 18, 2019 Executive Committee Meeting - CR\_7122 Land Governance Strategy Update - Enterprise Land Development Program Update**

- Administration recommended (Attachment 7):
  - 1) That \$7.5 million be transferred from capital profile CM-16-2025 (Residential/Mixed Use Land Development Acquisition) to capital profile CM-16-2020 (Residential/Mixed-Use Land Development) to support a market driven residential land development disposition option, and that remainder of funds held for Capital Profile CM-16-2010 and Capital Profile CM-16-2020, be released.
  - 2) That Administration prepare a revised Policy C511, the Land Development Policy, based on the recommended policy themes and return with a report in Q2 2020.
  - 3) That Administration prepare a revised Policy C516B, Land Enterprise Dividend Policy, to further allocate Enterprise Land Development's retained earnings to city building projects including River Crossing and Exhibition Lands and return with a report in Q2 2020.
- Administration retained an independent consulting firm PricewaterhouseCoopers (PwC) to conduct a financial review of the City's residential holdings in the Aster, Goodridge Corners and Schonsee neighbourhoods and to review the City's financial analysis to confirm if the values and assumptions were valid, while also accounting for potential development risk factors.
- The financial analysis evaluated several options ranging from selling as-is, to full accelerated development of the holdings. PwC found that continued development as planned, or an accelerated development timeline provided the best return for the City, and that the values and assumptions used in the City's pro-formas were valid and justifiable.
- The analysis presented the idea of creating a special dividend, payable from the profits of the recommended development scenarios. PwC's special dividend analysis suggested that retained profits held in reserve for future land development over and above a determined amount be paid to the Corporation to be used as needed.
- In complement to the above work, Ernst & Young (EY) was retained to recommend potential updates to Policy C511. They conducted a jurisdictional scan and found opportunities for the City to achieve some goals and objectives in ConnectEdmonton and The City Plan through the land development program.
- Engagement discussions with the Real Estate Advisory Committee continued and were included in a What We Heard report.
- Following a discussion, Council referred the report back to Administration to:
  - 1) provide an analysis on the return of an \$85 million investment, based on a typical civic investment scenario, and
  - 2) work with the Real Estate Advisory Committee (REAC) to provide additional analysis on the land development program options and financial model.

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## **March 9, 2020 City Council Meeting - CR\_7122rev Land Governance Strategy Update - Enterprise Land Development Program Update - Additional Information to Council**

- Administration recommended (Attachment 8):
  - 1) That reinitiation of Enterprise Land Development greenfield residential development for the 2019-2022 budget cycle, based on the recommended disposition strategy outlined in the February 24, 2020, report, be approved.
  - 2) That \$7.5 million be transferred from capital profile CM-16-2025 (Residential/Mixed Use Land Development Acquisition) to capital profile CM-16-2020 (Residential/Mixed-Use Land Development) to support a market driven residential land development disposition option, and that remainder of funds held for Capital Profile CM-16-2010 and Capital Profile CM-16-2020, be released.
- Private information with report CR\_7122rev is included in Attachment 9.
- Administration provided additional information on engagement with the Real Estate Advisory Committee, an updated financial analysis based on questions from the Real Estate Advisory Committee, and consideration of a civic investment vehicle.
- The revised financial analysis continued to find that development of the land holdings provided the greatest financial return to the City, though over a much longer timeline. The investment analysis considered several potential options but consistently found that continued development resulted in a higher return than sale and investment of the revenue.
- Council passed a motion outlining the following:
  - That a portion of funding be released to advance plan amendments for the land holdings in the Aster, Schonsee and Goodridge neighbourhoods, and that the remainder continue to be held in abeyance
  - That the remainder of the Industrial Commercial Investment Land Development funds be released.
  - That Administration return with information about how and when to sell Goodridge, Schonsee and Aster, how to direct proceeds to strategic city building real estate catalyst opportunities and the pros and cons of establishing a reserve fund for sale proceeds

## **April 26, 2021 Executive Committee & May 3, 2021 City Council Meeting - CR\_8197 - Enterprise Land Development Update**

- Administration provided a report for information (Attachment 10) in response to the motion passed on March 9, 2020.
- Analysis was informed by industry engagement with members of the Real Estate Advisory Committee, small builders purchasing lots from the City and a third party assessment by Altus Group of land values as well as a market evaluation to determine the impact of disposing the land holdings as-is.
- The analysis found that selling Aster and Schonsee as-is along with continued development of Goodridge Corners would: support city building opportunities such as Exhibition Lands and River Crossing, generate higher revenues that could be used for other City-led initiatives, better align with The City Plan, support small business, and have a more positive GBA+ impact over selling all the land holdings as-is. The assessment by Altus Group found no significant

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issues related to absorption by selling the land holdings at the same time and that the City would receive maximum value by selling Aster as a single parcel, Schonsee as two parcels, and Goodridge Corners as five separate parcels.

- With input from the City's Chief Financial Officer and Chief Investment Officer, the analysis found that the creation of an investment fund was not advisable as it would not materially increase the expected return on invested earnings and could reduce the ability to access funds in the short-term.
- Executive Committee recommended to Council:
  - That Administration prepare the greenfield residential/mixed-use land holdings for sale, as-is and direct proceeds to Land Enterprise Retained Earnings.

### **July 16, 2021 - Memo to Council**

- Administration provided Council with an update (Attachment 11) on Enterprise Land Development's progress related to the disposition of the program's residential land development properties. The memo indicated revised public offering dates of: Aster, Q4 2021, Schonsee, Q4 2021, and Goodridge Corners, Q1 2022.

### **Budget/Financial Implications**

Land development is one of few revenue streams, other than property tax, available to municipalities. Edmonton's land development activities have generated a dividend provided to the corporation that has allowed the City to achieve other city-building goals. Below is a summary of the financial analysis and implications noted in previous discussions and reports.

- Land development activities carried out by Enterprise Land Development are self funded and do not draw on tax funding.
- Selling as-is generates lower revenue, however provides funds in the more immediate term than continued development.
- Continued development for each holding generates the highest return for the City, but over a longer timeframe.
- The difference in tax revenue received if the holdings were privately owned would be nominally higher than if held by the City.
- The sale of the holdings in the Aster and Schonsee neighbourhoods was shown to generate sufficient revenue to support the major redevelopment projects in Exhibition Lands and River Crossing, leaving Goodridge Corners available for development returns that could be used to achieve other goals and initiatives aligned with The City Plan.
- A dedicated investment vehicle is not necessary to ensure revenues generate additional income via investment as this already occurs as part of the City's standard in investment management practices.
- Financial risk on greenfield land development projects is lower when compared to transformational projects, such as Exhibition Lands. Risks for greenfield land development are partially mitigated through relatively small financial investments that can be made with ongoing budget revisions based on all project costs.

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- Currently, River Crossing and Exhibition Lands are proposed to be funded through Land Enterprise using, in part, revenue from the sale of the greenfield residential holdings in Aster and Schonsee. Without the revenue generated by these sales, the land development components of the River Crossing and Exhibition Lands projects may need alternate forms of funding.

### **Legal Implications**

If this report is received for information and no further direction is given by Council, Administration shall proceed with preparation and public offerings of greenfield residential/mixed use land holdings in the Aster, Schonsee and Goodridge Corners neighborhoods as approved by Council on May 3, 2021.

### **COMMUNITY INSIGHT**

Previous engagement has included developers, small builders who purchased lots created by the City and members of the public who registered to purchase lots in the City's Laurel 22 development project. The engagement found differing opinions on the City's involvement in greenfield residential development.

Representatives from REAC and UDI-ER have volunteered many hours, having been involved in these discussions since 2018. The creation of the Real Estate Advisory Committee stemmed from a similar, previous conversation with Council, centering around the potential creation of a Municipal Development Corporation. Twelve meetings were held with the Real Estate Advisory Committee on the topic of Enterprise Land Development during the course of these discussions. Their opinion is that the City should not be involved in greenfield residential land development and they do not agree with the findings and assumptions of the financial analysis completed by PwC and the City. What We Heard reports from discussions with the Real Estate Advisory Committee are included in Attachments 7, 8 and 10.

Engagement with small builders was undertaken in the preparation of CR\_8197 Enterprise Land Development Update (Attachment 10). Small builders that had previously purchased lots from the City strongly supported the City's involvement in land development and they indicated that the City's land development activities provided one of the few opportunities for them to acquire lots and supported the growth of their businesses, and that the higher standards put in place by the City resulted in them becoming better builders. On April 19, 2021, City Council received a petition with over 1,000 signatures advocating that the City continue building lots and selling them to small companies and individuals.

As part of the public lot sales for Laurel, the City asked all registrants: *"Please describe why you are interested in purchasing a lot from the City."* The responses are included as part of Attachment 7. Many responses referenced the desire to build their own custom house, rather than through a predetermined builder; higher sustainability requirements, and trust in the City as a developer.

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## **GBA+**

Equity measures implemented through City-operated Enterprise Land Development include:

- Small home builders are given the opportunity to grow their businesses by buying lots available from the City.
- Low income Edmontonians are able to find housing in all parts of the city.
- More Edmontonians are able to contribute to Edmonton's climate goals by purchasing or building a home that is more sustainable and climate resilient.

The City of Edmonton works with its city building partners such as UDI and other associations to advance the goals of The City Plan.

## **ATTACHMENTS**

1. Previous Council Motions since November 2018
2. Memo - November 5, 2018
3. Council Report 5328 - Land Governance Strategy
4. Memo - December 4, 2018
5. Council Report 6613 - Land Governance Strategy Update
6. Council Report 6613 - Land Governance Strategy Update - In-Private Attachment
7. Council Report 7122 - Land Governance Strategy Update - Enterprise Land Development Program Update
8. Council Report 7122rev - Land Governance Strategy Update - Enterprise Land Development Program Update - Additional Information
9. Council Report 7122rev - Land Governance Strategy Update - Enterprise Land Development Program Update - Additional Information - In Private Attachment
10. Council Report 8197 - Enterprise Land Development Update
11. Memo - July 16, 2021