

Alternative Downtown Tower Uses

Recommendation:

That the July 4, 2017, Sustainable Development report CR_4190, be received for information.

Report Summary

This report provides results from Edmonton Economic Development Corporation's and Administration's consultation with industry stakeholders, and information on ways stakeholders are being assisted in reducing downtown office vacancy rates.

Previous Council/Committee Action

At the October 25, 2016, City Council meeting, the following motion was passed:

That Administration engage in a discussion with downtown properties owners, Building Owners and Manager Association Edmonton, Edmonton Economic Development Corporation, and other industry stakeholders on ways that the City of Edmonton could explore options with how we can stimulate office tower conversion in the downtown core, and report back to Committee.

Report**Current Downtown Office Conditions**

The City of Edmonton is committed to a strong and vibrant downtown, as demonstrated with investments made through the Capital City Downtown Community Revitalization Levy. This program has committed over \$384 million in the downtown through seven primary catalyst projects that include:

- The Arena, Related Infrastructure, and Community Rink (\$231 million, completed)
- Downtown Stormwater Drainage Servicing (\$38.9 million, under construction)
- Jasper Avenue New Vision project (\$20.8 million, planning stage)
- Alex Decoteau Park (\$4.4 million, under construction)
- Warehouse Campus Neighbourhood Central Park (\$28.0 million, planning stage)
- Green and Walkable Downtown – Arena Civic Interface (\$16.4 million, planning stage)
- Green and Walkable Downtown – Other Streets (\$8.8 million, planning stage)

In addition, the City is also investing in the downtown through other projects, which include the revitalization of the Stanley Milner Library (\$62.5 million, under construction), development of a bike network (\$7.5 million, under construction), and development of the Valley Line LRT (\$1.8 billion, under construction).

In total, the City's investment in projects that will enhance the access to, attractiveness and livability of the downtown core exceed \$2.2 billion, strengthening the area to the benefit of both landlords and tenants.

Edmonton's downtown office market has seen nine consecutive quarters of negative absorption, including the first quarter of 2017. The downtown office vacancy rate, including both the Government and Financial districts, is 18 percent. An additional 650,000 square feet of new supply will also be brought to market with the opening of the Stantec Tower in 2018. Current estimates predict a nine to 15 year timeframe before the downtown core turns to a balanced market. There are some positives in the market; however, including, the sale of the office building portfolio of DREAM - a large investment firm that previously owned many downtown Edmonton buildings - to a variety of investors at prices reflective of the potential for conversion, and the active Harley Court office tower conversion.

Colliers first quarter 2017 Office Market Report estimates that for every 100,000 square feet of vacant supply removed from the market, overall vacancy rates would decrease by 0.34 percent. As such, conversion of DREAM's entire portfolio to alternative uses is not anticipated to have a significant effect on office vacancy within Downtown Edmonton.

DREAM Office Building Investment Sales	
Building	Area
HSBC Bank Place	324,767 square feet.
Enbridge Place	263,660 square feet
HSBC Building	118,747 square feet
Milner Building	177,645 square feet
Total:	884,819 square feet
Estimated total reduction in Vacancy if all four buildings are converted:	3%

Consultations with industry stakeholders revealed a general belief that there is only enough room in the market for one office conversion per asset class based on demand (such as one hotel conversion, one student residence conversion, one multi-family

residential conversion).

In recent months, few lease transactions have occurred in Class AA or A space, indicating a possible slowdown in the flight to quality that was seen in 2016. As Class B and C landlords reduce rental rates and increase incentives, the demand for Class AA and A assets at high face rates declines.

These classes represent a subjective quality rating of buildings which indicates the competitive ability of each building to attract similar types of tenants. A combination of factors including rent, building finishes, system standards and efficiency, building amenities, location/accessibility and market perception are used as relative measures.

Downtown Financial District Office Summary			
Summary Statistics			
	2016 Q4	2017 Q1	Trend
Office Inventory	12,610,008 square feet	12,610,008 square feet	↔ Unchanged
Net Absorption	(15,452 square feet.)	(45,121 square feet)	↓ Downward
Vacancy Rate	19.46%	19.80%	↑ Upward
Building Class Breakdown within the Financial District - Q1 2017			
	Vacancy Rate	Absorption	
Class AA	21.51%	(13,881 square feet)	
Class A	20.87%	(37,043 square feet)	

Class B	12.97%	2,569 square feet
Class C	22.64%	3,234 square feet

- **Information derived from Colliers Office Report Q1 2017**

Industry Engagement and Consultation

Administration partnered with Edmonton Economic Development Corporation and Building Owners and Managers Association Edmonton to undertake consultations with industry stakeholders. One-on-one meetings were held with over 60 stakeholders, and another 46 stakeholders attended a facilitated engagement session. These consultations culminated in a set of four primary recommendations from industry as follows:

- Building Owners and Managers Association Led Task Force
 - a. Terms of Reference to be written by Administration regarding four office conversion case studies:
 - i. Social housing
 - ii. Student housing
 - iii. Kindergarten to Grade 12 education
 - iv. Assisted living
 - b. Investment by the City of Edmonton in a Building Owners and Managers Association Task Force chosen project for office conversion
- Matchmaking Website
- Tax Deferral
- Reduced parking requirement for Mixed Use and Live Work Space

The full Ideas Master List and analysis of the four recommendations from these consultations is contained within Attachment 1 - Downtown Office Report, Prepared by Edmonton Economic Development Corporation for City of Edmonton Administration.

Report Analysis and Recommendations

Administration has given consideration to the alignment of initiatives brought forward by stakeholders with current strategies, policies, and Corporate Outcomes. A detailed chart of each initiative brought forward, and how it aligns with current Strategies, Policies, and Corporate Outcomes is attached as Attachment 2.

After giving full consideration to the four initiatives, Administration has shown support for the following initiatives being undertaken:

1. Edmonton Economic Development Corporation's development of a landlord/tenant matchmaking website.
2. Building Owners and Manager Association leading of a task force to develop case studies on potential office conversions in Downtown Edmonton.
3. Administration development of Terms of Reference for the Building Owners and

Manager Association task force.

In addition, Administration is considering the effects of directing future City office space requirements, which do not require a specific geographic location for service delivery, be located within the downtown core.

Administration has incorporated parking reductions for residential uses in Schedule 1(B) of Zoning Bylaw 12800 as part of the amendments being advanced through the June 23, 2017, Sustainable Development report CR_3820, Expanding Areas Around Transit that Qualify for Parking Reductions.

Policy

The Way We Grow, Municipal Development Plan

- Section 3.4.1: Create a strong downtown characterized by high density, mixed-use, transit and pedestrian orientation and excellent urban design.
- Section 3.4.1.3: Preserve and strengthen the role of the Downtown as a major regional employment centre.

The Way We Prosper, The City of Edmonton's Economic Development Plan

- Section 5.3: The City of Edmonton must support the growth of the local economy by removing barriers to innovation, efficiency and investment by businesses and entrepreneurs if it is to provide an effective business climate.
- Section 5.5.1: Downtown Edmonton stands out as an economic driver for the region and a central place to live, work and gather in the city.

The Capital City Downtown Plan,

- Page 28: Downtowns such as Edmonton's contain the greatest mix of uses, concentration of people and activity, sense of identity and character and are the primary conveyors of a city's image. Successful downtowns accelerate business activity and cultural creativity, enhance a variety of lifestyles and users, incubate new products and business ventures, provide efficient municipal services and use infrastructure in a sustainable manner.

City Policy C212D - Investment Policy:

- Establish a set of investment principles and guidelines giving consideration to the type of fund, its characteristics, investment return objectives, financial obligations, the objective of preservation of capital, liquidity, a prudent level of risk given the investment time horizon, while at the same time ensuring that the City of Edmonton's investments comply with statutory requirements.

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score	Current Mitigations	Potential Future Mitigations
Public perception (poor public image, bad reputation, brand name erosion)	Stakeholders may feel that their involvement was not worthwhile if the City does not undertake a financial investment in the conversion of office properties.	4	2	8	Implementation of the stakeholder recommended initiatives.	Future involvement in a real estate office conversion investment that meets City Policy C212D: Investment Policy.

Public Engagement

Multi-stakeholder conversations were held with over 60 stakeholders, including landlords, property managers, and large tenants, and another 46 stakeholders attended a facilitated engagement session. These stakeholders were consulted because they have the subject matter expertise required to address reducing downtown office vacancy rates. Overall, comments from the consultation were that it was a good beginning, but that participants need to see further action taken for this to feel worthwhile. Many participants mentioned or discussed the importance and need for an immediate pilot project focusing on creating a mixed-use building model, and collaboratively designing new processes and partnerships within the pilot structure to remove potential existing bureaucratic and policy barriers. Key themes in the discussions were around collaboration, cost sharing, flexibility and creativity, and mixed building usage.

Widespread public engagement was not undertaken due to the subject matter expertise required to provide industry specific recommendations to Council.

Budget/Financial Implications

There are no new budget/financial implications applicable to the information identified. Costs directly related to the implementation of the website and marketing campaign/case study will be absorbed by Edmonton Economic Development Corporation's internal budget.

Metrics, Targets and Outcomes

Metrics	Targets	Outcomes
---------	---------	----------

<ul style="list-style-type: none">• Downtown office market vacancy rate - 18%	<ul style="list-style-type: none">• Estimates suggest vacancy rates may move to between 25% and 30% before 2020.• Target office market vacancy rate is 10% by 2030.	<ul style="list-style-type: none">• Edmonton attracts and retains commercial businesses
---	--	---

Attachments

1. Downtown Office Report, Prepared by Edmonton Economic Development Corporation for City of Edmonton Administration
2. Consideration of Stakeholder Initiatives

Others Reviewing this Report

- T. Burge, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- R. Smyth, Deputy City Manager, Citizen Services
- C. Campbell, Deputy City Manager, Communications and Engagement
- D. Jones, Deputy City Manager, City Operations