

Urban Planning and Economy

**UPE01864 Office Tower Conversions
and
UPE01836 Downtown Revitalization
Levy (CRL) Financial Incentives
Funding Program**

Edmonton

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Current Market

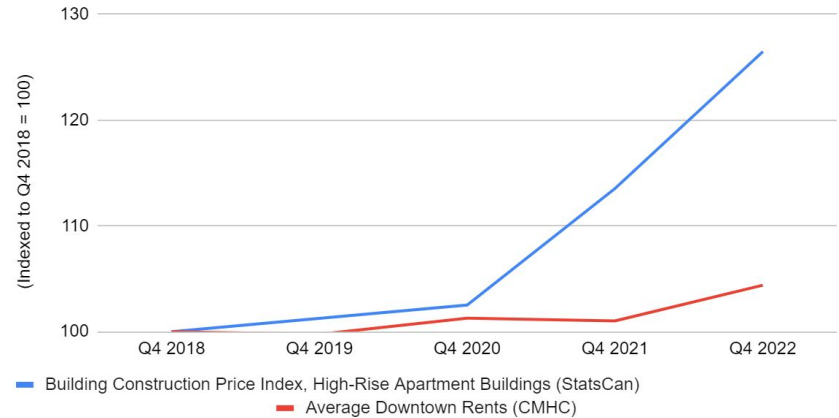
Cost Challenges

- Increased construction costs
- Increased financing costs
- Downtown sites are complex
- Land more expensive

Demand Challenges

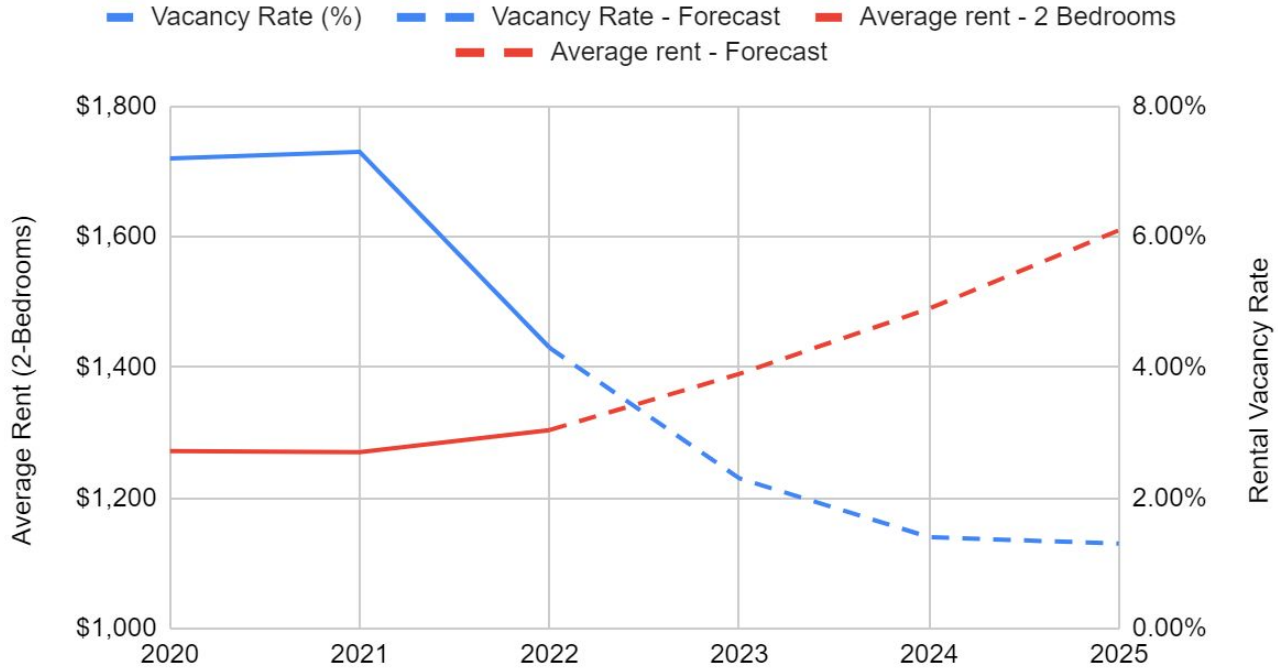
- Elevated residential vacancy rates up to 2022
- Rental rates increasing slower than costs
 - Work from home
 - Safety and security
 - Perceived limited amenities

Building Construction Price Index (StatsCan) and Average Downtown Rents (CMHC)



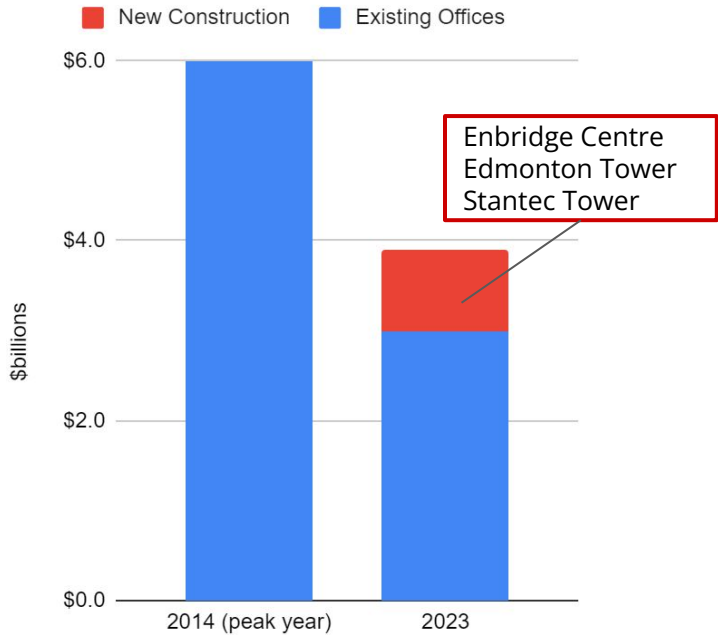
Downtown Projections - Residential

City wide Vacancy Rate and Average Rent Forecast (CMHC)



Current State - Office Space

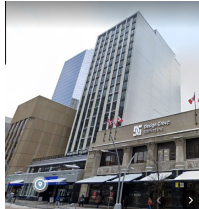
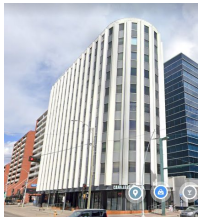
Office Assessments - Downtown



Rental Rates, Vacancies and Projections

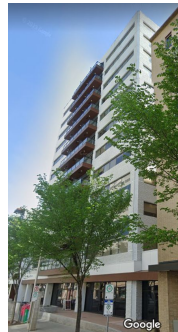
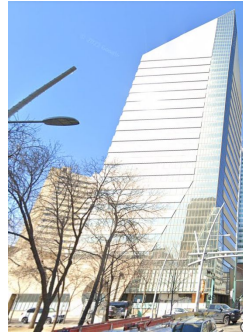
- Current office vacancy 21- 24%
- 3.7 million square feet of vacant space
- Need to absorb or remove 1.8 to 2.3 million square feet to get “balanced”
- Office assessments have fallen from their peak
- Tenants move to higher-classed buildings

Office Conversions - History



1995-2004
17 conversions
1060 units
& 200 hotel rooms

Since 2017
4 conversions
659 units



Tax Implications for Office Conversions

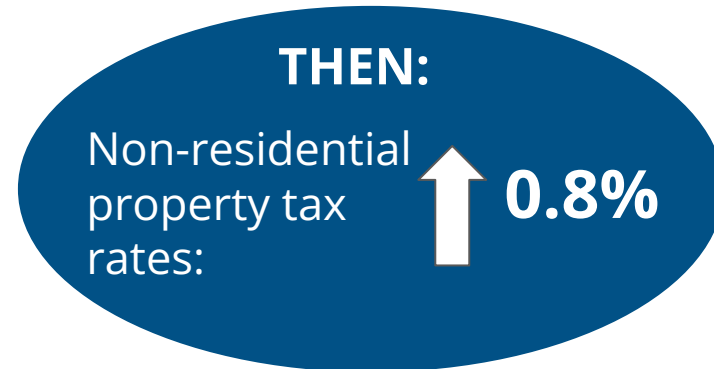
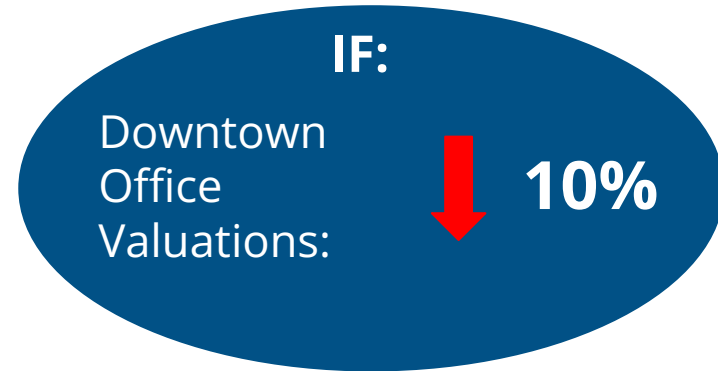
Current Office Building	Estimated 35% Decline	Post Conversion
Assessment: \$10 million	Assessment: \$6.5 million	Assessment: \$32.7 million
Municipal Taxes: \$209,154	Municipal Taxes: \$135,584	Municipal Taxes: \$232,441

Annual tax uplift: \$96,857

Payback period for a hypothetical \$75/square foot grant: 94 years

Non-Residential Tax Distribution

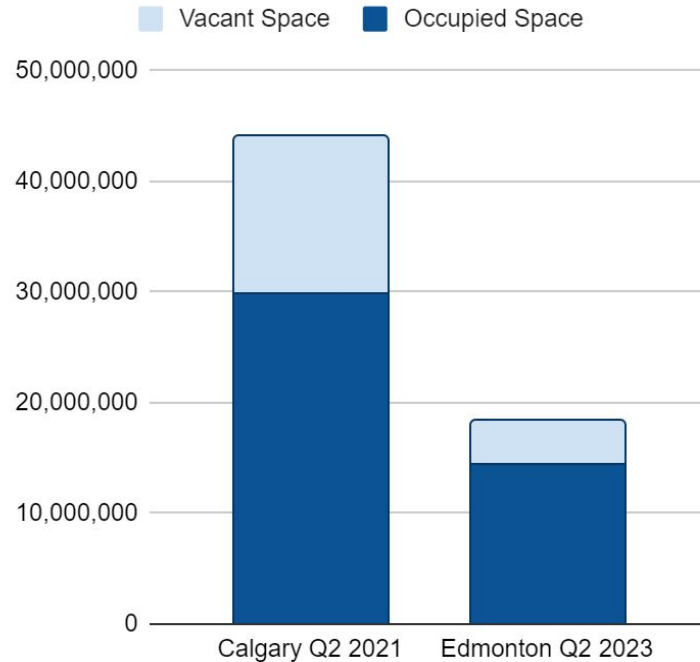
- If Downtown Office assessments decrease:
 - No loss in property tax revenue
 - Property tax burden is distributed to commercial properties outside Downtown



Office Space - Calgary & Edmonton

Calgary - 2021	Edmonton - 2023
34% vacancy	21-24% vacancy
~14 million vacant square feet	~3.7 million vacant square feet
\$16 billion lost assessment	\$3 billion lost assessment
3,500,000 square feet could be converted	Up to 1,100,000 square feet could be converted (2-10 candidates)

Downtown Office Vacancy, Edmonton and Calgary



Calgary Downtown Incentive



- Incentive grant paid per square foot of office space converted:
 - \$75/square foot for residential
 - \$60/square foot for hotels
 - \$50/square foot for post secondary or performing arts
- Budget of \$100 million over 4 years, funded by the City
- \$75/square foot determined by real estate committee (50% of construction cost)
- Paid at completion
- Cap of \$15 million per building (Council can approve higher)

Calgary Downtown Incentive - Results So Far...

- Approved funding for 10 conversions
- 1.15 million square feet
- 1237 new units
- \$86 million commitment
 - Estimated \$189 million in private investment



Mixed Market Housing

Affordable Housing Incentive Program (AHIP)

Since 2020:

- 16 projects
- 1,106 affordable units
- Average of \$61,000/unit (City contribution)

AHIP Options

- Establish dedicated downtown AHIP fund
- Increase the threshold above 25% of capital costs for affordable units
- Establish grant to incentivize market component of mixed-market

Mixed Market Incentive for Downtown Edmonton

	Affordable units created	Cost to incentivize one unit	Cost per 1000 units
Typical AHIP Unit (outside Downtown)	Yes	\$61,000	\$61 million
New High rise @ \$75/sqft	No	\$63,000	\$63 million
@ \$100/sqft		\$84,000	\$84 million
Office Conversion @ \$75/sqft	No	\$77,250	\$77.25 million
@ \$100/sqft		\$103,000	\$103 million

CRL as a Funding Source

- “Downtown Incentive Program” is included as a Catalyst Project in the CRL Plan
 - Description in the Plan is open-ended
- Disadvantages of CRL-funded incentive:
 - Deplete CRL’s catalyst fund
 - Deepen CRL reserve deficits
 - Limited sites within its boundaries
 - Projections indicate not sufficient revenue to cover the cost of funded and unfunded projects

Catalyst Approach

- CRL direction has been for catalyst projects and downtown vibrancy
- Focus on high quality amenities & improved safety and security
- Catalysts work as incentives



Questions and Thank You

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