COUNCIL REPORT

Edmonton

DOWNTOWN COMMUNITY REVITALIZATION LEVY (CRL) FINANCIAL INCENTIVES FUNDING PROGRAM

Recommendation

That the October 31, 2023, Urban Planning and Economy report UPE01836, be received for information.

Requested Action		Information only	
ConnectEdmonton's Guiding Principle		**ConnectEdmonton Strategic Goals**	
CONNECTED This unifies our work to achieve our strategic goals.		**Urban Places**	
City Plan Values	LIVE		
City Plan Big City Move(s)	A Rebuildable City	**Relationship to Council's Strategic Priorities**	15-Minute Communities Economic Growth
Corporate Business Plan	Transforming for the Future		
Council Policy, Program or Project Relationships	• Bylaw 16521 - Capital City Downtown Community Revitalization Levy • Affordable Housing Investment Program		
Related Council Discussions	• March 22, 2023, Urban Planning and Economy report UPE01132, Options for Unfunded Capital City Downtown Community Revitalization Levy (CRL) Catalyst Projects • March 22, 2023, Urban Planning and Economy report UPE01583, 2023 Community Revitalization Levy Update- Downtown, The Quarters Downtown, Belvedere • October 31, 2023, Urban Planning and Economy report UPE01864, Office Conversions		

Previous Council/Committee Action

At the March 22, 2023, Executive Committee meeting, the following motion was passed:

That Administration return to Committee with a report outlining:

1. Options for a program of financial incentives funded by the Downtown Community Revitalization Levy (CRL) to support new mixed-market residential development in the Downtown neighborhood, including options for payment structure (e.g. tax incentives or per door incentive) and funding options; and
2. Opportunities and potential uplift of prioritizing drainage infrastructure in the Downtown Community Revitalization Levy (CRL).

Executive Summary

- Mixed-market residential developments contribute to the goals of more people living Downtown and creating a diverse housing supply.
- The City's Affordable Housing Investment Program (AHIP) funds affordable and mixed-market projects. Using the AHIP framework for any Downtown-specific mixed-market incentive is possible, although additional funding may be required to make this program a broadly effective incentive downtown - due to the higher relative cost of land and construction/density associated with housing developments Downtown.
- Investments in catalyst projects and efforts to improve safety and security will support demand for Downtown living over time, incentivizing development over the long-term.
- The Downtown Community Revitalization Levy (CRL) is not a recommended funding source for a mixed-market incentive, as the CRL's financial capacity is constrained.
- Drainage infrastructure projects will continue to be undertaken on a case-by-case basis. There is an opportunity for the CRL to fund projects that align with the CRL Plan.

REPORT

Mixed-market housing developments include both market-rate units and affordable units. The affordable units, which are typically rental, may be anywhere along the affordable housing continuum from supportive housing to near-market rentals. Mixed-market projects provide much-needed affordable housing units and contribute to a diverse housing supply, in alignment with The City Plan goals of Live and Access.

Most affordable housing, whether in mixed-market developments or not, requires a degree of public subsidy. That subsidy can come from any order of government and take many forms including capital grants, preferred lending conditions and/or operating funding.

For a developer to build a mixed-market housing project, the project must be financially viable, taking into consideration both the market and non-market components. However, stakeholders interviewed for this report indicated that current market conditions in downtown mean that neither market nor non-market development are judged to be financially viable at this point in time. Additional details are included in Attachment 4.

DOWNTOWN COMMUNITY REVITALIZATION LEVY (CRL) FINANCIAL INCENTIVES FUNDING PROGRAM

At the August 13, 2018, Executive Committee meeting, Citizen Services report CR_5960, Affordable Housing Advocacy Strategy, a long-term, citywide neighbourhood affordable housing target of 16 per cent of residential units in all neighbourhoods was approved. This can include housing from all along the affordable housing continuum, from supportive living to seniors' housing to near market rentals. As of 2021, 5.2 per cent of the 10,365 dwellings in the Downtown neighbourhood are along the affordable continuum.

Current Conditions

The City of Edmonton invests in Downtown transformation, including Rogers Place, renewing the Stanley A. Milner Library, building and renewing parks such as Alex Decoteau Park, Warehouse Park and Beaver Hills House Park, and investing in infrastructure like LRT, drainage and streetscapes. In 2021, the City committed $22.9 million to the 2021 Edmonton Economic Recovery Construction Grant, which incentivized development of 2,341 units across the Centre City boundaries as defined in The City Plan, and leveraged approximately $24 of private investment per $1 allocated.

In part as a result of these investments, there are 1,138 residential units currently under construction Downtown, which is high compared to historic trends. However, the volume of projects in the development permit or rezoning application stage is low. Detailed information on the current state of downtown residential development is available in Attachment 1.

Stakeholders engaged for this report indicated that current conditions make it challenging to start a new residential project downtown. Stakeholders have said that even projects that were viable in 2019 or 2020 are less likely to be viable today due to changes affecting the development market locally and nationally. These changes manifest as challenges on both the demand and supply side of the residential development equation.

On the supply side, residential construction costs across Canada have increased sharply since 2020. Combined with higher borrowing costs, this has made residential development more expensive. The higher upfront costs and longer construction timelines associated with high-rise development make these challenges particularly acute in the Downtown context.

On the demand side, the primary concerns from stakeholders were that safety and security challenges and continuing trends to work from home limit the interest in living Downtown relative to other Centre City areas like Garneau and Oliver. Although residential vacancy rates have decreased recently, and rental rates have increased modestly, the market is not currently at a level that would make new development financially viable. Therefore, improving safety and security were seen as essential to bolstering demand for Downtown living. Providing more amenities and retailers, and wider adoption of return-to-office were also mentioned as important factors.

Mixed-Market Housing Incentives: Existing Programs

Affordable Housing Investment Program

The City currently offers the Affordable Housing Investment Program (AHIP), which funds affordable and mixed-market projects. This grant program funds up to 25 per cent of the construction costs of the affordable housing component of a project. Since 2020, it has funded 1,106 affordable units across 16 projects, including mixed market developments. Projects within the Community Revitalization Levy (CRL) areas are eligible to apply to this program, although none have done so to date.

Canada Mortgage and Housing Corporation Programs

Canada Mortgage and Housing Corporation (CMHC) currently offers a financing program called “MLI Select,'' which offers preferential financing terms to projects that provide typically 25 per cent of units as affordable. Much of the purpose-built rental development underway across the city is accessing this program, and stakeholders indicated that new Downtown projects would likely access this program.

However, the definition of “affordable” that CMHC uses is significantly different from the City’s AHIP. The AHIP defines affordable rents as 80 per cent of the average monthly rental rate across Edmonton, while CMHC defines it as 30 per cent of the local median income. The resulting rents through the CMHC program are currently capped at $1,665 per month, which is markedly higher than AHIP’s 2023 caps of $853 for a one-bedroom apartment unit, $1,043 for a two-bedroom apartment unit and higher amounts for larger apartment units. For context, average rents for apartments in Edmonton built in the last five years is $1,431[1]. Average rents for all Downtown apartments is $1,236.

Options for New Mixed-Market Housing Incentive

Administration recommends that any mixed-market housing incentive should use the affordability criteria established in the AHIP. Using different criteria in the Downtown area would create additional complexity and may unintentionally overlap with existing incentives from the City of Edmonton or others. The AHIP is understood by the development industry and there is an established process to administer it. However, stakeholder feedback indicated that as currently designed it is unlikely that there will be wide adoption of the AHIP Downtown. Administration has identified two challenges and potential changes to the program that could be considered to increase uptake Downtown or the larger Centre City node.

Downtown-specific fund

AHIP is a competitive program where projects from all areas of the city are assessed individually on a variety of criteria, with affordability prioritized. The competitive nature of the program does not guarantee funding for projects in specific locations, such as Downtown, as each project needs to score well enough on all criteria during the assessment process in order to be recommended for funding. In most instances the higher cost of land and potentially construction Downtown are likely to require higher rents and lower affordability, to ensure the viability of the development, which could make them less competitive with affordable housing projects in other parts of the city.

If City Council wishes to assure mixed-income projects Downtown through the provision of grant funding, Administration recommends the creation of a new separate stream of AHIP be

[1] Canada Mortgage and Housing Corporation 2022 Rental Market Report for Edmonton. October 2022.

developed that takes into consideration the specific nature of housing development downtown and a separate dedicated fund be established for this purpose, so that Downtown projects would not be competing with projects citywide for funding.

Assuming Downtown construction (high-rise) is 30 per cent more expensive than elsewhere in the City (low-rise)[2], a $3.5 million/year Downtown-specific AHIP fund would fund approximately 45 units per year. These costs would increase each year as construction costs increase.

Increase financial contribution in downtown context

Stakeholders provided feedback that land costs, construction costs and development risks are higher in downtown, so developments need to achieve higher rents to be financially viable than other areas in the City. As a result, there is a wider gap between profitable rents and units with rents capped through AHIP in downtown areas. Therefore the 25 per cent grant on construction costs may not cover the reduced rent that the building will achieve.

Potential approaches to addressing these concerns are:

- Increasing the percentage of construction costs covered by AHIP
    - The potential costs of this approach are estimated in Attachment 2.
- Offering a separate incentive for the market components of a building, which could be conditional on the project enrolling in AHIP, discussed below.

Ultimately, incentivizing an affordable housing unit in Downtown will cost more than a similar unit in other areas of the city. To the extent that maximising the number of units that get created with City funding is the priority, pursuing a Downtown-specific program is a less effective use of funds. If affordable housing within the Downtown area is a specific goal, additional funding will be required.

Options for Market Housing Incentive

As noted above, development industry stakeholders indicated that economic conditions including construction costs, financing costs and expected rental rates do not currently support investment in Downtown residential development. Administration has identified tools that the City can use to influence the development of market housing, and identified potential costs and implications.

Direct financial incentive for residential development

If the City offered financial incentives for new development, it would make new market development more financially viable and could result in construction happening sooner than would otherwise occur.

Administration consulted industry stakeholders on how an incentive program could be structured should funding be available, and what a program could cost. Three potential grant program structures and stakeholder feedback on each is included in Attachment 3.

A per-square-foot grant is the preferred structure for a residential development incentive. It could apply to office conversions, new construction or both. A per-square-foot is easy to

[2] 30 per cent cost premium for high-rise construction is based on 2023 Altus Canadian Construction Cost Guide

understand, is recognized by lenders and reduces upfront capital requirements for developers. For the City, it is relatively easy to administer, the grant amount is known upfront, and, if paid at occupancy, presents no risk that grant payments would go to projects that do not reach completion.

The costs of an incentive grant would be significant. Most stakeholders indicated that $75 per square foot would be a meaningful incentive that would make new development viable. Other responses ranged between $40 and $100 per square foot. The estimated costs and outcomes of an incentive grant for market residential are outlined in Attachment 2.

Direct financial incentive for mixed-market residential development

A market residential incentive could be combined with AHIP criteria in a number of ways to create a mixed-market housing incentive:

a) a grant could be paid for all units, with an additional grant amount available for affordable units

b) a grant could be paid for all units, provided that a minimum proportion of the units meet the AHIP affordability standard.

c) a grant could be paid for all units, with higher per-square foot amounts offered based on the inclusion of more affordable units.

Continued commitment to Downtown amenities, vibrancy, safety and security

The City also has an important role in building catalyst projects and advancing Downtown vibrancy, which will strengthen demand for market residential downtown over the long term. High-quality amenities that offer a unique urban lifestyle, coupled with continued efforts to improve safety and security will attract people to live Downtown today and in decades to come. Warehouse Park is an example of this as one residential development is already under construction immediately adjacent to the park. As such, the catalyst projects are intended to incentivize development and have an enduring, long-term impact.

Given time, and continued efforts to improve safety, security and vibrancy in Downtown, it is expected that residential units will be absorbed, vacancy rates will decline and rents will rise. CMHC projects that citywide vacancy rates will decline to 1.4 per cent in 2024 and 1.3 per cent in 2025. From October 2022 to October 2025, CMHC projects rents for two-bedroom units across the Census Metropolitan Area will increase by 30 per cent ($1,304 to $1,690).[3] Stakeholders indicated that a 10-20 per cent increase in rents for newly built rentals is likely to make new development financially viable.

[3] CMHC Housing Market Outlook, Spring 2023. https://assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/market-reports/housing-market-outlook/2023/housing-market-outlook-spring-2023-en.pdf?rev=5c29bc91-2310-435f-b2c9-b801866d0ede

DOWNTOWN COMMUNITY REVITALIZATION LEVY (CRL) FINANCIAL INCENTIVES FUNDING PROGRAM

Downtown CRL as a Funding Source

The financial capacity of the Downtown CRL to fund an incentive program is limited. The March 22, 2023, Urban Planning and Economy report UPE01583, 2023 Community Revitalization Levy Update - Downtown, The Quarters Downtown, Belvedere, indicated that based on the "Medium" projection scenario, there would not be sufficient revenue over the 20 year lifespan to cover all existing unfunded catalyst projects, which includes Jasper Avenue New Vision, 100 Street Pedestrian Bridge, further Green and Walkable streetscape improvements, and drainage infrastructure.

There may be some CRL revenue associated with mixed-market housing development, although it is difficult to forecast as there are a wide range of variables, including:

- Proportion of each project that is affordable per the City's AHIP thresholds
- Timing of development, as the number of years remaining in the CRL when it is completed may not allow sufficient revenue to repay the incentive
- Nature of the project (office conversion vs. new build, low-rise vs. high-rise)
- Any future change that exempts or reduces property taxes owed by affordable units

Further, projects that do not generate sufficient CRL revenue to offset grant amounts would result in reduced financial capacity for the CRL to fund other catalyst projects. Use of debt is not available to finance development incentives. Any grants would be considered operating expenses, which would result in a deeper Downtown CRL reserve deficit in the short-term and delay its repayment.

Drainage

In redeveloping areas such as the Downtown CRL Area, the need to upgrade utility infrastructure can be a significant cost for a potential development, and therefore a disincentive to redevelopment. This could include sanitary/storm drainage, power, water and gas servicing. The requirements are highly site specific; two sites a block apart could require very different servicing upgrades.

The Downtown CRL includes "Downtown Stormwater Drainage Servicing" as a catalyst project. The City is already leveraging this project within the constraints of the CRL Plan. The allowable use of CRL funds is limited to a specific set of stormwater pipes. In cases where the infrastructure needs to align with the CRL Plan, this has potential to, and has been, a significant development catalyst, supporting assessment uplift and CRL revenue. These drainage infrastructure improvements may also facilitate redevelopment of nearby sites and advance environmental objectives and climate resiliency through additional drainage capacity and reduced combined sewer overflow.

City Council has approved funding in the 2023-2026 Capital Budget for one such project: Capital Profile 23-74-4105, on 104 Street south of Jasper Avenue and Administration has had preliminary discussions about another potential location.

DOWNTOWN COMMUNITY REVITALIZATION LEVY (CRL) FINANCIAL INCENTIVES FUNDING PROGRAM

As the costs and benefits of each site are unique and the total number of opportunities within the CRL area are restricted, there is limited scope to prioritize drainage ahead of other catalyst projects. Therefore, Administration will continue to undertake drainage upgrades on a case-by-case basis.

Administration will alert developers of the potential for CRL funding as they initiate discussions with the City, and will evaluate each project on the following basis:

- Does a CRL-funded drainage pipe provide required servicing capacity for this development or for other sites in the area?
- What is the likely cost to the CRL and what CRL revenue uplift can be expected from the development?
- Does the development provide affordable housing or other benefits that advance the goals of The City Plan?

Administration will bring a report or supplemental capital budget adjustment item to Council for each project as applicable, with recommendations for new budget or reallocation of existing budgets as needed.

Budget/Financial Implications

The costs of the potential new incentive programs discussed have not been included in the 2023-2026 Operating Budget. The current financial position of the Downtown Community Revitalization Levy under the “medium” scenario is limited and not sufficient to fund an incentive program.

The costs of an incentive program have not been included in the 2023-2026 Operating Budget. If Council wishes to advance a financial incentive program, Council should articulate the intended outcomes and direct that an unfunded service package be included in the 2024 Fall Supplemental Operating Budget Adjustment process. Depending on the scale of the program, the service package would contemplate resourcing requirements to administer the program.

As discussed in report UPE01583, the Downtown CRL Reserve was in a negative position of $10.2 million as at December 31, 2022, as expenses have exceeded revenues in the initial years of the CRL. If a financial incentive program were to be funded by the Downtown CRL, the reserve deficit would be greater than currently projected and would take longer to be repaid.

Community Insight

Administration held interviews with eight industry organizations and 17 individual companies involved in Downtown development, development finance and real estate. Many of these stakeholders have experience in developing or operating mixed-market housing developments. Stakeholder insights have informed the discussion of incentive structure and amounts. The list of stakeholders and the What We Heard report is available in Attachment 4.

Stakeholder insight has been supplemented by quantitative research and insight from previous engagement completed by Administration in relation to affordable housing incentives.

GBA+

Edmonton's Housing Needs Assessment (included in the September 26, 2022, Community Services report CS01088, Updated Affordable Housing Strategy) explored available quantitative data supplemented with qualitative data from engagements with the housing sector and people with lived and living experience to determine the overall need for affordable housing in Edmonton and how housing need disproportionately impacts different segments of Edmonton's population. Data that is disaggregated by gender, race, disability, age and other grounds can reveal patterns of structural inequality. The 13 priority population groups considered for the Housing Needs Assessment are as follows:

- Women and children fleeing domestic violence
- Female heads of households, especially single mothers
- Seniors aged 65+
- Young adults aged 18-29
- Indigenous peoples
- Racialized people
- Recent immigrants, especially refugees
- 2SLGBTQ+ (two-spirit, lesbian, gay, bisexual, transgender, queer/questioning and plus) community members
- People with physical health or mobility challenges
- People with developmental disabilities
- People dealing with mental health and addictions issues
- Veterans
- People experiencing homelessness

When considering housing options, each priority population group will have different needs and considerations. Most people do not fall into a single category; it is important to recognize that intersectional identities of multiple individuals within households can influence housing needs.

Attachments

1. Downtown Residential - Current Market and Targets
2. Residential Incentive - Potential Costs
3. Incentive Program Descriptions and Stakeholder Feedback
4. What We Heard Report and Stakeholder List