COUNCIL REPORT

RESIDENTIAL INCENTIVE PROGRAM OPTIONS

Recommendation

1. That the March 20, 2024, Urban Planning and Economy report UPE02298, be received for information.
2. That Attachment 1 of the March 20, 2024, Urban Planning and Economy report UPE02298 remain private pursuant to section 27 (privileged information) of the *Freedom of Information and Protection of Privacy Act*.

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 Districts Economic Growth
Corporate Business Plan	Transforming for the future		
Council Policy, Program or Project Relationships	• Bylaw 16521 - Capital City Downtown Community Revitalization Levy Bylaw • Downtown Vibrancy Strategy		
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 UPE01836, Downtown Community Revitalization Levy (CRL) Financial Incentives Funding Program • October 31, 2023, Urban Planning and Economy report UPE01864, Office Tower Conversions • March 20, 2024, Urban Planning and Economy report UPE02198, Downtown Residential Development Property Tax Options		

	• March 20, 2024, Urban Planning and Economy report UPE02234, 2024 Community Revitalization Levy Update - Downtown, The Quarters Downtown, Belvedere

Previous Council/Committee Action

At the October 31, 2023, Urban Planning Committee meeting, the following motion was passed:

That Administration, as part of its First Quarter 2024 Community Revitalization Levy update, provide options for a residential incentive program funded by the Community Revitalization Levy and make recommendations on how to prioritize such a program in the options to the Capital City Downtown Community Revitalization Levy.

Executive Summary

- The Downtown Community Revitalization Levy (CRL) is not recommended as a funding source for a residential incentive due to its constrained financial situation and limited boundary. There would be legal risk associated with funding an incentive program with a CRL.
- A financial incentive may spur new residential development to take place in the near term. If an incentive were to proceed, Administration proposes a competitive process where applicants identify the amount of incentive (up to an identified maximum amount for each new residential square foot) required to make their project proceed, and City funds go to those projects requiring the lowest incentive per square foot.

REPORT

Residential development is one of the critical elements in creating a vibrant downtown, and is highlighted as a primary goal of the Capital City Downtown Plan and Downtown Vibrancy Strategy. A growing residential population downtown supports local businesses, contributes to activity outside of traditional working hours and increases public and active transportation utilization.

More than $4.5 billion of new development occurred in the Downtown neighbourhood since 2015, and there are more than 1,100 residential units currently under construction. In 2023, Downtown led all neighbourhoods in value of building permits issued with $250 million, or eight per cent of the City's total. However, as outlined in the October 31, 2023, Urban Planning and Economy reports UPE01836, Downtown Community Revitalization Levy (CRL) Financial Incentives Funding Program and UPE01864, Office Tower Conversions, the market for developing new residential buildings Downtown is challenged by high interest rates, increased construction costs, and demand that is limited by a perceived lack of amenities and concerns for safety and security.

At the October 31, 2023 Urban Planning Committee meeting, Committee directed Administration to provide options for a residential incentive program funded by the CRL, and recommendations on how to prioritize such a program. A financial incentive is one tool available to encourage residential development downtown, along with investment in catalyst projects like Warehouse Park and ongoing efforts to improve safety, security and vibrancy. Industry stakeholders engaged in development of this report and the October 31, 2023 reports indicated that a financial incentive program of sufficient magnitude would spur residential development to occur downtown in the short-term, thus contributing to downtown development goals.

Incentive programs can also have other effects on the market, including diverting investment from other areas. For instance, a Downtown CRL incentive program might attract investment to the CRL area that would have otherwise occurred elsewhere in the Central District without an incentive. Also, the developments that receive funding through an incentive program may have proceeded in a few years without an incentive, meaning that an incentive may only accelerate development rather than increasing the volume of development that occurs over the long term.

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. Canada Mortgage and Housing Corporation (CMHC) projects that from October 2023 to October 2025, CMHC projects rents for two-bedroom units across the Census Metropolitan Area will increase by 16 per cent ($1,390 to $1,610).[1]

One of the unfunded Catalyst Projects within the Capital City Downtown CRL Plan is the "Downtown Incentive Program." This enables CRL funding to be applied towards a development incentive. The program is intended to allow for flexibility that could incentivize a variety of building forms, uses, or housing types based on market conditions or identified need. It could include new builds or conversions. Private Attachment 1 provides additional considerations.

Incentive Grant Structure

Administration engaged with stakeholders in the development and finance industries for the October 31, 2023 reports and determined that a per-square-foot grant that is paid at occupancy would be the optimal program design. Further consultation with industry stakeholders has confirmed this preference and has informed the grant structure below.

The main potential variable is the amount of the grant. Too small of an incentive will struggle to advance development while too large of an incentive would result in less value achieved for City funds. Furthermore, each development may need a different amount of incentive in order to be viable; the amount needed may vary based on design, cost of land, available equity, and other factors.

Administration's proposed structure for a residential grant program is described in the March 20, 2024 Urban Planning and Economy report UPE02198, Downtown Residential Property Tax Options as the "Lump Sum Grant" option. It would be a competitive process, where applicants identify the amount of financial incentive that they require (up to a maximum amount of $40 per square foot), and grant agreements are signed with those projects requiring the least incentive. A maximum of $40 per square foot is proposed based on stakeholder input that a 10-15 year property tax freeze (worth approximately $40 per square foot) would be needed to incentivize new development. $40 per square foot is also approximately equal to the total amount of CRL

[1] 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

revenue that could be generated by a high-rise residential development that is completed in 2026, although there is risk that it could be less.

At $40 per square foot, the cost to incentivize 1,000 residential units would be approximately $33.6 million.

Projects would be eligible to also apply for the Affordable Housing Incentive Program (AHIP), which covers 25 per cent of construction costs for projects which meet eligibility criteria. The combined value of AHIP and a possible CRL incentive program has the potential to be significant, and it could attract developers to provide affordable or mixed-market housing Downtown.

Community Revitalization Levy (CRL) Boundary

Only projects located within the CRL boundary (Attachment 2) would be eligible for a CRL-funded grant program. The CRL boundary includes approximately half of the Downtown neighbourhood as well as four blocks in Central MacDougall and three blocks in McCauley. There are multiple development opportunities located in the Downtown neighbourhood but outside the CRL boundary that would not be eligible for a CRL-funded program.

The incentive design is not specific to the Downtown CRL as a funding source. This program could be expanded to areas outside the Downtown CRL, but a separate, non-CRL funding source would need to be identified for any projects located outside the CRL area.

Reprioritizing Catalyst Projects

Administration reviewed the list of currently funded Catalyst Projects to identify implications of delaying each project. Considerations included previous commitments to a developer or community, likely effect on encouraging future development, linkages with other projects and required renewal and discussion with stakeholder groups. Detail on the scope and budget of each project, and on the implications of cancellation is provided in Attachment 3.

Several of these projects are in design and are actively incurring costs. As a result, the remaining budget for these projects is changing. There may be costs associated with cancelling a contract or bringing the ongoing design work to a practical stopping point, such as at the conclusion of a design phase. Therefore, the amounts identified are not exact, but represent the rough magnitude of reductions that could be achieved. In general, the budget reduction that would result from a delay will be somewhat smaller than the figures listed.

The potential budget reductions listed below and in Attachment 3 represent the total budget allocated for the project, reduced by the amount of expenditures incurred in 2023. Should Council decide to delay any of these projects, Administration will identify a precise number at a subsequent budget adjustment.

Administration supports the following projects proceeding as scheduled. Collectively, delaying these projects would reduce the amount of CRL debt and operating budget by $98 million ($122 million including borrowing costs).

- Warehouse Park
- Harbin Gate
- 103A Avenue Pedway

RESIDENTIAL INCENTIVE PROGRAM OPTIONS

- Station Lands Public Amenity Spaces
- Green and Walkable: 99 Street (Jasper Avenue-102 Avenue)

Delaying the following projects would cause some disruption, but could feasibly be done and would reduce the amount of CRL debt by $49 million ($64 million including borrowing costs). Administration has considered the current status of the projects, linkages with other projects, implications of pausing each project, and stakeholder feedback and has ranked these projects in priority order. The projects at the top of the list are the highest priority to retain, while those at the bottom of the list could be delayed with fewer implications.

- Michael Phair/Beaver Hills House Park Upgrades
- Design for Jasper Avenue New Vision (102 Street to 109 Street)
- Green and Walkable - 103A Avenue project (99 Street portion between 102A and 103A Avenues)
- Green and Walkable - Emerging Opportunities
- Green and Walkable - 103A Avenue (97 Street to 101 Street)
- Green and Walkable - 107 Street (99 Avenue to Jasper Avenue)
- Green and Walkable - 105 Avenue (97 Street to 101 Street)

Other CRL-eligible Catalyst Projects that are currently unfunded include:

- 100 Street Pedestrian Bridge
- Jasper Avenue New Vision (delivery from 102 Street to 109 Street)
- Green and Walkable Downtown
- Downtown Stormwater Drainage Servicing
- River Valley Promenades

If the Catalyst Projects identified for potential delay were all paused, the result would be several streets and public spaces across Downtown not being upgraded to a more walkable, attractive, and safe condition (such as implementation of Crime Prevention through Environmental Design principles at Beaver Hills House Park, or improving pedestrian safety along major roads). While in most cases it is not possible to prove a causal link between public realm improvements and investment decisions, Administration observed that since 2015, the majority of new developments in Downtown have either been located in proximity to upgraded streetscapes or have improved the public realm as part of the development. Over the long term, delaying these projects may negatively affect the amount of development that occurs Downtown, but it is not possible to quantify the magnitude of this effect.

Budget/Financial Implications

The March 20, 2024, Urban Planning and Economy report UPE02234 2024 Community Revitalization Levy Update - Downtown, The Quarters Downtown, Belvedere provides an updated financial projection for the Capital City Downtown CRL. Administration currently projects that CRL revenue over the 20-year life of the CRL will not be sufficient to cover all currently funded projects and that ongoing municipal tax revenues will be required to repay the CRL reserve beyond 2034.

If implemented, this incentive program would affect current projections for both CRL expenses and revenues. Additional details are provided in Attachment 4.

RESIDENTIAL INCENTIVE PROGRAM OPTIONS

Constraints

Proceeding with an incentive program that utilizes the Downtown CRL has significant risks. These risks include the legal constraints addressed in further detail in Attachment 1 (Private), along with financial constraints and challenges associated with using the CRL as a funding source. Additional concerns relate to the limited boundaries that would be applicable to any grant program.

If Council seeks to pursue a grant program outside the scope of the CRL, an alternative funding source would need to be identified. This would occur through a reprioritization or reallocation in the operating budget or an increase to the tax levy. Other sources of funding might be identified through support from other levels of government. If the City were to solely fund the program, a $33.6 million incentive program would require an approximate 1.6 per cent one-time increase to the tax levy in 2025.

Next Steps

A. If Council wishes to proceed with a CRL-funded residential incentive, Administration will take the following approach:

   1) Identify which currently funded CRL-funded projects should be delayed or deferred. Amend the capital budget at the 2024 Spring Supplemental Capital Budget Adjustment.

   2) Direct Administration to prepare a grant policy and program guide (including seeking stakeholder input where required, including the establishment of a maximum grant amount).

   3) Establish a budget for a residential grant program at the Fall Supplemental Operating Budget Adjustment, including resources to assist in program administration.

   4) Invite and evaluate grant submissions, and enter into grant agreements with successful proponents.

   5) Estimate the net impact on CRL finances, considering grant costs and estimated CRL revenues.

   6) Evaluate financial capacity of the CRL to fund additional projects, report to Council on options for restoring funding to projects that were cancelled in Step 1, or expanding the residential incentive grant.

B. If Council wishes to proceed with a non-CRL-funded residential incentive, Administration will take the following approach:

   1) Identify a funding source and establish a budget for a residential grant program at the 2024 Fall Supplemental Operating Budget Adjustment, including resources to assist in program administration.

   2) Approve a grant policy/program guide that Administration would prepare in conjunction with the Fall Supplemental Operating Budget Adjustment.

   3) Invite and evaluate grant submissions, and enter into grant agreements with successful proponents.

Legal Implications

The legal considerations are outlined in Private Attachment 1.

Community Insight

For the October 31, 2023, Urban Planning reports UPE01836 and UPE01864, Administration conducted interviews with eight industry organizations and 17 individual companies involved in downtown development, office conversions and real estate. City of Calgary staff were also interviewed about their office conversion program.

Administration met again with many of the same stakeholders, including representatives from 10 organizations and companies in order to confirm findings from the initial round of engagement and refine details for how a grant program could be structured.

Stakeholder insights gathered across both rounds of engagement have informed the understanding of current market conditions, the evaluation of options for residential development incentives and the prioritization of Catalyst Projects.

GBA+

GBA+ considerations inform the design and development of each Catalyst Project, with the goal of creating a more inclusive and accessible downtown. The projects identified as candidates for reprioritization offer improvements such as public washrooms (Beaver Hills House Park), safer and more accessible sidewalks (Green and Walkable, Jasper Avenue New Vision) and the potential to contribute to sidewalk improvements in coordination with affordable and supportive housing providers.

As it relates to the goal of creating new housing units, 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. 13 priority population groups were considered for the Housing Needs Assessment.

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.

The residential incentive program described is intended primarily to increase the number of residential units available downtown. Although the Canada Housing and Mortgage Corporation (CMHC) criteria of Affordability and Accessibility may be used in evaluating applications, it is not intended to provide new units specifically targeted to the 13 priority population groups. Additionally, program participants would also be eligible to apply for other incentive programs, like the City's Affordable Housing Incentive Program, which are intended to encourage development of affordable units.

Attachments

1. Private - Legal Considerations in Using CRL Revenue to Fund Private Incentive Grants
2. Map of Capital City Downtown CRL Area
3. Downtown CRL Catalyst Project Priorities
4. Impact to CRL Expenses and Revenue