Stakeholder engagement

Administration and its real estate consultants retained by Administration to develop the MDC Superlight model hosted four face-to-face meetings with Edmonton and region based private sector land developers in June and July, 2015 (*see* the October 5, 2015, Sustainable Development report CR_2132, Attachment 4). Administration hosted five additional face-to-face facilitated meetings with Edmonton-based private sector land development industry stakeholders in January and February 2016, to:

- ensure it understands industry's objections to the proposal to create a for-profit MDC;
- work toward resolving those objections; and
- strengthen the collaborative relationship between Administration and industry.

Stakeholders included the Urban Development Institute, Edmonton region (UDI), Canadian Home Builders Association (CHBA), Commercial Real Estate Developers Association (NAIOP), Building Owners and Managers Association (BOMA), and the Edmonton Chamber of Commerce. Industry associations followed up with their members to ensure active engagement.

The fifth meeting, held Monday, February 29, also included the real estate consultants and Deloitte personnel previously retained by Administration to develop the MDC Superlight model as described in the October 5, 2015, Sustainable Development report CR_2132.

Summary of industry's objections
The local land development industry and the Chamber of Commerce continue to object to the creation of a for-profit MDC on the following grounds, which echo their objections as presented in Attachment 4 to the October 5, 2015, Sustainable Development report CR_2132.

1. **The City of Edmonton should not compete with private land developers. The City "should not be in the business of business."**

   Industry notes that the City is already a major land developer through its Land Enterprise Division, which is appropriate to its responsibilities under the *Municipal Government Act*. The local development industry believes that further "intrusion" into the private sector to establish a property development arm is inappropriate.

   Industry has expressed concern that the MDC's business plan proposes that its focus be divided 75 percent toward profit generation and 25 percent to the realization of City-Building Outcomes (CBOs) but that CBOs remain unclear. Industry feels that many of the CBOs appear better suited to a not-for-profit

Community Development Corporation, to which industry has fewer objections. Industry is also willing to contribute its experience and expertise in a business advisory capacity to a Community Development Corporation through the land evaluation process outlined by Administration.

Industry believes the City's capacity to borrow at reduced rates as a municipal corporation represents unfair competition in an industry that is already faced with significantly reduced margins in the current economic climate.

2. **The number of properties in the City's total inventory that are undeveloped or underdeveloped is relatively small and does not warrant the creation of a stand-alone corporate entity or the accompanying investment of taxpayer dollars, especially in the current economic climate. The City does not own properties that are similar to those in Toronto or Calgary that were transferred to municipal development corporations in those cities.**

Industry is concerned that Council believes there is a large supply of surplus City-owned property that has remained dormant. Industry argues that the information shared by Administration indicates that is inaccurate and that the total number of such properties is actually quite small, especially those suited for some sort of shared development agreement with private industry, which is a core principle attributed to the MDC.

Industry is concerned that the MDC Superlight proposal was based on proformas for the five properties judged by the City's real estate consultant team to be the most profitable in the entire inventory — in its terms, "cherry-picking" the best properties —- and suggests the projections do not accurately represent the real opportunity vested in the inventory.

Industry contends that Council has already effectively retained for itself the most interesting real estate development opportunity in Edmonton at Blatchford — which, industry argues, makes very poor use of the advice of local real estate developers invited to contribute — and has not yet determined how it wishes to approach other genuinely attractive opportunities such as West Rossdale. Instead, industry argues, the City hopes to activate dormant surplus lands through a for-profit MDC Superlight that have so far resisted development due to unusually challenging circumstances that render them unprofitable. Industry argues that some of these encumbrances have been introduced by the City itself and that it is the City's responsibility either to remove those encumbrances or to acknowledge that the proposed development achieves CBOs best achieved through non-profit development.

Industry has recently argued that, if 80 percent of Build Toronto's transactions were land sales to the private sector, and the City of Edmonton does not have in its portfolio the kinds of highly desirable properties that supported for-profit property development in either Toronto or Calgary, then the projections for the MDC Superlight model are not achievable without making significant changes to its mandate and/or business activities.

Industry has offered to help the City to better evaluate its inventory and to activate surplus City-owned lands through a new DCA program and Administration's commitment to establish a business advisory committee.

3. **The City should not invest taxpayer dollars in risky real estate investments. It is better to incentivize land for sale to the private sector.**

Industry argues that the City should invest taxpayer dollars in core services and infrastructure but not in "risky real estate developments" in the current economic climate. Industry is concerned that the MDC's performance will not be evaluated using criteria that enable a fair comparison with the private sector — such as the time value of money or holding costs — which may give Council a false impression of the MDC's return on investment.

Industry has argued that the internal rate of return on equity investments proposed through the MDC Superlight model is going to be even smaller under the current economic climate than was estimated last summer. At some point, diminishing returns argue against investing in an MDC.

4. **There is confusion between the mandate of the proposed not-for-profit Community Development Corporation — which industry said it supports, especially the affordable housing outcome — and a for-profit MDC.**

Industry argues that an MDC was proposed as the solution to an inadequately understood problem, leading to confusion about its mandate and the mandate of the proposed Community Development Corporation.

Industry believes that the mandate for both corporations should be clearly defined and distinguished one from another before either is established.

Though a list of attributes has been proposed to illustrate City-Building Outcomes — good design, multi-use development, sustainable development, residential infill, catalyzing neighbourhood renewal, transit-oriented development, activating dormant surplus property, *etc*. — industry maintains they are still poorly understood and that it is less understood how they might be actioned through a for-profit MDC in contrast to a Community Development Corporation, or through other business arrangements and development agreements that could be actioned through the new DCA program.

Industry argues that some CBOs are simply good 21st century building practice and that the City should consult industry, which has expertise developed in a competitive environment, to better define and distinguish CBOs appropriate to for-profit and not-for-profit development.

5. **The City does not need to establish an MDC to create a real estate centre-of-excellence.**

Industry endorses the concept of a real estate centre-of-excellence that has been associated with the establishment of an MDC but argues that the one does not depend on the other. Further, industry believes that the effort could be extended beyond the City to include other stakeholders.

For example, BOMA noted that it has worked with NAIT to create a program in property management that will be offering its first courses in the fall of 2016 and could be expanded to include property development. Other local industry stakeholders suggested working with the University of Alberta's Faculty of Business to develop Edmonton-based expertise and confirmed their willingness to help the City achieve such an objective both to enhance the internal capacity of the Administration and, potentially, to extend that capacity beyond the City through the proposed business advisory capacity.

The City's real estate consultants have suggested that the creation of an MDC would contribute to the establishment of a real estate centre-of-excellence in Edmonton. The knowledge, skill, and expertise of an MDC could be leveraged to have positive cultural impact on current real estate activities carried out by Administration. This outcome could, potentially, also be realized through the creation of a DCA that has broad industry involvement and support.

6. **Though the limitations envisioned for the 'MDC Superlight' make such an entity less objectionable than an 'MDC Heavy,' industry is not confident that, once established, future Councils will not expand the mandate of the MDC Superlight to enable it to penetrate more deeply into the private sector with an unfair competitive advantage facilitated by its status as a municipal subsidiary.**

Industry argues that most of the restrictive mechanisms that can be brought to bear in the establishment of an MDC — Articles of Incorporation, Unanimous Shareholders Agreement, corporate Charter, *etc*. — apply to the Board of Directors as it guides the corporation. These mechanisms do not apply to City Council in its role as shareholder. Industry argues that the opposite is, in fact, true: that it is not possible to limit the ambition of future Councils once an MDC is established.

> Industry further disputes the profit potential of an MDC and fears that, if it is right, future Councils will simply change the MDC's mandate rather than wind it up as an unsuccessful experiment.

Much of industry's objection to the establishment of a for-profit MDC has been rooted in skepticism and distrust of the City's model and its inability to restrict future Councils from expanding the activities of an MDC once established. However, notwithstanding the fact industry maintains its objection to the establishment of an MDC, tremendous progress has been made in the New Year to establish a respectful, collaborative working relationship. Industry associations have agreed to participate in a business advisory capacity and are already working with Administration to define how best to do so.

Industry has conceded that participation in the business advisory committee may, in fact, enable the discovery of certain City-owned lands that are most appropriate for development by an MDC. And, although it maintains its objection to the establishment of a for-profit MDC, industry has also conceded that if Council should choose (at a future date) to establish an MDC, it would continue to participate in a business advisory capacity.