



Equitable Solutions to Utilize the City of Edmonton's Land Assets

Position Overview

The City of Edmonton has explored the formation of a for-profit Municipal Development Corporation (MDC) to enhance the value creation opportunities of its underutilized land assets and to ensure City-Building Outcomes (CBOs) in the development process. The development industry in Edmonton established a committee composed of UDI, CHBA, NAIOP, Edmonton Chamber of Commerce, BOMA and other corporate stakeholders, that have been meaningfully involved in ongoing meetings throughout 2015-2016. The industry committee's message has been consistent throughout the entire consultation process: the City does not need a for-profit MDC to better utilize its land assets.

Principles that support this position are as follows:

Risk to taxpayer dollars

The creation of an MDC has significant start-up costs that expose taxpayer dollars to risk. The MDC will require \$4.5 million in its first four years (one year for start-up, plus the first three years of operations), with the expectation that it will be self-sustaining within the first three years of business. Given the current economic market, the finite number of profitable surplus properties available, the assumption of single digit returns combined with the expectation that the MDC will be self-sustaining in three years poses a significant challenge. The impacts of unexpected capital loss can be grave, and the City's budgets are increasingly tight. An MDC is not recommended and industry has proposed solutions to better utilize surplus lands that can be pursued internally.

Scope creep

An ongoing concern of the industry committee is the inability of the current Council to assure industry that the proposed MDC Superlight's scope will not change with the election of a new Council. We acknowledge Council asked City Administration to explore restrictive mechanisms to mitigate this potential scenario. However it appears that Council, as the sole shareholder of the proposed corporation, will have the ability to exercise its privilege and expand the scope of the MDC at any time in the future at its discretion.

Industry is concerned that after all of the profitable parcels have been developed, there will be ongoing pressure for an MDC to continue to create projects from the existing inventory due to pressure to perform or pressure to maximize the value of all surplus properties. This pressure to keep new projects in the hopper will result in less viable and higher risk projects coming forward. Further, the MDC may be required to take on projects that the private industry will not, due to various challenges. If the MDC is required to develop these challenged parcels they may have to explore subsidies such as lower than market rents, lease rates or sale prices which could result in disruption to the market.



Additionally, the City should not be competing with private industry for “market properties,” especially where the City is given the advantage of accepting below normal returns, interest free loans, property tax exemptions and without the pressure and impacts of the time value of money. This will create an unfair playing field that could easily dissuade private investment and development throughout the City. Private industry and investment capital may migrate to other municipalities where market conditions are fair and equitable. The ramifications of this type of scenario are far reaching and would harm the future of our City which we are all working hard to develop and grow.

To off-set MDC annual operating costs the MDC will require an ongoing supply of suitable inventory and industry is concerned that when the profitable City surplus sites are absorbed, the MDC will naturally need to find new sources for inventory and will compete with private industry on the open market. This is a concern especially when the MDC will still have a level of dependency on private industry to participate as part of the underlying for-profit development model. Scope creep seems unavoidable in order for the MDC to become self-sustaining over the long-term and further intrusion of an MDC into the private sector remains a valid concern among industry.

The City should spend its capital on core services: infrastructure, affordable housing and CBOs

The industry committee continues to advocate that City dollars should be allocated to core services, including infrastructure, affordable housing and CBOs. The MDC as it is currently conceived has a mixed mandate that includes profit-making and City-building. This seems contradictory because as many CBOs will require intensive capital investment with little to no return on investment. CBOs and affordable housing are best executed through a non-profit organization, which the City already has. Further, the City has initiated the configuration of a Community Development Corporation (CDC) more ideally suited to this purpose. The industry committee fully supports a CDC with a clear mandate that encompasses all CBOs and affordable housing objectives, and it welcomes the opportunity to offer industry insight and expertise at the table. However, if the CDC's mandate is to tackle City-building, then this should not be included in the mandate of the MDC. If the City reassigned internal resources to better utilize its existing land assets, and worked closely with the CDC for City Building and affordable housing outcomes, an MDC is not required for this purpose. Is its primary purpose, then, to compete with the private sector as a profit generator?

The City is already a large scale land developer

Under numerous branches, the City manages billions of dollars in development across Edmonton. The City pursues development under Land Enterprise, on per site basis such as Blatchford, and the Quarters, and through partnerships like the Arena District. There is no need to develop an external for-profit MDC to continue development. The City can maximize the value of land through efficient City process and collaboration with the private sector. Consolidation of all City owned land into one place that is governed by an expert team will increase the City's capacity to lead focused development efforts through value added projects and land sales. The bottom line is, the City has all of the tools to accomplish this mandate without the need for an MDC.



Although there is a perception that industry is playing a role in some of these existing projects, industry desires to improve on the level of engagement and is committed to assist in a stronger advisory capacity.

Viability is not supported in the report

It is industry's opinion that the October 5, 2015, Sustainable Development report CR_2132 does not definitively indicate an MDC based on the Superlight model is viable. First, the report suggests single digit returns in an economic model developed in 2015. Given the change in economic conditions over the past year, these small returns could be completely eliminated if the proforma was developed in 2016, and further contradiction of real estate development metrics are expected well beyond 2016. The private industry would not accept single digit proforma yield on development that proposes risk. Nor will the MDC's performance be evaluated using criteria that enable a fair comparison with the private sector, such as time value of money or holding costs, and that discrepancy can give a false impression of the MDC's return on investment.

Second, the consultant Real Estate Expert Group was able to cherry-pick the five best parcels for development from the 44 parcels deemed high potential properties. Given that the Superlight Model was built with these five best properties only, industry is skeptical that the fiscal performance of the corporation in the long term, after it is required to begin developing less desirable parcels would justify its creation. Many of these sites are unlikely to be profitable, which would lead to an increased need for municipal grants, reduced interest or interest-free loans. Finally, what will become of the MDC once these few parcels are developed? The MDC Superlight principles restrict it from purchasing land unless it is adjacent or adjoining to existing City-owned land. When the presumed high potential parcels are developed, the MDC will either have to evolve or dissolve. Industry is especially concerned that a future Council will change the scope of the MDC rather than wind it up and absorb its assets. The MDC Superlight was not built on a model that is sustainable in the long term within its existing parameters. The investment to start-up an MDC is dubious if its profitability is of limited duration.

Recommendation

There is no indication that the MDC can achieve better outcomes or greater value for the City than an internal alternative. The industry committee recommends an internal restructuring, the formalization of an industry advisory committee, and the establishment of a Real Estate Centre of Excellence to best utilize the City's surplus lands.

Development of the Real Estate Advisory Committee (REAC)

The industry committee indicated industry's willingness to help the City unlock and rationalize value in its surplus lands at Executive Committee on November 26, 2015. City Administration has taken this offer into meaningful consideration and the development of a formalized advisory committee is well underway with or without the proposed MDC. The private development industry, who has always demonstrated their desire to build a better Edmonton, has years of experience with land and real estate development in this market and the City has welcomed our offer to share this expertise. Welcoming the private sector into a new advisory role will help to develop innovative ways to unlock value and determine the best use for each parcel, including land suitable for profit-motivated development versus land more suitable for public-benefit



development. The REAC will consist of members from City of Edmonton staff, industry stakeholders (UDI, CHBA, NAIOP, Chamber of Commerce, and BOMA) and other significant community stakeholder (e.g., University of Alberta, EPCOR, etc.) to be determined.

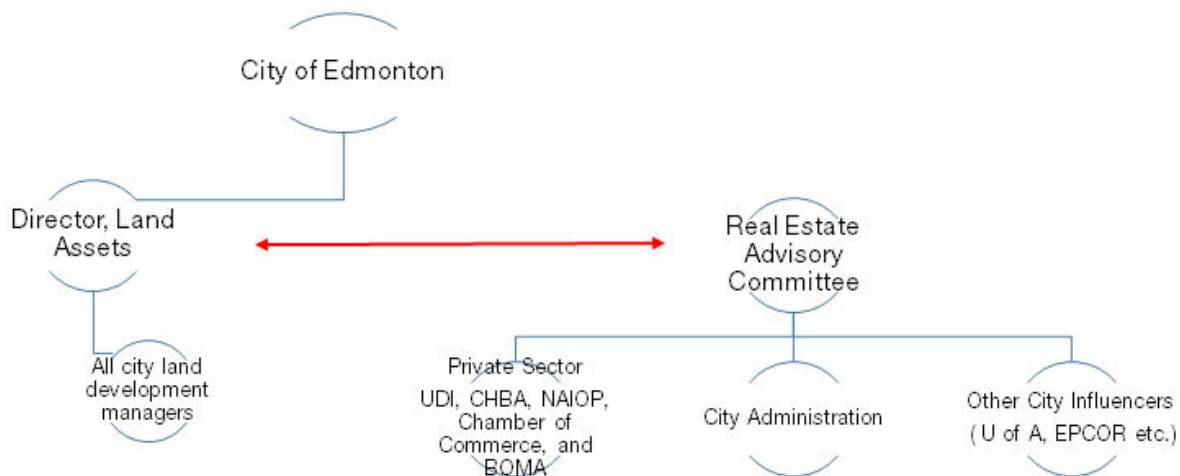
Part of this advisory role would include sorting through the inventory and assigning parcels to appropriate categories for disposal or retention:

- I. Properties that have no real market value, with or without improvements.
i.e., lane ways, remnant parcels
 - These could be handled by existing City departments. There are various ways to manage them, such as to give parcels to neighbours or neighbourhood associations with no tax consequences but with maintenance obligations; sell parcels at an equitable value; creation of pocket parks; public amenity space *etc.*
- II. Properties that could be readily sold/developed at a respectable profit with minor City assistance.
 - The REAC could help identify how these properties could be sold by providing insight into what a developer requires to ensure success; then the City would be able to provide the required facilitation.
- III. Properties that have environmental or other serious challenges.
 - The REAC would assist with the articulation of creative and challenging development requirements to position the properties for optimum success.

Internal restructuring

The City of Edmonton can undergo restructuring and/or possible external hiring to develop a department for all City wide development under one umbrella. This would include the appointment of a Land Assets Director that would be accountable for all City of Edmonton land assets. This Director needs to be a seasoned real estate asset manager with some experience in the public sector. All development managers would report to this individual and this person would act as a liaison on the REAC. This Director, as a one-stop shop with clear authority and accountability, would ensure transparency for all City-wide development and work closely with the REAC to develop equitable solutions for the City's underutilized land assets. This Director would be complemented by a team that will have clear objectives and goals toward the City's land assets mandate. This team will have the knowledge to develop project plans with proforma and the market in mind.

The City has all of the tools to accomplish its mandate without a for-profit MDC. Council does not need to direct Administration to create an MDC to refurbish land, clear up contamination, complete rezoning or facilitate development permits to provide value creation. The City can accomplish this internally without exposure to development risk which may minimize profit and could become a financial liability for the City and its tax payers. With serious consideration of developing a Land Assets department and collaboration with the private sector through the REAC, the City can accomplish their development goals without the additional risk of a MDC, and through the REAC be reminded of real work business applications particularly the time value of money and proceeding with projects in a timelier manner.



Additional benefits of an internal model:

- i. An internal model can deliver the same outcomes for \$2.8 million, roughly \$1.7 million less than the proposed MDC.
- ii. An internal model can begin initiation within three months, as opposed to the lengthy required startup of an MDC.
- iii. An internal model does not require Ministerial approval.
- iv. An internal model can be organized to be more sustainable than an MDC.
- v. An internal model in collaboration with the REAC provides access to a wealth of local expertise across all discipline sectors of the market for the greatest breadth of knowledge at the least amount of fiscal risk.
- vi. An internal model works in concert with the private sector and does not impact Edmonton's current business model.

Through the establishment of an expert Land Assets department, and in collaboration with stakeholders vested in building a great City we can begin to develop a Real Estate Centre of Excellence. This is where best in class northern city design principles and construction implementation practices will be developed and promoted. The investment to build Edmonton requires a combination of private and public cooperation, and developing this Centre of Excellence is the best avenue to achieve great City Building Outcomes.

Consultation Successes

Through the exploration of an MDC, there have been several successes that the industry committee would like to acknowledge.

First, the City of Edmonton now has a much improved understanding of all its land assets. Unveiling the City's inventory is a great first step in developing a plan to best utilize these assets.



Second, City Administration has committed to incorporate industry input at two levels of its land review process. This includes input in the initial property sort, as well as prior to disposal (if the land is deemed surplus).

Finally, Administration has committed to the formalization of a business advisory committee that will provide private sector expertise and experience, innovative practices and sound business recommendations to best utilize the City's lands. The industry committee looks forward to continued collaboration with Administration and to finding valuable solutions to utilize these surplus lands on behalf of all citizens.