

MDC – Stakeholder Feedback

Edmonton area developers and home builders are cautious with various concerns, mostly about the role and mandate of an Edmonton MDC.

(Excerpt from Business in Edmonton magazine, September 2015 - "Waiting for the MDC")

Following Council's request on January 25, 2015, to provide a business plan for a municipally-controlled, for-profit land development corporation, the City of Edmonton's Administration proceeded with a stakeholder engagement and consultation plan. The key stakeholder group identified was the private development community within Edmonton and the region.

In order to facilitate contact with this stakeholder group, external real estate consultants with direct experience in developing and operating an MDC, organized the consultation process and reached out to Edmonton's development community. All engagement and consultation occurred in face-to-face meetings.

Industry engagement and consultation began the week of June 8, 2015, and concluded on July 13, 2015. This included individual meetings between the real estate consultants and specific developer groups and two broad industry engagement sessions open to any interested developers. Industry associations followed up with members to ensure their active participation. Meetings were held with members of various organizations and companies in the development field including the Commercial Real Estate Development Association (NAIOP), the Urban Development Institute (UDI), Building Owners and Managers Association (BOMA), Canadian Home Builder's Association (CHBA) and the Edmonton Chamber of Commerce.

The purpose of these meetings was to present the City's overall direction, explain the principles guiding the development of an MDC business plan and to receive industry input. Industry comments, questions and concerns were documented and shared with all participants of the June 22 and July 13 sessions, including people not able to attend.

On June 22 and July 13, 2015, Administration organized stakeholder meetings and invited all interested members from Edmonton's development community. At the June 22 meeting, 18 representatives from Edmonton's development community provided their input on the concept of the City of Edmonton developing a municipal development corporation. For July 13, representatives of Edmonton's development community were invited to share their questions and concerns before the meeting. This allowed the City to respond to several of the questions beforehand, and insert them into a handout distributed at the meeting.

Summary of Key Themes

Following are the key themes from the stakeholder meetings.

The City will compete with private developers if an MDC is established

This was a major issue in all meetings. There is a strongly-held view that the City wants to look for an opportunity to generate revenues by increasing its development footprint and, as a result, directly compete with private developers. As well, the point was repeatedly made that the City's government status gives it several competitive advantages over the private sector. They are concerned about the tax rate -- private developers are taxed at 25 per cent of their profits and the MDC won't be subject to the same tax structure. They also believe that there is an inherent conflict of interest in establishing an MDC as the City has both policy and land use planning authority over development.

There is lack of clarity on what the City wants to achieve

In several of the stakeholder meetings private developers questioned the City's motives in developing a business plan for an MDC. Developers asked whether the primary purpose of an MDC was to develop another revenue stream for the City or to achieve its city-building objectives. Some people did not believe the two concepts could necessarily work together and that the real purpose behind the MDC must be clearly defined before the City moves forward. There is the perception that once the purpose is clarified, that an MDC may not be the best course of action.

Industry perceives the municipal development corporation to be a "done deal"

Comments received on this issue really reflected the degree of distrust that some members of the private development community have toward the City based on previous experiences. Many stakeholders believe that the City has already decided to create an MDC despite input from the private sector against this approach. In a few meetings, there was some skepticism that the City sincerely wanted to hear from developers and that their input would change the City's direction and actions.

Concern that future City Councils may change the purpose and role of an MDC

A major concern expressed was that future City Councils may choose to change the purpose and direction of the MDC. Private developers believe there is significant risk that while this concept may begin properly, it would move substantially over time to more actively compete with the private sector. Stakeholders repeatedly stated that despite any initial promises and

commitments made to the private development community, there is high potential for scope creep beyond what the initial MDC mandate.

Distrust among some members of the development community

There is a fundamental distrust of the City's motives in creating and implementing the MDC. The broader development community generally does not trust the City based on previous development and land deals. Adding to this distrust is the perception that the City of Edmonton should have consulted with industry before Council directed Administration to develop a business plan for an MDC. The concern is that the City will develop on its own and not with private sector partners.

Industry willingness to address City land issues and needs

In all meetings, several private sector members offered to work with the City to help it address and find solutions for using City-owned land more effectively. Some people requested more clarity about the City's development objectives as the first step to identify how industry might further partner and assist the City. There is a willingness on part of the development community to help the City achieve the best value for land.

Feedback from stakeholder meetings

First meeting: NAIOP Edmonton (week of June 8)

General discussion occurred on: the progress and work that had been done to date on the development of the MDC; the roles and responsibilities of Deloitte, City Administration and real estate consultants; and the draft of the key principles that the external team of real estate consultants had developed. Participants also provided comments on the potential benefits and risks to the City of Edmonton. They focused on the need to work with the private sector in the development of sites that would be brought forward through the MDC. NAIOP also believes the MDC should not be in a position to purchase new property that is not adjacent to existing sites being considered for development.

The main issue from the discussion, and a recurring theme during all meetings, was that the City had not consulted with the broader Edmonton real estate and development community on such a major initiative. Furthermore, there is the strong belief that the MDC would compete with private developers in Edmonton.

Attendees were given contact information for officials who have knowledge and direct experience with the Build Toronto MDC and can speak to its development both before and after it was established.

Second Meeting: Real Estate Constituent Groups (week of June 8)

Fifteen representatives from UDI, NAIOP Edmonton, BOMA Edmonton, the CHBA Edmonton Chapter and the Edmonton Chamber of Commerce real estate groups in Edmonton attended. The session was hosted by UDI Edmonton at its offices.

The external real estate consultants described the overall project and the process that the City is using to review the potential establishment of an MDC. A structured discussion occurred on the risks and opportunities of an MDC for Edmonton, and what implications, positive and negative, could be expected from an MDC.

Third Meeting: The Development Sector (week of June 8)

Nine of Edmonton's private developers, with a long history of development work in Edmonton, met with the real estate consultants. The following are the key points from the discussion:

- Concern that the City of Edmonton had not consulted them prior to considering the establishment of an MDC.
- Belief that there is an inherent conflict of interest in establishing an MDC as the City has both policy and land use planning authority over development.
- A healthy and competent development community in Edmonton has the capacity to develop any lands that the City wants to dispose of or declare surplus.
- There is high potential for scope creep exists beyond what the initial mandate is to create the MDC and the initial promises and commitments made to the private development community.
- The City should not share in any value uplift on the development of their lands; this should be left entirely to the private sector.
- Risk to taxpayers is inherent in the development process; taxpayers should not have to foot the bill for any mistakes that are made in the process.
- There is fundamental mistrust of the City's motives in creating and implementing the MDC, citing previous development and land deals.
- There is political risk that this concept will start properly but would move substantially over the course of time to more actively compete with the private sector.
- The City should focus on enhancing its internal asset management capacity and give Administration more tools and creativity to up-zone sites or clean up contaminated sites, and bring underutilized sites into production.
- If the City wants to engage the development community, they are willing and able to provide some ideas and concepts that could improve the capacity and ability of the City to create value and yield city-building opportunities in the sale of surplus lands.

- The development industry does not support the City being involved in any profit making activity related to its real estate and does not believe that it should establish an MDC.

Fourth meeting: June 22 Stakeholder Meeting

Eighteen representatives from Edmonton's development community provided their input on the concept of the City of Edmonton developing a municipal development corporation. The following are comments and questions recorded at the meeting:

- Is the objective, "how do we (City) do an MDC right?" or is it "how do we (City) dispose or use land that we currently own?"
- Objectives have to be clearly defined. If the MDC is another way to get revenue, like parking, the City should be up front about that.
- The profit motive seems to be what's driving the MDC forward, and this isn't the way to get things off the ground. There are many other methodologies to address the City's needs.
- There is no need to create MDC; use existing models.
- Developers already work in partnership with the City to build this city. Developers provide the risk capital. Why, when this is already happening, would the City decide to establish an MDC? There is a problem with the lack of clarity on what the City wants achieve.
- Is the City looking at the residential, commercial and industrial development side? Is the City planning to go all the way and construct residential? Is the plan to build those assets up and lease them out?
- Confidentiality would be a concern if private developers worked with an MDC.
- There is confusion with the "for profit" angle when the City is dealing with cleaning up sites and significant infrastructure investment.
- Is civic infrastructure renewal part of the outcome for an MDC, e.g. sewers, libraries?
- Blatchford was treated very differently than how private sector development companies would have handled the same issue. The City managed to do things and make commitments and then step away when the costs became too high; something the private sector couldn't do as easily. Originally Blatchford included plenty of amenities, as part of the original Area Structure Plan, but then a year later, all of these things disappear. A private sector developer would not be able to get away with this.
- Not sure how the City is going to handle property taxes in the long term with an MDC.
- How are the "easy" sites stopped from going into the MDC?
- From a ratepayer perspective, there is a concern that the City is taking on a high level of risk when that is the role of industry; that simple City-owned sites do not go into an MDC, but complex sites.

- A concern about how MDC properties are identified in the future, and who identifies those properties, was expressed.
- The Journal recently had an article on the City receiving social housing sites near future and existing LRT stations. This gives the City a huge advantage over the private sector.
- If one looks at what's happened on Whyte Avenue, it's a perfect place to create communal housing. These social groups cannot make a profit and there's a place for the City to build this type of housing there. First Place is another example. An MDC works on those two platforms. But, the question is: will the City reinvest profit in the areas where it came from or will it reinvest those profits in the overall City? It should be reinvested in the specific areas.

Fifth Meeting: July 13 Stakeholder Meeting

Fourteen representatives from Edmonton's development community met with Walter Trocenko, Branch Manager, Real Estate, Housing and Economic Sustainability, City of Edmonton. The consensus of developers who attended the session was to have a general discussion and for people to ask questions of Mr. Trocenko. The following are comments and questions recorded at the meeting:

- Council has a significant agenda for city-building ... Council has explored other avenues like provincial and federal funding...but it's not fair to creep into private sector territory for city-building objectives they can't afford to fund.
- It is frustrating that over the years the City has asked for development proposals and design proposals and developers respond and nothing comes of it...or the City picks best options from all proposals ...and the City wonders why industry stops responding.
- Putting city-building and an MDC in the same pot is a dangerous scenario.
- Councillors need to think of the most efficient way of doing this and ensure they are market-aware and are good financial stewards of taxpayers' money and not have the MDC be a financial drain on the City.
- An MDC will be similar to Epcor, but Epcor had a significant revenue stream.

Conclusion

City Administration's and external real estate consultants' engagement activities gathered significant feedback from the Edmonton and region private sector development community. The City recognizes that the stakeholder group is uneasy with, and in many cases opposes, the City establishing any type of MDC. Some private sector developers appear to be willing to consider an MDC that has a mandate focused on city-building objectives rather than generating revenues. The report submitted to City Council reflects the comments received from the

development sector. The MDC models proposed in this report were informed by the engagement process and reflect the sensitivities and challenges of a municipally-controlled, for-profit land development corporation.