

DOWNTOWN WORKSPACE OPTIMIZATION

Recommendation

That Executive Committee recommend to City Council:

1. That capital profile 24-10-0400 - Downtown Workspace Optimization, as outlined in Attachment 1 of the March 5, 2025, Integrated Infrastructure Services report IIS02821, be approved.
2. That sales proceeds and operational savings resulting from the disposition of Century Place and Chancery Hall, as outlined in Attachment 2 of the March 5, 2025, Integrated Infrastructure Services report IIS02821, be redirected to the Interim Financing Reserve until the \$22.7 million of capital costs financed on an interim basis have been recovered.
3. That Attachments 2, 3 and 4 of the March 5, 2025, Integrated Infrastructure Services report IIS02821 remain private pursuant to sections 24 (advice from officials), 25 (disclosure harmful to economic and other interests of a public body) and 27 (privileged information) of the *Freedom of Information and Protection of Privacy Act*.

Requested Action	Decision required		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	Healthy City		
City Plan Values	Preserve		
City Plan Big City Move(s)	A rebuildable city	Relationship to Council's Strategic Priorities	Conditions for Service Success
Corporate Business Plan	Managing the Corporation		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> ● C598A - Asset Management ● C627A - Climate Resilience Policy ● Asset Rationalization Framework ● A1403A - Maintenance of City-Owned Facilities ● A1407B - Provision of Office and Special Purpose Accommodation for Civic Staff 		

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Related Council Discussions

- January 27, 2009, 2008TPW7012, Civic Accommodations Planning Services, Transportation and Public Works Committee
- November 19, 2013, Sustainable Development report CR_386, Downtown Accommodation Planning - Additional Information
- June 20, 2012, Sustainable Development report 2012SCO919, Accommodation Planning
- October 12, 2022, Integrated Infrastructure Services report IIS01349, Rationalizing and Right Sizing Municipal Assets
- October 13, 2023, Integrated Infrastructure Services report IIS01767, Asset Rationalization Framework and Pilot
- December 2, 2024, Financial and Corporate Services report FCS02530rev, Supplemental Capital Budget Adjustment - 2023-2026 Capital Budget

Previous Council/Committee Action

At the December 2/3/4/5, 2024, City Council meeting, the following motion was passed:

That Administration provide a report to Council through Committee regarding Downtown Workspace Optimization, as outlined on page 1 in Attachment 4 of the December 2, 2024, Financial and Corporate Services report FCS02530rev, that includes:

- a. various disposition options, including demolition and future sales;
- b. impacts on related projects including downtown district energy and the Winspear expansion projects;
- c. a breakdown of costs related to staff relocations (IT Infrastructure relocation, office moves, facility modifications and Edmonton Tower capital investments); and
- d. a summary of required capital investments at Century Place and Chancery Hall for the next 10-20 years.

Executive Summary

- The Downtown Workspace Optimization project aims to dispose of Century Place and Chancery Hall and to relocate employees primarily to Edmonton Tower and other existing City-leased and owned buildings.
- This project aligns with the Asset Rationalization Framework and presents an opportunity to divest assets that are no longer corporately required and require significant investment to maintain and modernize.
- Divestiture will result in capital and operational savings.
- The total project cost is estimated at \$22.7 million, with the funding source listed as the Interim Financing Reserve, to be repaid with sales proceeds and operating budget savings from the disposition of Chancery Hall and Century Place.
- The project scope of work will include reconfigurations to optimize Edmonton Tower and other locations, staff moves (up to 3,000 employees impacted) and relocation of the City's data hub network.

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- The intent is to utilize existing spaces and minimize renovations. Furniture and equipment will be moved and reused where feasible.
- Per the scope of the Downtown Workspace Optimization project, Administration will list both properties on the open market before starting the relocation work of employees.
- Additional approaches were considered but are less advantageous due to financial considerations and impacts on related projects such as Downtown District Energy and the Winspear Expansion.

REPORT

The disposition of Chancery Hall and Century Place has been contemplated since 2009 when the Downtown Civic Accommodation Plan was initiated and approved by Council. As part of the plan's implementation, and the move to Edmonton Tower in 2017, Administration committed to continuing to seek opportunities to reduce the City's real estate footprint with the eventual disposal of Chancery Hall and Century Place. The disposition strategy was confirmed through the development and application of the Asset Rationalization Framework.

Administration is seeking approval to create a standalone capital profile for the Downtown Workspace Optimization project. The total project cost is estimated at \$22.7 million, and the funding source is listed as the Interim Financing Reserve, with eventual repayment from future sales proceeds and operating cost savings, as described in Attachment 2 (Private).

Renewal Funding Gap

As of year-end 2022, the City had a total asset replacement value of \$34.7 billion. The City's large inventory of capital assets means it has extensive renewal responsibilities to keep all its infrastructure in working order. This sizable responsibility demands cost-effective decisions about when and how to maintain, repair, renew and replace the vast network of assets that serve the diverse needs of a steadily growing population. The City's renewal responsibilities are typically in excess of the City's revenue-raising capacity, which contributes to its fiscal gap.

The City's total renewal investment requirement over 2023 to 2032 is \$8.37 billion, with annual requirements in the range of \$721 million in 2023 to \$1.02 billion in 2032. Over the 2023 to 2026 capital budget cycle, the required renewal investment is \$3.58 billion. As of the spring 2024 supplementary capital budget adjustment (SCBA), only 57.5 per cent of the City's ideal renewal need was funded in the current budget cycle.

Currently, 60.1 per cent of the City's facility assets are considered to be in Fair condition and approaching the end of their lifecycle. Of those assets in Fair condition, approximately one third will fall into Poor condition over the next 10 years. Based on analysis supporting the 2023-2032 Capital Investment Outlook, the ideal investment to keep the entire portfolio of facilities assets in an optimum physical and functional condition is estimated at approximately \$2.2 billion over the next 10 years. In this circumstance, it is prudent that options for rationalizing and rightsizing municipal assets are explored. The need to evaluate and rightsize municipal assets is essential to ensure Edmonton can support its current assets and have the right framework in place to support the growth of the population.

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Case for Disposition

Century Place is 51 years old and Chancery Hall is 59 years old. Both buildings require significant investment to maintain and modernize, keep in good working order and achieve the City's climate resilience goals. Repairs are becoming increasingly complex and costly system replacements will soon be required.

Facility systems should be renewed at certain intervals as part of asset management best practices. Building renewal includes work to extend the service life of certain systems (e.g., elevators, building envelope, etc.) and replace certain components that have reached the end of their service life (e.g., electrical systems). The estimated capital investments required in the short-term and over the next 10 to 20 years for Century Place and Chancery Hall include amounts for both lifecycle renewal of facility systems and required floor renovations. Attachment 3 (Private) provides additional information on the required capital investments.

Additionally, with the adoption of hybrid work, office spaces across the corporation are underutilized as allocations do not fully reflect the impacts of hybrid work. Approximately 1,350 City employees work out of Century Place and Chancery Hall and can be moved to other existing City-owned or leased facilities. A space analysis has been completed, and it has been determined through space optimization, staff at Century Place and Chancery Hall could be accommodated within existing City spaces. Staff will be relocated primarily to the Edmonton Tower. In addition, a smaller amount of staff will be relocated to other existing City leased or owned spaces. This will include optimization of City Hall and Kathleen Andrews Transit Garage office space.

The move will provide opportunities to consolidate space, reduce operating and maintenance costs and eliminate future capital renewal expenses upon the sale of the buildings. The goal of the Asset Rationalization Framework is to create a consistent asset management process to guide lifecycle decision making for infrastructure assets. Disposal is a key activity to ensure the City maximizes value from its asset base and optimizes the allocation of limited available funding so it is not spent on assets that no longer meet service requirements. The framework and sound asset management practices indicate selling the properties offers more value to the City, allowing for a reduction in Edmonton's asset portfolio while also providing opportunities for more vibrancy through the redevelopment of these buildings in the heart of downtown Edmonton.

Relocation Scope of work

The total project cost is estimated at \$22.7 million with a level of accuracy of -15 to +20 per cent. The project cost reflective of the current phase of the project which is Project Development and Delivery Model Checkpoint 3 with preliminary design and analysis completed.

While this project has associated costs, the intent is to work within existing spaces with minimal reconfiguration. For example, at Edmonton Tower, the intent is to maintain existing footprint, layout and furniture and ensure full utilization each day of the week. Reconfiguration of floor templates will be limited to legislated requirements pending the type of service or where the space has not been previously configured to City standards. Existing furniture from Century Place and Chancery Hall will be used or moved to alternative spaces. The specific scope of work includes:

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- Edmonton Tower (approximately \$7.2 million)
 - Design and construction of limited modifications and reconfigurations to meet legislated requirements or City standards. This will include reconfigurations to address document and conversation privacy requirements (e.g., human resources and legal services functions) and ensure adequate meeting spaces throughout the building.
 - Purchase furniture and equipment to adequately support staff, such as additional lockers for staff daily storage use.
- Facility Modifications (approximately \$6.5 million)
 - Design and construction for modifications and reconfigurations required to optimize the space at City Hall, Kathleen Andrews Transit Garage and other locations. This will include renovations of underutilized spaces at City Hall and reconfiguration of other select work areas for densification to generate additional workspaces.
 - Purchase of furniture and equipment to adequately support staff.
- Office Moves (approximately \$5.2 million)
 - As many as 3,000 staff will need to move to a different location (building or floor).
 - The cost for the move includes relocating equipment (e.g., monitors and chairs), dismantling, moving and reinstalling existing furniture for reuse in a new facility, and box moves of files, resources and personal items.
- IT Infrastructure Relocation (approximately \$3.8 million)
 - Century Place is a critical central hub for the City of Edmonton's IT infrastructure, including network connectivity, traffic systems and broadband wireless functions - all of which must be redistributed to maintain City operations.
 - Aggregates City-wide fibre connectivity, including the Light Rail Transit network.
 - Supports key services for Edmonton Public Library and Edmonton Police Services.
 - Provides connectivity for 160 traffic signal and traffic control devices and major sites, such as Commonwealth Stadium, Poundmaker, Century Place and other key City locations.
 - Relocation Plan:
 - Establish a new wireless hub at Edmonton Tower to replace Century Place.
 - Augment Wi-Fi coverage in affected areas, such as Churchill Square.
 - Retain or replace fibre connections to critical facilities to ensure seamless service.

The project costs include dedicated project resourcing and an allowance for change management and communications to ensure staff are aware of the change and supported as the project progresses.

Disposition of Chancery Hall and Century Place

Market Options

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Reuse: Edmonton's downtown office market vacancy rates are hovering around 20 per cent¹.

The downtown vacancy rate has been consistent over the past five years and is expected to continue, at least in the short term, due to limited demand and an oversupply of office space. Demand is lower for older buildings such as Century Place and Chancery Hall, and sale prices may be impacted as a result.

Conversions: Administration provided contextual background and history on office tower conversions in Edmonton to the Urban Planning Committee through the Urban Planning and Economy Report UPE01864, on October 31, 2023. Since then, one conversion project has begun, turning several floors of the Phipps-MacKinnon building into 90 residential units. The Phipps-MacKinnon project is the fifth downtown conversion since 2017, which together have created a total of 749 new residential units, and reduced the overall downtown office supply by nearly 700,000 square feet.

These conversions also make efficient use of existing infrastructure and services. However, the physical characteristics of many older buildings make them challenging and costly to adapt for residential purposes. Developers face several obstacles, including engineering issues, high construction costs, competition from newly constructed buildings on vacant land, and unforeseen risks that may emerge during the conversion process.

Disposition Approaches

A number of potential disposition approaches for Century Place and Chancery Hall have been identified, and their impacts have been evaluated. There are two preferred options: list properties and start employee relocation or sell the properties in advance of employee relocation. The approach will be determined based on initial interest in the listing.

List Properties and Start Employee Relocation

The first approach to dispose of Chancery Hall and Century Place is to move forward with listing both properties on the open market before starting the relocation work of employees, per the scope of the Downtown Workspace Optimization project.

Concurrent listing has the potential to optimize the City's downtown workspace footprint and reduce maintenance and operating costs in the shortest timeframe and lessen the risk of emergent capital investments in these buildings, but requires significant expenses be incurred in advance of knowing the proceeds of disposition. Without assurance of what value the buildings may be sold for and when those transactions may close, there is a risk that additional funding may be required at a later date if the buildings are sold for less than the expenses incurred.

An approach that lists the building for a period of time prior to starting the relocation will allow Administration the ability to assess the likelihood of sale. Administration intends to list the buildings after the advancement of the District Energy bylaw. Following this, the buildings would be listed in the latter half of this year. Administration will engage the services of an external real estate advisor to leverage market knowledge and reach a national audience for maximum

¹CBRE Edmonton Office Figures Q4 2024 Report
https://mktgdocs.cbre.com/2299/f33cfcab-6cd8-426c-8a95-9d6b174cbce1-190031142/Edmonton_Office_Figures_Q4_2024.pdf

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exposure. If there is insufficient interest in the properties, Administration will move to restrict expenditures by holding off on staff relocation until the disposition is more certain. If Administration determines there is sufficient market interest in the properties, Administration will commence the work to support employee relocation. With the timeline on the relocation work dependent on the listing, the cost of the relocation scope may escalate before it is started and the budget may need to be adjusted.

Sale of the Properties Before Relocation of Employees

An alternative approach for disposition would be to sequence the sale of the properties ahead of the relocation of employees.

Preparations for relocation would wait until sales agreements are in place. This would alleviate the uncertainty of what might happen if the buildings do not sell and confirm the final funding required from the Interim Financing Reserve. The City would pursue strategies to mitigate additional costs including extending transaction closing dates to accommodate the staff relocation. The risk with this approach is the increase in operating, maintenance and capital renewal costs to maintain the buildings in a condition suitable to its occupancy before the sale.

Other Options

Other options were considered but deemed either undesirable or unfeasible for the City. This included consideration of long-term leases and demolition and sale of the properties.

A long-term lease in which the City retains ownership but leases to third parties would be less advantageous to the City than selling the properties. As the building's landlord, the City would be expected to cover all capital costs and expenditures. Furthermore, considering the current downtown market conditions, most tenants would also require a Tenant Improvement / Incentive Allowance (TIA) to occupy and improve the space. In this scenario, not only would the City incur relocation costs, but also the projected capital renewal costs and tenant improvement allowances.

Also considered was the option in which the City could demolish the buildings and sell the properties. Demolition of Chancery Hall and Century Place would be highly challenging and costly. In addition to the cost of demolition, significant costs would be associated with relocating the Downtown District Energy piping infrastructure and parkade access for the Winspear Centre through the below grade structure of these buildings. To fully understand these costs, a detailed analysis would be required. Demolition would also have significant impact, short or long term, on the Downtown District Energy Initiative, as both buildings are anchor loads to the district energy system and both buildings are the suggested pathway that will open the opportunity for necessary growth of the initiative.

Demolition would only be explored if all other approaches failed to provide the desired outcome. Demolition of the buildings by the City would be a last resort.

Impacts on Related Projects

Downtown District Energy Initiative

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As identified in Edmonton's District Energy Strategy, downtown is a priority opportunity area for district energy development. The Downtown District Energy Initiative is a City-owned district energy system in downtown Edmonton, with a phased development and construction approach envisioned to serve approximately 50 buildings and two new developments (Station Lands and Village@Ice District).

At present, the City and EPCOR (through a design-build, finance, operate and maintain agreement) are delivering Phase 1 of the Downtown District Energy Initiative. This initiative includes the construction of a central energy centre within a purpose-built district energy building at Winspear, as well as connections and the provision of thermal energy to Winspear, Century Place and Chancery Hall. Construction of Phase 1 started in 2024, with utility operations expected to start in Q3 2025.

The Winspear, Century Place and Chancery Hall are foundational to the Downtown District Energy Initiative, serving as anchor loads to the district energy system. Pipeline connections in Century Place and Chancery Hall parkade and pedways enable future growth.

With the disposition of Century Place and Chancery Hall, preserving these buildings as anchor loads to the district energy system is anticipated to be accomplished through a bylaw scheduled to come forward to Council in late Q2 2025. This bylaw would mandate both buildings or future developments on these lots (if buildings(s) were demolished) to connect to the district energy system and in addition would provide initial utility rate considerations.

The most significant impact of disposition would be if the buildings were demolished:

- Capital and System Growth — Rerouting the distribution piping would require a significant investment of new capital and delay the system's growth. To mitigate this risk, easements will be established to protect the existing distribution piping routing.
- Utility Revenue — Any transition would temporarily reduce revenue from these buildings.
 - Administration is working to establish a Utility Fiscal Policy and utility rates ahead of the beginning of utility operations. This report will provide more clarity on the Utility's financial performance and is anticipated to be presented in late Q2 2025.
 - Any future change in building usage could also have an unknown revenue impact due to potentially different thermal energy load requirements.

Winspear Centre Expansion

The potential impacts of the Downtown Workspace Optimization project on the Winspear Centre Expansion project are discussed in Attachment 4 (Private).

Next Steps

If the recommendations are approved, Administration will proceed with listing both properties on the open market before starting the relocation work of employees, per the scope of the Downtown Workspace Optimization project.

If the proposed sale terms are outside of Administration's delegated authority limits of \$5 million, Administration will return to Executive Committee for approval of a sale agreement for Chancery

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Hall and/or Century Place. If the proposed sale terms are within Administration's delegated authority, Administration will provide a further update through a memorandum.

Budget/Financial Implications

The budget request for the Downtown Workspace Optimization project is \$22.7 million. The costs would be paid using the City's working capital funds (tracked through the Interim Financing Reserve), with eventual repayment through sales proceeds and operating budget savings from the disposition of Chancery Hall and Century Place. Timely disposition at market value is necessary to ensure the Interim Financing Reserve is repaid.

Should disposition not occur during the 2027-2030 budget cycle, the payback period will vary significantly from full payback by 2031. At that point, Administration will recommend repayment of the Interim Financing Reserve through an alternate capital funding source such as Pay-As-You-Go. Administration will monitor the sales process and return within the supplementary budget adjustment processes if a change in approach is determined necessary.

A copy of the capital profile has been included in Attachment 1. With the timeline on the relocation work dependent on the listing, the cost of the relocation scope may escalate before it is started and the budget may need to be adjusted. Administration will return within the supplementary budget adjustment process if a change to the budget is necessary.

Attachment 2 provides details of the Downtown Workplace Optimization project, including project timelines and further discussion of the financing strategy, including risks and mitigation strategies.

Legal Implications

District energy utility infrastructure located within the Century Place and Chancery Hall parcels can be protected by way of easements registered against title.

Connection to the district energy system can be mandated by a bylaw requiring each building to connect to and pay for the district energy service.

Community Insight

Both Chancery Hall and Century Place are not public-facing facilities. They support back-of-house operations and house internal staff. Part of the Downtown Workspace Optimization project will encompass a large change management component to support those affected by the project.

GBA+

- Gender-Based Analysis Plus (GBA+) considerations, such as universal accessibility, are essential in the planning and design of infrastructure projects, including those intended for City of Edmonton staff.
- As projects advance, best practices, staff engagement and other research will inform the requirements to ensure that Administration considers equity in the design and construction of infrastructure.
- GBA+ is conducted through the development of the engagement plans and identifies input that will help shape the plans and designs for this project. The process supports identifying any

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stakeholders who may be impacted by the project.

- A detailed GBA+ review of Edmonton's infrastructure projects is commonly initiated during a project's planning and design phases.
- The input gathered often leads to the incorporation of equity measures that enhance the accessibility and usability of City of Edmonton staff.

Environment and Climate Review

The City is committed to climate resilience through ConnectEdmonton and The City Plan's strategic direction. Specifically, The City Plan's intention to support Edmontonians' transition to a low carbon future in their daily lives will be required to meet the 2050 carbon neutrality target for community emissions outlined in the 2023-2026 Carbon Budget.

The sale of Chancery Hall and Century Place could have climate impacts in the following ways:

- The Downtown District Energy Initiative (DDEI) includes both the Chancery Hall and Century Place buildings. This high-priority site meets the District Energy Strategy criteria, as the buildings are located in a high-density area and close to an existing, developing, or planned central energy centre at the Winspear Centre. The District Energy Strategy is key to reducing community emissions as per the City's Community Energy Transition Strategy. By securing mandatory district energy connection through a bylaw scheduled to be put forward to Council in late Q2 2025, Administration could protect key district energy infrastructure to maintain the City's commitment to the District Energy Strategy.
- The sale would result in lower greenhouse gas (GHG) emissions liability for the City and would require an update to the City's emissions baseline that would see lower total corporate baseline emissions. As a result of this baseline restatement, there would not be any GHG emissions reductions as part of the sale, only reduced emissions liability for the City.
- The City's commitment to hybrid work arrangements through the sale and redeployment of employees to existing City-owned office spaces continues to support climate resilience by reducing in-office commuting days and associated transportation-related GHG emissions. Additionally, as all staff would remain centrally located and maintain convenient access to public transportation, this could incentivize employees to choose active and/or public transportation modes of travel rather than relying on personal vehicles for their commutes to the office.
- The sale and potential repurposing of Chancery Hall and Century Place for housing or new mixed-use infill development could increase density and lower future GHG emissions over the long-term.

While increased density can have impacts on the environment through urban heat island effects and reduced biodiversity, the implementation of natural infrastructure and adherence to the City's Climate Resilience Planning and Development Action Plan will help mitigate these effects.

Attachments

1. Capital Profile 24-10-0400 - Downtown Workspace Optimization

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2. PRIVATE - Downtown Workspace Optimization
3. PRIVATE - Capital Investments
4. PRIVATE - Winspear Centre Expansion