COUNCIL REPORT

Edmonton

DEVELOPMENT INCENTIVE PROGRAM

Recommendation

That the March 5, 2025, Urban Planning and Economy report UPE02251, be received for information.

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	THRIVE.		
City Plan Big City Move(s)	A rebuildable city Catalyze and converge	**Relationship to Council's Strategic Priorities**	15-minute districts Economic Growth
Corporate Business Plan	Transforming for the future		
Council Policy, Program or Project Relationships	• C553C - Development Incentive Program • Development Incentive Program		

Previous Council/Committee Action

At the November 21/22/27/28/29, 2023, City Council - Budget meeting, the following motion was passed:

> That Administration provide a report for the reinstatement of the Development Incentive Program including recommended improvements to better contribute to the implementation of City Plan.

Executive Summary

- This report outlines two new programs that could replace the Development Incentive Program (DIP). Should Council wish to implement these programs, a Council motion is required to direct funding of up to $700,000 ongoing (for both programs) in the Fall 2025 Supplemental Operating Budget Adjustment or the 2027-2030 Budget process ($300,000 to fund the Commercial Vacancy Reduction Program and $400,000 for the Commercial Redevelopment Program).

- A motion would also be required to rescind City Policy 553C - Development Incentive Program, which will be replaced with an Administrative Standard for each new program.
- Previously, DIP had two grant streams: one to reduce ground floor vacancies in commercial spaces in Business Improvement Areas (BIAs) and one to support the construction of new commercial or new mixed-use buildings within BIAs. DIP was closed in 2023.
- DIP could be replaced by two new programs with similar intent but that better contribute to the implementation of The City Plan: a Commercial Vacancy Reduction Grant and a Commercial Redevelopment Grant. Key changes for each program include:
    - The maximum reimbursement grant available for interior improvements under the Commercial Vacancy Reduction Grant would be increased from $20,000 per commercial unit to $30,000 per commercial unit to better reflect the cost of renovations and the current economic context (e.g., inflation, interest rates). Program eligibility would remain in BIAs.
    - The maximum reimbursement grant available for new commercial or mixed-use buildings under the Commercial Redevelopment Grant would be increased from $200,000 to $400,000 for either building type to better reflect the cost of construction. The area of eligibility would be expanded to include BIAs, as well as Priority Growth Areas and areas within 800m of LRT stops (see Attachment 1), complementing the residential-focused Infill Infrastructure Fund.
- The economic benefits of the new programs include stimulating private sector investment in priority communities within the city, creating jobs through construction, reducing commercial vacancies by enabling empty spaces to be renovated to accommodate new business users, adding to the liveability and adaptability of districts, and contributing to increased property valuations.

REPORT

The Development Incentive Program (DIP) was originally created to encourage commercial and residential density within BIAs, as well as two other specially designated Council-approved areas: Little Italy and Norwood Boulevard.

The program offered two reimbursement grant streams, each covering 50 per cent of eligible costs up to a set maximum amount.

- The *Interior Building Improvement Program* helped business and property owners cover the costs to renovate and occupy empty ground floor commercial units. The maximum grant amount was $20,000. The intended outcome of this funding was to reduce the financial barriers to renovating chronically vacant commercial spaces. These renovations were needed because of deferred maintenance, changes of use, Building Code compliance and upgrades required to accommodate new business tenants.

- The *New Commercial and Mixed-Use Development Program* encouraged the construction of new street-oriented commercial or mixed-use buildings. The maximum grant amount was $100,000 for commercial buildings and $200,000 for mixed-use buildings. The intended outcome of this funding was to encourage investment in main street areas by helping to financially de-risk commercial redevelopment projects while allowing the City to have some influence in the design and features.

DIP was launched in 2009 with an annual budget of up to $750,000 before the program ended as part of the Fall 2023 Supplemental Operating Budget Adjustment. The last DIP policy and procedure updates were completed in 2018. Edmonton's City Plan was approved in 2020. At the time that DIP ended, it had supported 55 interior renovations ($1 million total in grants generated $8 million in private investment) and 15 new commercial or mixed-use construction projects ($2.3 million total in grants generated $82 million in private investment).

Current Conditions

There are 13 BIAs in Edmonton, each representing businesses within a specific geographic area of the city. BIAs contribute to the city's vibrancy through business retention by promotion of their respective districts and members, visitor attraction, place-making and community activation such as events or enhanced services like cleaning. They are economic development partners for the City and investments in BIAs can help sustain a strong local economy.

Empty Commercial Storefronts

In Q3 2024, the commercial vacancy rate in Edmonton was 16.7 per cent,[1] while the commercial vacancy rate within the Edmonton region was 4.2 per cent.[2] Commercial vacancy rates vary between BIAs, with the minimum vacancy rates varying in Q3 2024 from 0.1 per cent in Fort Road to 12.13 per cent in Downtown.[3] This data only includes retail spaces that are being advertised, and it does not include vacant units that owners are not actively seeking to lease. Some BIAs, like Chinatown, the French Quarter and Old Strathcona, estimated that vacancy rates were as high as 20 per cent or more in late 2024.

The vacancy rate within a commercial area is an indicator of the area's overall economic well-being. A desirable commercial vacancy rate is between four and 10 per cent, which allows for renovations and turnover.[4] Too many empty storefronts can make a street seem less appealing to residents, investors and visitors. Studies show that areas with more empty storefronts may experience higher crime rates.[5]

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[1] Avison-Young. *"Edmonton Office Market Report Q3 2024."* Vacancy Direct for the downtown market.
[2] NAICommercial. *"Third Quarter Market Report 2024 Greater Edmonton Area."*
[3] City of Edmonton. https://www.edmonton.ca/business_economy/business-improvement-areas/business-improvement-area-contacts
[4] Uprichard, Lucy. *"How Empty Storefronts are Killing our Neighbourhoods."* The Walrus. July 19, 2021.
[5] Chang, Tom Y. and Mireille Jacobson. *"Research: When a Retail Store Closes, Crime Increases Around It."* Harvard Business Review, June 29, 2017.

On the other hand, main streets with a denser residential population and fewer commercial vacancies are linked to higher foot traffic and more opportunities for businesses to grow and expand. Redeveloped commercial units also tend to have lower lease rates overall than newly constructed units, and therefore tend to attract smaller or newer businesses and are often leased more quickly. Business owners report it costs more now to open a physical storefront than compared to five years ago.[6]

A Commercial Vacancy Reduction Grant can help to attract, retain and support the expansion of business within BIAs (see 2.2.1.5[7] and 3.3.1.2[8] of The City Plan), which aligns to the guiding value that "Edmonton's commercial areas support a diverse economy by attracting skills, talent and investment while supporting small business." While improvements to a commercial unit are beneficial to the business owner and property owner, they do not directly lead to an increase in property taxes. Should a business fail after a grant is issued, the investment has been made and stays in the commercial space itself.

Risks in Commercial Redevelopment

The City Plan anticipates and encourages more intensive population and employment growth within nodes and corridors. Recent changes made through the Zoning Bylaw Renewal enables this growth with the introduction of new mixed use zones, allowing more commercial uses in residential zones and streamlining approvals with more permitted uses. Current City initiatives such as the Infill Infrastructure Fund and the Priority Growth Area Rezoning focus on making residential redevelopment easier; however, there are no similar initiatives that focus primarily on commercial growth, densification and redevelopment. Commercial redevelopment that complements residential redevelopment supports 15 minute districts that allow people to easily meet their daily needs[9].

Other municipalities, such as the City of Saskatoon, offer similar commercial development incentive programs that reduce property taxes for a set length of time, usually five years.[10] Edmonton's reimbursement grant approach is unique in that it helps reduce the upfront risk for developers by showing the City supports a project through a committed reimbursement grant while mitigating potential risk to the City because the grant is not issued until the project is complete. A reimbursement grant commitment can help developers secure funding from other sources, thereby reducing risk for all parties involved. A one-time grant also tends to cost less overall than a tax break or reduction, especially for larger projects.[11]

[6] This was heard through multiple sources including through a survey of past program participants conducted by the grant program manager and from comments made by developers at the University of Alberta City Building Conference 2024.
[7] 2.2.1.5 Facilitate housing and job growth and intensification within nodes and corridors. The City Plan.
[8] 3.3.1.2. Align resources and partner with business improvement areas and similar groups to attract, retain and expand businesses.
[9] Big City Moves, page 23 of The City Plan.
[10] The City of Toronto's "Imagination, Manufacturing, Innovation and Technology (IMIT) Program," the City of Saskatoon's "Vacant Lot and Adaptive Reuse Strategy," the City of Regina's "Intensification Incentive Program" and the City of Montreal's "Sustainable Industrial Buildings Subsidy."
[11] The City of Saskatoon Vacant Lot and Adaptive Reuse (VLAR) Incentive Program offers both a one-time cash grant or a 5 year tax abatement. Cash grants are capped while there is no maximum value for tax abatement. This means that in this program, larger projects always choose the tax abatement option.

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Funding for redevelopment through a proposed Commercial Redevelopment Grant for new commercial buildings or the commercial part of mixed-use buildings can help reduce the risks of these projects. This in turn supports The City Plan (2.3.1.2[12] and 3.3.2.2[13]) by encouraging redevelopment and growth that contributes to the liveability and adaptability of districts. This aligns to the guiding value "Edmontonians, entrepreneurs and investors have opportunities and supports to grow a diverse and resilient economy."

The location, size and type of new non-residential developments are driven by market demand and regulated through Zoning Bylaw 20001. By providing a grant commitment, the City gets influence on project design and features, reduces perceived financial risk thereby strengthening the ability to secure other sources of funding for these projects. Projects supported through DIP prior to its closure in 2023 have seen a significant increase in the value of the property: an average of 424 per cent more in assessed value from the start of the project to the end of construction.

Program Considerations

As the strategic direction for DIP and the proposed new programs is provided by The City Plan, to enable the new programs Administration proposes rescinding Policy C553C - Development Incentive Program and creating one Administrative Standard per new program to ensure agility in program delivery while preserving measurement, compliance and program monitoring. This is in line with the authority delegated to the City Manager in the City Administration Bylaw. At the same time Council will have oversight of the program as part of the budget process.

A motion from Council is required to provide funding for the two new programs, with key changes recommended below (see Attachment 2 for a detailed list of changes). Administration commits to ongoing program monitoring and updating as required to meet business needs and the challenges and contexts of city growth. Any necessary future program updates would be approved under the Administrative Standard.

<u>Addressing Commercial Vacancies</u>

- Replace the Interior Building Improvement Program stream with a standalone program named the Commercial Vacancy Reduction Grant to improve program clarity.
- Increase the grant amount (minimum 50 per cent matching) from $20,000 under DIP to up to $30,000 per unit to reflect the cost of renovations and current economic context (e.g., inflation, interest rates).
- Expand the list of interior renovations eligible for reimbursement compared to DIP.
- Permit a commercial unit to access the grant once per 10 years versus the restriction to once only under DIP.
- Allow more than one commercial unit in the same building to be eligible for grant funding versus only one grant allowed per building under DIP.

[12] 2.3.1.2 Encourage residential and nonresidential redevelopment that contributes to the livability and adaptability of districts. The City Plan.
[13] 3.3.2.2 Facilitate the intensification of non-residential areas including commercial and mixed uses along their edges to efficiently use existing infrastructure. The City Plan.

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- Update the grant's eligibility criteria to encourage business types that complement the existing business mix within an area.

Addressing Redevelopment

- Replace the New Commercial and Mixed-Use Development Program stream with a standalone program named the Commercial Redevelopment Grant to improve program clarity.
- One grant of up to $400,000, or two smaller grants that together total no more than $400,000, offered per year to support construction costs specific to the building itself, excluding any infrastructure costs. These competitive grants could support any commercial or mixed-use development type that meets the eligibility criteria. However, if no projects are submitted that are of an appropriate standard, a grant may not be awarded.
- Expand the area of eligibility to include BIAs, Priority Growth Areas and areas within 800m of LRT stops (see Attachment 1). This aligns the program with the Infill Infrastructure Fund's eligibility for market housing[14] and provides another lever to activate growth in these key areas. The Commercial Redevelopment Grant can complement new residential infill by encouraging commercial growth and redevelopment, which in turn supports 15-minute districts.
- Update the evaluation criteria to include the location and context of the proposed redevelopment, potential land value assessment increase, non-residential square footage created and a minimum number of residential units created for mixed-use developments. DIP's previous design, accessibility, safety and energy efficiency evaluation criteria will be retained and streamlined.

Anticipated Outcomes

Economic benefits from both renovation and redevelopment can result in a range of benefits to the community[15]. The new programs can stimulate private sector investment in priority communities within the city, reduce commercial vacancies by enabling empty spaces to be renovated to accommodate new users, contribute to increased property valuations and create jobs through construction.

The intent behind the changes outlined above is to:

- Better position the programs to contribute to the goals and implementation of The City Plan.
- Improve the clarity of the purpose and outputs for program applicants.
- Expand the eligible areas for Commercial Redevelopment Grant to align with and complement the Infill Infrastructure Fund.
- Create programs that better respond to the economic realities of 2025 and beyond.

These program improvements were identified through data analysis, secondary research and engagement that occurred in August and September 2024.

The anticipated outcomes are to:

[14] Administration anticipates reviewing the New Construction Grant in 2027 to align with the timeline for the Infill Infrastructure Fund.
[15] Summarized from The City Plan.

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- Help reduce mainstreet storefront vacancies by offering targeted financial support for renovations in order to attract new users.
- Support commercial and mixed-use redevelopment within prioritized growth areas by encouraging new private sector investment.

Both outcomes contribute to The City Plan target of 50 per cent of jobs within Edmonton's nodes and corridors, as well as City Council's priority of economic growth.

Budget/Financial Implications

Current budgets do not include funding for the programs described above. To proceed, a Council motion is required to direct funding of up to $700,000 ongoing (for both programs) for consideration during a future budget process, such as the Fall 2025 Supplemental Operating Budget Adjustment or the 2027-2030 Budget process.[16]

A motion is also required to rescind the City Policy 553C - Development Incentive Program, which will be replaced with an Administrative Standard for each new program. These standards will ensure agility in program delivery while preserving measurement, compliance and program monitoring, in line with the authority delegated to the City Manager in the City Administration Bylaw 16620.

- Commercial Vacancy Reduction Grant
    - $300,000 annually for up to 10 grants per year at up to $30,000 each
- Commercial Redevelopment Grant
    - $400,000 annually for one or two grants per year, depending on the scope of the applications submitted

The programs can be administered with existing staff resources in the Economic Investment Services branch. Program budgets would use the existing Commercial Revitalization Reserve to manage cash flow, as commercial renovation projects often take a year or longer to complete and new development can take three years or longer.

Community Insight

The two new programs proposed to replace DIP were informed by feedback from community engagement. Between August and September 2024, Administration conducted 23 one-on-one conversations with:

- Business Improvement Area Executive Directors;
- AKSIS, the Edmonton Chamber of Commerce, the Newcomer Centre (business organizations);
- NAIOP (commercial real estate development association), BILD Metro Edmonton (land and residential development association); and

[16] Between 2011 and 2024, the highest number of completed Interior Building Improvement Program projects in one year has been 10. Demand for new construction projects is harder to estimate as market demand is the primary motivator; however on average there are three to five applications to this grant stream per year. There are also approximately 90-100 existing vacant, empty lots or surface parking lots within Business Improvement Areas that may be eligible to apply for a Commercial Redevelopment Grant. Overall Commercial Redevelopment Grant uptake may increase from DIP's uptake if the area of eligibility increases.

- Previous recipients of New Construction Program grants.

Engagement participants were personally invited by email to participate in either an in-person or virtual conversation to discuss what worked about the program and to share their opinions regarding potential changes.

Past Interior Building Improvement Program recipients who participated in the program between 2018 and 2024 were invited to take part in a survey asking about their experience with the program and their opinions regarding potential changes as well. A survey was chosen to engage with this group out of respect for business owners' time and capacity to engage in a program that they may not be able to benefit from in the future. Thirty business owners were contacted and seven responded.

Engagement participants were given a summary of DIP as well as a list of potential changes identified by Administration and asked to comment. Their feedback was used to expand, remove, add and adjust potential changes.

Both the City and BIA associations report using DIP's Interior Building Improvement Program as a tool to encourage and support the economic health within main street areas. While there is no clear evidence that the program is the main reason businesses choose to open in BIAs, many business owners who have used the program in the past say the funding was very helpful or even essential in getting their business started, while at the same time resulting in the absorption of vacant commercial units.

See Attachment 3 for a summary of community engagement.

GBA+

Each proposed new grant program will be discussed separately within this section as they cater to different groups.

<u>Proposed Commercial Vacancy Reduction Grant</u>

There is limited demographic data available on business owners and commercial property owners in Edmonton, however the pilot 2023 Business Census does have some demographic data related to business owners in Ward O'day-min. The report showed there was considerable racial diversity among business owners, which is consistent with anecdotal evidence about past participants in the previous Interior Building Improvement Program and with discussions with BIAs. Engagement with business groups representing and advocating for minority entrepreneurs[17] confirmed that financing is often the biggest barrier for new business owners. This may apply even more so if the business owner is a racial minority, new Canadian or Indigenous or has an identity that intersects several minority groups. Language barriers, hesitancy to engage with government organizations, fear of racism or sexism and/or unfamiliarity with processes and institutions can all contribute to this.

Administration will ensure new applications are as simply written and streamlined as much as possible to help with ease of access for those whose first language may not be English, and

[17] AKSIS, the Newcomer Centre, as well as BIAs that have a high concentration of minority business owners, such as Chinatown, the North Edge and Alberta Avenue.

opportunities to translate program materials into multiple languages will be explored. Demographic data will also be collected as part of the proposed Commercial Vacancy Reduction Grant stream to better understand who is applying, as well as who the program is not reaching or supporting. This will help future iterations of the program identify ways to reach and better support a variety of entrepreneurs in ways that make sense for them.

Proposed Commercial Redevelopment Grant

As with any redevelopment, this proposed program may unintentionally support redevelopment that contributes to gentrification and displacement, especially if a development is replacing lower-rent homes or redeveloping within tight-knit communities (e.g., an ethnic community). The Commercial Redevelopment Grant will include updated evaluation criteria to include the community context of the proposed development, however Administration acknowledges this issue may require hyper-local knowledge to identify and address issues of displacement or gentrification that is beyond the scope and resourcing capacity of the evaluation process.

Environment and Climate Review

Edmonton is experiencing climatic warming faster than the global rate[18]. In response, the City is committed to climate action through the implementation of the City's two climate strategies: the Community Energy Transition Strategy and the Climate Adaptation Strategy. Within these strategies, the City has set a target to reach carbon neutrality at the community-level by 2050.

In 2023, Edmonton's residential, commercial and institutional buildings accounted for 32 per cent of community-level greenhouse gas (GHG) emissions. This reflects the building sector's significant contribution to greenhouse gas emissions overall, ranking it as the third-largest source across Canada.

By renewing two grants under the Development Incentive Program, the City can impact GHG targets positively and increase environmental stewardship in the following ways:

- **Reducing GHG emissions** through climate resilient design principles, pedestrian-forward street-level businesses and increased urban density through mixed-use development.
- **Promoting a circular economy** by encouraging the reuse or recycling of materials during construction, renovation or demolition of commercial spaces.

A detailed description of the key environment and climate interactions and how they align with The City Plan can be found in Attachment 4.

Attachments

1. Maps of Areas of Program Applicability
2. Summary of the Proposed Changes
3. What We Heard - Reinstatement of the Development Incentive Program
4. Environment and Climate Review

[18] City of Edmonton (2021). Edmonton's Community Energy Transition Strategy & Action Plan - https://www.edmonton.ca/sites/default/files/public-files/assets/PDF/EnergyTransitionStrategy2021-04-20.pdf?cb=1737394174