

Exploration of Uses, Condition and Partner Funding for Hangar 11 Located at Blatchford

Financial Viability: Reimagine Land, Property and Facility Assets

Recommendation

That Executive Committee recommend to City Council:

1. That Administration negotiate a draft agreement for the sale of land, as outlined in Option 2 of the February 1, 2021, Financial and Corporate Services report CR_6367, and return to Committee for approval of the sale agreement or report on the result, as appropriate.
2. That Attachment 5 of the February 1, 2021, Financial and Corporate Services report CR_6367, remain private pursuant to sections 16 (disclosure harmful to business interests of third parties), 24 (advice from officials) and 25 (disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act*.

Previous Council/Committee Action

At the August 27, 2018, Executive Committee meeting, the following motion was passed:

That Administration return to City Council through Committee with a report outlining the results of:

- a functional use study to further assess the building condition of Hangar 11
- exploration of other civic, partner or private uses for the building
- identification of opportunities for partner funding to retain and maintain the building

Executive Summary

Hangar 11, located on the east side of the Blatchford redevelopment site, is on the Inventory of Historic Resources in Edmonton. In 2019, the City completed a functional use study of Hangar 11. The study includes a historic record of the building, provides additional information that outlines its historic significance, identifies that the current condition of the building is poor and requires extensive rehabilitation, and suggests options with cost estimates to restore and/or upgrade the building.

Hangar 11 has been identified as a priority asset through a review of land, property, and facility assets. Diverse risk, financial and community-building criteria have been included in

this review. The review provides strategies for revenue generation, cost avoidance and risk mitigation including disposition strategies such as sale, lease, partnerships, or repurposing.

Administration has identified a range of options for the future of this building. The City may:

- Invest and retain ownership to preserve the historic resource;
- Move forward with an unsolicited proposal that was submitted to Administration following the August 27, 2018, Executive Committee meeting; or
- Publicly offer the building for sale through a competitive bid process assessing submissions based on criteria that contributes to city building outcomes.

As part of the response to Executive Committee's motion, Administration has detailed a number of potential uses for the building. The uses vary based on the future options for Hangar 11 and whether the City operates the building, engages a third party to operate it or sells the property to a private entity.

Report

The City faces the challenge of balancing the priorities of financial viability in a constrained economic environment with continued support for assets that reflect Edmonton's history. The retention and adaptive reuse of historic resources, including those owned by the City, contributes to vibrant communities and provides a sense of place for people in Edmonton. Hangar 11 is an asset with considerable historical significance. Details on its history are in Attachment 1, and a location map with facility pictures is provided in Attachment 2.

Functional Use Study Findings

A consultant team has completed a functional use study (Attachment 3) that analyzed examples of other properties from around the world with similar circumstances (e.g., original purpose, scale, level of rehabilitation required) to Hangar 11. In almost all cases, the historical resource was preserved through some form of agreement between the municipality and another entity. The rehabilitation and activation of the buildings was undertaken over a period of years, typically through phased interventions to portions of the buildings. A recurring theme was that these types of buildings provide significant opportunity for unique spaces that can serve public and private interests alike.

The study offered four main adaptive reuse scenarios that also align with the completed stakeholder engagement, and could fit Hangar 11's circumstances:

- Community hub: public and revenue-generating uses
 - City could retain ownership for public use or enter into an agreement with a third party operator;
 - Portions of the building are stabilized and rehabilitated to allow initial activation, with full rehabilitation over the long term; and

- Potential uses could include office space/social enterprise, community-oriented retail, market/festival spaces, workshops/maker spaces and limited recreation.
- Commercial: retail, food service
 - City could retain ownership and generate lease revenue, or enter into an agreement with a third party operator
 - Portions of the building are stabilized and rehabilitated to allow initial activation, with full rehabilitation over the long term; and
 - Potential uses could include food halls, small restaurants and microbreweries.
- Athletic/recreation/community centre
 - City could retain ownership for public use, or enter into an agreement with a third party operator;
 - Portions of the building are stabilized and rehabilitated to allow initial activation, with full rehabilitation over the long term; and
 - Potential uses could include indoor soccer field, ball hockey rink, office/program space, squash courts, fitness centre and basic food services.
- Institutional/corporate campus
 - Building sold to new owner;
 - New owner undertakes stabilization and rehabilitation; and
 - Potential uses could include a range of office/administrative uses, campus services, lecture halls, workshop areas and meeting spaces.

Stakeholder Workshop Outcomes

On September 19, 2019, Administration facilitated a workshop with stakeholders who appeared before Executive Committee in August 2018 to discuss adaptive reuse opportunities, ownership frameworks and partnership arrangements for Hangar 11 (Attachment 4).

The workshop participants identified potential uses under three operating models:

- City-owned and operated:
 - Community Activity Centre (e.g., recreation/multicultural/entertainment centre, community art space, etc.; informed by a future needs assessment)
- City-owned and third party-operated:
 - Public Cultural Space (e.g., museum, Indigenous cultural space, interpretative centre, etc.)
 - Commercial (e.g., market, various food/agriculture uses, etc.)

- The City and the third party would each take on a certain portion of the rehabilitation and tenant improvement costs.
- Privately-owned and operated:
 - Student-Oriented Facilities (e.g., student union, residence or activity centre).
 - Learning Resource Centre.

Other Related Work

In December 2019, Executive Committee directed Administration to return with a report on the implementation program for City-owned historical resources, outlining administrative and financial requirements and priorities. This information will return to Executive Committee in June 2021 through Urban Form and Corporate Strategic Development report CR_7833 Implementation Program for City-Owned Historic Resources - Administrative and Financial Requirements.

Options for Hangar 11

Administration considered a number of options pertaining to the retention or sale of Hangar 11.

Option 1: The City invests in the required rehabilitation work and retains ownership to preserve the historic resource

This option would see the City make investments into the property to support temporary or permanent activation. The investment range to support temporary, non-continuous occupancy through basic building stabilization is estimated between \$18 million and \$27 million.

A more extensive scope of rehabilitation to bring the building to a basic leasable standard and address historic conservation requirements is estimated between \$55 million and \$83 million. Costs related to specific tenant improvements would still be required either by the City or by a future operator/tenant. Funding between \$1.6 million and \$3.6 million would be required to advance to Project Development and Delivery Model (PDDM) Checkpoint 3.

In this option, Administration would seek operators or tenants to activate portions of the building and explore longer-term adaptive reuse options to guide the rehabilitation work. In addition, the City would designate the building as a Municipal Historic Resource. Entering into agreements with third parties may better enable fundraising for rehabilitation work and the adaptive re-use of Hangar 11. This approach has proven successful in other similar circumstances for complex historic preservation projects in other cities, and a similar approach is being considered for the rehabilitation and reactivation of the Rosedale Power Plant. However, there is no existing model in Edmonton that is comparable on the scale of investment required from a third party leveraging fundraising that would provide evidence or indicate this as a viable solution.

Option 2: Administration advance steps related to the unsolicited proposal

In March 2020, the Blatchford Redevelopment Project was presented with a letter of intent from a developer outlining their unsolicited proposal to acquire the Hangar 11 building on a three acre site. Within the letter, the developer indicated their desire to upgrade and revive Hangar 11, including designation of the building as a Municipal Historic Resource as a condition of the sale. Administration entered into a Right of Entry Agreement with the developer to carry out structural testing, complete due diligence and to determine the potential cost for the developer to stabilize the building.

Hangar 11 sits on a single titled parcel for the overall Blatchford development. At present, there is no titled parcel of land associated directly with the building that is available for potential sale. As part of any transaction, the time needed to approve a subdivision and related conditions (e.g., site servicing) and transferring the land to a new owner may pose risks to the building. The estimated timing to complete subdivision is 12 to 24 months.

During that time, the City may face additional liability risk by permitting the developer to undertake rehabilitation work while the building remains City-owned, as well as the risk of potential further building deterioration. If the recommendation is approved, Administration may enter into a single source procurement agreement with the potential buyer, under which they would complete this urgent structural work prior to the closing of the land sale. Without a public offering for the property, the proposal may not maximize the City's financial or social return and may be viewed as less transparent or equitable.

This option would include a condition that the new owner designate the building as a Municipal Historic Resource, and rehabilitate the building in accordance with City Policy C450B: *Policy to Encourage the Designation and Rehabilitation of Municipal Historic Resources in Edmonton* and the *Standards and Guidelines for the Conservation of Historic Places in Canada*. Should this option be pursued, the new owner may be eligible for rehabilitation grants from the City to assist in addressing the costs of historic preservation. While the maximum for this City grant is \$500,000, which is comparatively low to the complete rehabilitation expense, the potential to secure additional funding for the purpose of preservation may be an additional incentive for a future owner.

The market value of the site was estimated based on the potential value as a redevelopment parcel. The unsolicited offer is considered to be a less than market offer due to the uncertainty of the costs to rehabilitate the building and costs that will be required associated with historic designation and preservation. The unsolicited offer is detailed in private Attachment 5. To further pursue this option, the City is required by the *Municipal Government Act* to advertise the proposed less than market sale to a for profit entity. The advertisement must be published at least once a week for two consecutive weeks, followed by a 60 day petition period. If the Recommendation is approved and the resulting negotiations are successful, Administration will advertise the less than market value sale in

accordance with the *Municipal Government Act*, and bring forward a report for approval of the less than market sale if no sufficient petitions are received during the petition period.

Option 3: Publicly offer the building for sale through a competitive bid process assessing submissions based on criteria that contributes to city building outcomes

Through ongoing discussions with the Northern Alberta Institute of Technology (NAIT) and other industry participants, it is believed that there would be market interest in the Hangar 11 property if the City were to make it publicly available. Some of this interest references a shared value in the heritage preservation of all, or parts of, the property. Other interest has been more focused on the redevelopment potential of the centrally located parcel of land, with close proximity to NAIT, transit development, and other community amenities.

If this option is selected, Administration would invite submissions for the purchase of the property with criteria weighted towards elements that align with The City Plan as well as corporate outcomes, including heritage preservation, alignment with the vision for Blatchford Redevelopment, revenue generation and City cost avoidance. Depending upon the successful offer, potential uses could include a range of office/administrative uses, campus services or student facilities, lecture halls, workshop areas or meeting spaces.

In this scenario, the City would not plan to undertake any stabilization or rehabilitation work, other than items that are imminently required, and the building would be listed in its current state in a public offering and would result in no planned building renewal costs incurred by the City. The offering could also allow flexibility for redevelopment options that do not include the retention of the building or could include a condition for the buyer to complete the full rehabilitation of the structure, including historic preservation requirements.

Due to a potentially longer sale period, this option presents the risk of Hangar 11 deteriorating further throughout the sale process but would allow for market transparency. This approach would promote an understanding of the practical, including financial, tradeoffs between preservation of the structure and the creativity of the private market to provide proposals which might progress alternate city building outcomes.

Analysis

A comprehensive review of assets to right-size corporate holdings is ongoing. The completed analysis includes a review of the following criteria:

Criteria	Findings
Occupancy and Revenue	The property is currently vacant and achieves no lease revenue.
Risk Criteria	The building is in poor condition and there is the

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	<p>possibility of failure prior to a retention or disposal strategy being implemented. There are unbudgeted renewal costs in a downturned economy and corporate budget cycle. Due to the historic significance of the building, there is potential that the Province may intervene to prevent the demolition of the building. The Province can designate buildings that have provincial significance as Provincial Historic Resources without the need for consent from an owner or for any compensation being provided.</p>
Maintenance & Operating Costs	<p>The City has not budgeted or incurred maintenance or operating costs for the building in 2020 or 2021.</p>
Known Capital Expenditure	<p>Basic building stabilization will have an estimated cost of \$18 million to \$27 million. Full rehabilitation without cost related to tenant improvement work is estimated from \$55 million to \$83 million.</p>
Net Gain / Loss if Disposed	<p>If disposed of to a third party without investment, the avoidance of capital renewal work would result in a potential savings of up to \$83 million. However, the City's price expectations and book value of the property will remain confidential as to not negatively prejudice future negotiations.</p>
Disposal Costs	<p>Costs related to subdivision and servicing will be absorbed by the Blatchford Redevelopment budget. These are estimated at \$550,000 and will be a required investment from the City in any of the proposed options.</p>
Projected Disposal Revenue	<p>The City's price expectations in as-is and redevelopment scenarios will remain confidential as to not negatively prejudice future negotiations. Potential revenue is described in private Attachment 5.</p>
City Plan Development Alignment	<p>The Blatchford Redevelopment is identified as a Priority Node in The City Plan and described within the Blatchford Area Redevelopment Plan.</p>
Additional Municipal Benefit / Purpose	<p>The leasehold interest in the Hangar 11 property was acquired as part of the closure of the Edmonton City Centre airport to support the Blatchford Area Redevelopment Project. Retention of the building or a sale requiring municipal designation would align with the Corporate Outcome that "Unique character and history</p>

	of neighborhoods is preserved”.
GBA+ Considerations	Outlined in Attachment 6
Supports a Service in Competition with Private Sector	No competition / not applicable

Budget/Financial Implications

There is no committed funding to preserve or upgrade Hangar 11. The Heritage Resources Reserve does not have the capacity to support a project of this magnitude. If Council directs Administration to retain the structure, funding options could include:

- Funding from the facility renewal program.
 - This would reduce funds available for other City facilities, and consequently cancel or defer planned prioritized renewal projects. Such projects would potentially include the renewal of Hanger 14, home of the Alberta Aviation Museum, which is a designated Provincial and Municipal Historic Resource in poor condition. It is estimated to require approximately \$40 million in renewal investment.
 - The renewal program, even if prioritized, could only support the base rehabilitation of the building. Upgrades required to accommodate new use of the building would need a different funding source.
- Adding this project to the Unfunded Projects List for Council consideration as part of future Supplemental Capital Budget Adjustments.
- Potential funding provided by other orders of government (Attachment 7).
- Philanthropic fundraising by a non-profit operator or foundation.

In addition to the costs of rehabilitation or upgrades, retaining Hangar 11 would result in an opportunity cost for loss of land sale revenue. The sale of the land Hangar 11 is located on is currently included in the Blatchford proforma. However, sale of the Hangar has the potential for property tax generation, as it would no longer be a City asset.

If retention is explored and once the rehabilitation of the building is complete, the facility would require ongoing renewal investment (approximately \$2 million/year based on asset value). In addition, maintenance and operation of the building would require funding for operations. The cost would be determined by the eventual future use, but is estimated at approximately one percent of the building value on an annual basis.

Public Engagement

Public engagement for this report was completed through the stakeholder workshop, which encompassed topics including opportunities for adaptive reuse, operating models and partnership arrangements, and potential funding sources, as outlined in Attachment 4.

Next Steps

If the recommendation is approved and the resulting negotiations are successful, Administration will advertise the less than market value sale in accordance with the *Municipal Government Act*. Once the petition period ends Administration will bring forward a report for approval of the less than market sale if no sufficient petitions are received during the petition period.

Corporate Outcomes and Performance Management

Corporate Outcome: The City of Edmonton has a resilient financial position.			
Unbudgeted facility capital investments are reviewed to establish asset financial viability	Avoided capital investment risk from identified properties repurposed or disposed (\$)	-Basic building stabilization is between \$18 and \$27 million; bringing the building to a leasable standard including historic conservation is between \$55 and \$83 million -\$2 million/year ongoing renewal	TBD
Corporate Outcome: Edmontonians are connected to the city in which they live, work and play.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Unique character and history of neighbourhoods is preserved	Total number of structures on the Inventory of Historic Resources	950 (December 2019)	N/A
	Annual number of buildings added to the Inventory of Historic Resources through City-funded neighbourhood inventories	122 (2016) 0 (2017) 39 (2018) 0 (2019)	Reverse trend of demolitions exceeding additions to the Inventory of Historic Resources
	Annual number buildings on the Inventory of Historic Resources that were demolished	12 (2016) 9 (2017) 21 (2018)	

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations

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Risk if Recommendation is Accepted						
Public Perception	Negative public perception of City's efforts to protect historic resources	3 - possible	2 - moderate	6 - low	-Examination of possible future uses which would retain the historic resource -Engagement with the potential proponent confirming historic preservation	- Information available to the public on how the heritage will be preserved
Economic	The sale value of the Hangar declines if it falls into further disrepair	4 - likely	2 - moderate	8 - medium	-Coordination with the potential proponent to carry out structural testing to determine the potential cost to stabilize the building	- Expedited sale agreement to mitigate additional disrepair
Risk if Recommendation is Not Accepted						
Financial	If Option 1 is selected, the City incurs up to \$83 million in unbudgeted capital investment	3 - possible	3 - major	9 - medium	-Examination of possible future uses which would retain the historic resource at a significantly lesser expense	- Fundraising occurs to mitigate expenses
Loss of Historic Resources	Delays result in demolition of an existing historic resource	4 - likely	2 - major	8 - medium	- City Council can select an option to allocate financial resources for its rehabilitation and adaptive reuse	-Expedite the selected option to prevent unplanned demolition

Attachments

1. Historic Significance Summary
2. Location Map and Photographs of Building
3. Functional Use Study
4. Partnerships Workshop Summary
5. Offer Received (Private)
6. GBA+ Analysis for Hangar 11
7. Potential Funding Sources for Hangar 11

Others Reviewing this Report

- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- C. Owen, Deputy City Manager, Communications and Engagement
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- R. Smyth, Deputy City Manager, Citizen Services
- B. Andriachuk, City Solicitor