

Enterprise Land Development Program Update

Recommendation

That the April 26, 2021, Financial and Corporate Services report CR_8197, be received for information.

Previous Council/Committee Action

At the March 9, 2020, City Council meeting the following motion was passed:

3. That Administration return to Committee (after continued engagement with Real Estate Advisory Committee) with a report outlining:
 - a. the strategy and timelines to prepare Goodridge, Schonsee and Aster for sale,
 - b. a detailed analysis of how to direct proceeds from the sale of Aster, Schonsee and Goodridge into the most strategic city building real estate catalyst opportunities aligned with ConnectEdmonton,
 - c. the advantages and disadvantages of establishing a reserve fund to accept the proceeds of the sale of the items in part 3a.

Other previous motions related to the Land Development Program are included in Attachment 1.

Executive Summary

The Enterprise Land Development program manages the planning and servicing of land for residential, industrial, commercial and mixed-uses to provide fully serviced and subdivided lots for sale to the public. As part of the program, residential lots are sold to citizens and small builders with sustainability requirements built into the sales agreements.

In Alberta, the Municipal Government Act limits revenue generation tools available to municipalities. Land development, and the resulting sale revenue, is one of a few viable options that not only generates revenue, but is also profitable. Residential land development activities generate high rates of return and have been a core part of the program for over 50 years. These developments focus on achieving the City's strategic goals while striving to improve residents' lives and enhance Edmonton's global reputation. Approximately 495 acres of land in three neighbourhoods are currently identified for residential greenfield land development. This represents roughly 3.4 percent of the City's remaining 14,534 acres of future residential development land in areas that are planned, developing or future growth areas.

This report presents different strategies and timelines to help inform Council's decision on how to prepare the City's holdings in Goodridge Corners, Schonsee, and Aster for sale. Administration evaluated various approaches to selling the undeveloped land holdings as-is, or selling some land holdings as-is with continued investment in others. The report contemplates each option's ability to generate and direct proceeds into strategic city building projects, their alignment with The City Plan objectives, and their impact on particular stakeholder groups through Gender Based Analysis Plus (GBA+).

The analysis found that the revenue generated by selling Aster and Schonsee as-is, could support the initial investments required to advance the major city building projects in Exhibition Lands, River Crossing and Heritage Valley Town Centre. Through continued investment to develop and sell fully serviced lots in Goodridge Corners, the City would be able to generate significant returns. The high sales returns expected from this investment could provide revenue that is available to invest into future city building opportunities as Edmonton's established neighbourhoods begin to redevelop and the city grows to two million people.

Report

Background

The City of Edmonton owns approximately 495 acres of land in the neighbourhoods of Goodridge Corners (409 acres), Schonsee (33 acres) and Aster (53 acres) that are held for residential greenfield development (Attachment 2). This work is carried out by the City's Enterprise Land Development (ELD) team, as part of its delivery of the *Residential, Commercial and Industrial Land Development* service identified in the Corporate Business Plan. The City of Edmonton has participated in residential land development since the 1960s, when it acquired large portions of land in Mill Woods for this purpose. The Mill Woods project generated over \$230 million in net revenue and contributed \$131 million towards the Debt Reduction Policy. It also financed the purchase of the Century Place and Chancery Hall buildings, and provided partial payment for the Edmonton Convention Centre.

The program is guided by Land Development Policy C511 to develop raw, unserviced greenfield land into fully serviced lots for sale. It operates as an enterprise within the City's financial structure. It is entirely self-funded using Land Enterprise Retained Earnings, and pays an annual dividend to the corporation as per Land Enterprise Dividend Policy C516B.

ELD's land development activities typically generate a high rate of return. The four most recent phases of residential greenfield subdivision development in the Oxford and Laurel neighbourhoods generated a net revenue of \$37.4 million, with profit margins greater than 40 percent. The remaining lots in Laurel are anticipated to finish selling in 2022, generating an additional \$12.3 million in net revenue. Interest in purchasing City developments is extremely high. In March 2021, the City opened

registration for 77 lots in Laurel Phase 3 with 35 lots available to the public and 42 lots available to builders. Registration was open for one week and over 8,600 citizens and 160 builders registered for the chance to acquire lots in the City's development.

The land holdings in Goodridge, Schonsee and Aster all fall within the Developing Areas identified in The City Plan, as shown in Attachment 2, and are anticipated to take between 20 to 30 years to fully develop. As identified in The City Plan, the Developing and Future Growth Areas are expected to experience the majority of Edmonton's growth until approximately the mid-2040s, contributing to Edmonton's population reaching 1.5 million people.

Administration publicly listed 12 acres of land in Schonsee West for sale and is currently under agreement to sell the land with a condition removal date of April 27, 2021. The decision to list the property was made as an effort to rebalance the Enterprise Land Development portfolio after a financial analysis of the site found that selling the land holding allowed for approximately \$25 million to be redirected to redevelopment projects such as Exhibition Lands and Heritage Valley Town Centre. The \$25 million is the sum of the revenue generated from the sale plus the capital investment that would have been required to develop the site. This land sale is within Administration's Delegated Authority and is not required to return to Council for approval.

Real Estate Catalyst Opportunities

Administration considered projects to be significant real estate catalyst opportunities if the investment made by the City is able to remove a barrier to development in and around the area. Some examples include large infill redevelopment projects that require significant front end investment, such as the Exhibition Lands and River Crossing; unlocking or furthering development in The City Plan's other nodes and corridors; and generally supporting growth management priorities.

The major redevelopment projects of Exhibition Lands and River Crossing could be supported by the proceeds generated from the disposition of the City's residential greenfield holdings. It is assumed that these projects would be supported through the sales, as outlined as "the most strategic city building real estate catalyst opportunities" in the motion. Both are identified as investment areas within the first two population horizons in The City Plan, as shown in Attachment 3. These two projects are currently moving into the implementation phase of redevelopment, meaning they will soon require significant capital investments.

The City Plan identifies Heritage Valley Town Centre as a major node and an area to invest in to reach the first population target of 1.25 million residents. Administration is working on a critical subdivision in the area that will help catalyze development, funded through Land Enterprise Retained Earnings.

There are potentially other development opportunities that will arise as Administration works to realize The City Plan, such as completing pockets of undeveloped land in established neighbourhoods or supporting sustainable development practices. Ongoing development proceeds from the City's land holdings could also potentially support growth management priority areas. The most effective way to prepare to support these types of future projects would be to have sufficient capital available.

Alignment with City Goals and Objectives

The City Plan provides applicable outcomes, intentions and directions to support growth. Administration has evaluated how the sale of its land holdings, either as undeveloped land or in various phasing up to and including fully serviced lots, may create opportunities to realize some objectives of The City Plan. Administration has also evaluated the City's Energy Transition Strategy for ways land development activities would be able to support the City's sustainability targets.

In general, Administration found that, by selling its undeveloped holdings as-is, the City is reliant on land use plans, standards, and bylaws to shape growth. Sales conditions can sometimes provide additional opportunities to achieve goals, but are difficult to enforce when selling large parcels of land that have long development horizons. However, by selling the land as fully serviced lots in some cases, the City is able to directly control what is planned, designed and built. The City is also able to put more enforceable conditions into its sales agreement with the end user. This greatly improves the City's ability to go above the minimum requirements of planning, standards and bylaws to achieve goals to lead by example through its developments.

There are several actions the City can take as a land developer, in support of The City Plan. Areas of particularly strong alignment with The City Plan include:

- Directing revenue generated through greenfield development activities to fund infill/redevelopment city building projects and other growth priorities identified in The City Plan as well as completing pockets of undeveloped land in established areas.
- Leading and taking a continuous improvement approach to sustainability in an effort to normalize new and emerging technologies and practices.
- Supporting socially responsible forms of housing by creating lots that are affordable, varied in housing form, age friendly, and more sustainable.
- Support the growth of new and small businesses by selling lots directly to small builders to grow and innovate their business.
- Creating subdivisions that promote safe living and active lifestyles that demonstrate good design.
- Demonstrating best practice design for mobility, creating connectivity and advancing 15-minute districts, and opportunities to enjoy open space.
- Providing opportunities for improved design and construction standards through a platform to demonstrate new, innovative and creative designs.

Additional comparisons of how each option is able to support The City Plan is included in Attachment 4. Administration intends to return to Council in Q2 2022 with an update to Policy C511 the Land Development Policy and, if required, Policy 516B the Land Enterprise Dividend Policy that brings them into alignment with The City Plan and the Energy Transition Strategy.

Disposition Options and Evaluation

The following outlines two options to fulfill the motion request for a strategy and timelines to prepare Goodridge, Schonsee and Aster for sale. A summary of each option's benefits, as well as a strategy and approximate timelines for the sale of the lands, is outlined below. These options are also incorporated into financial models used in subsequent sections of this report.

Option 1 - Sell As-Is

Option 1 consists of completion of the ongoing statutory plan amendments and then publicly offering the undeveloped lands for sale. In this scenario, no further greenfield residential land development occurs and all 495 acres of land are sold in a relatively short time frame. While this option is able to support the redevelopment projects, it generates a much smaller amount in sale and investment revenue, provides few opportunities to directly support The City Plan or the Energy Transition Strategy, and, from a GBA+ perspective, has more negative impacts to small businesses. More on GBA+ implications below.

The strategy and timelines to dispose of the holdings via this option involve immediately listing Aster for sale, completing plan amendments for the remaining two holdings and publicly offering them for sale. This approach could have Aster listed for sale in 2021 and Schonsee and Goodridge Corners listed for sale by 2022. Further information can be found in Attachments 5 and 6.

Option 2 - Partial Development then Sales

Option 2 involves the sale of the undeveloped land holdings in Aster and Schonsee and continued investment in and development of Goodridge Corners. The primary focus of this option is to support city building real estate catalyst opportunities while also maximizing returns on remaining land holdings. In general, this option provides great balance in terms of revenue, support for The City Plan and GBA+ impact, while also being able to support initial stages of the major redevelopment projects.

The strategy and timelines to prepare the holdings for sale under this option would involve immediately listing Aster for sale and completing the plan amendment for Schonsee. It is expected Aster could be listed for sale in Q2 2021 and Schonsee in Q4 2021. Goodridge Corners would continue development, with the preparation for sale of the first stage of fully serviced lots starting in 2023 and continuing, more or less, annually until full build out. Administration would also analyze the benefits of selling larger parcels in Goodridge Corners as part of this option, as required, to fund other priorities as they arise. Further information can be found in Attachment 5.

Financial and Market Analysis

Both options were evaluated to determine the estimated revenue generation, timelines for the revenue, rate of return, and cash flow implications. High level cash flow information was provided for the Exhibition Lands, River Crossing and Heritage Valley Town Centre projects. Their cash flows were then combined with the cash flows generated for both disposition options to determine each option's ability to support these projects. Broadly, surplus funds accumulated in Land Enterprise Retained Earnings, generated through land development activities, would allow for the future support of other land development opportunities or City initiatives.

For the combined cash flow analysis, it was assumed that these projects would follow the Enterprise Land Development model and revenue from the projects would be directed back into the land development activities. The land development activities would be self funded and a 25 percent dividend paid on years with positive net revenue as per Policy C516B directing the Land Enterprise Dividend. These financial models are shown in Attachment 6. The analysis found that:

- Option 1, selling as-is, resulted in a net revenue generation of \$32.5 to \$49.6 million prior to any investment into redevelopment activities. Upon completion of the Exhibition Lands and River Crossing redevelopment projects in roughly 2050, there would be an anticipated \$18.6 million available for other City building opportunities. A supplemental investment scenario for Option 1 using the Ed-Tel Endowment Fund is also detailed in Attachment 6 within the Use of a Reserve Fund section.
- Option 2, partial development, anticipates a net revenue generation of \$105.3 to \$154.3 million prior to any investment in redevelopment activities. Upon completion of the redevelopment projects in roughly 2050, there is an anticipated \$91.6 million available for other City building opportunities.

In addition to the financial implications provided above, there is currently \$33.04 million held in abeyance for profile CM-16-2020 (Residential/Mixed Use Land Development). These funds were intended to advance work in Schonsee and Goodridge Corners. The previously released funds plus the recoveries that have been received back to the profile are anticipated to provide sufficient funding to advance work in Goodridge, if permitted by Council, during this budget cycle. Stages in Schonsee are no longer planned to be developed this capital budget cycle, if at all. As such, it is not required to release any additional funds from abeyance.

Investment Return Analysis

Administration analyzed the amount of revenue that would be generated through investment returns for both options. A major consideration for this analysis is the standard City practice that all funds held in treasury are invested as mixed funds returning an average of 3.5 percent per annum over the long term, including Land Enterprise Retained Earnings. In general, the investment income generated through

these activities accrue back to the corporation, rather than Land Enterprise Retained Earnings. The analysis found that:

- Option 1 generates a much lower investment return (\$39.5 million), despite the higher initial investment. While this may be counterintuitive, the continued withdrawals and lack of high revenue generating projects results in rapid reductions to the principal amount, resulting in lower investment returns.
- Option 2 generates an investment return of \$66.5 million. This is the result of the profitable greenfield land development activities generating higher amounts of income that, in turn, accrues the larger amount of investment returns.

An analysis was also conducted for the disposition of the land holdings as per Option 1 - Sell as-is and investing the revenue into the Ed Tel Endowment Fund. This option also assumes withdrawals will be made as necessary to support major redevelopment projects such as Exhibition Lands, River Crossing and Heritage Valley Town Centre.

The evaluation found that supporting these projects resulted in significant periodic withdrawals being required over the lifetime of those projects. These withdrawals erode the principal and result in less overall revenue being generated than partial development; particularly after accounting for revenues generated by both investment income and land development activities. If the proceeds generated by Option 1 were invested into the Ed-Tel Endowment Fund, without the withdrawals used to support the redevelopment projects, there would be a \$67 million funding shortfall for those projects.

Market Analysis

An independent market analysis was completed by Altus Group Limited to determine market demand for the disposition of each holding. The market analysis found that there is demand and the City would be able to dispose of the land holdings for each option presented. The development horizons for the land holdings noted in the Altus report aligned with previous work completed by PricewaterhouseCoopers (PWC) and presented to Council on March 9, 2020. Additional information can be found in the Market Analysis section of Attachment 6.

Engagement With Industry Partners

Engagement was completed with builders who have purchased lots from previous Enterprise Land Development subdivisions, enabling Administration to understand how the City's land development activities support home ownership and small businesses. A "What We Heard report" is included in Attachment 7, which includes a summary of feedback as well as responses to the question *"If the City was no longer in the land development business, how would that affect your business?"*. This feedback indicated that small builders who purchase City lots feel the City is providing a valuable service that is vital to small business growth, helps ensure competitive pricing, and is a leader in sustainability. The attachment also includes information on recent demand for City lots and the compliance with sustainability targets. The impact to these small builders is discussed in the GBA+ section.

Administration continues to engage with the Real Estate Advisory Committee (REAC) to gather feedback on the City's real estate matters, including the Enterprise Land Development program. Administration has discussed potential disposition options with REAC. The general recommendation from the industry members of REAC was that ELD should attempt to sell all of its 495 acres of greenfield residential land holdings as soon as possible. Some members of REAC have expressed a keen interest in the City listing its holdings as-is for sale so that private industry might be able to quickly develop these lands and benefit from the exceptional current market conditions. Detailed feedback from REAC can be found in Attachment 8.

GBA+

GBA+ was considered to determine if the sale of the City's undeveloped land holdings had a disproportionate effect on a particular group and if the City could prevent compounding issues for groups that may already be impacted by COVID-19 and the economic downturn.

The feedback received from builders who have purchased City lots indicates that the City's sale of its land holdings and discontinuing greenfield residential land development would have a potentially significant negative impact on small home building businesses and the small trades they hire due to their lost ability to participate in the market.

Many of the builders provided feedback, included in Attachment 7, that they are unable to buy desirable lots from other large land developers. They attribute this to large land developers' preference to sell lots in bulk quantities that smaller builders cannot afford. They indicated that the City's commitment to sell lots directly to small builders and residents is critical to their businesses. They also indicated that the City's land development activities have allowed them to grow their business, even during the recent economic downturn.

Option 1 would have more of a negative impact for this group than Option 2. These negative impacts may be compounded by the slow activity in Alberta's oil sector as well as the COVID-19 pandemic.

Public Engagement

The options presented to Council are based on a comprehensive program review informed by research and insights from three external consultants, as well as feedback from REAC and small builders as outlined above. As the program continues, Administration will continue to involve stakeholders to enhance the City's land development decision making.

Corporate Outcomes and Performance Management

| Corporate Outcome(s): The City of Edmonton has a resilient financial position | | | |
|---|---------------------------------|---|---|
| Outcome(s) | Measure(s) | Result(s) | Target(s) |
| Land sales generate revenue that supports City program delivery. The City of Edmonton has a resilient financial position. | Annual dividend payment. | 2021 - \$2.688M (un-audited) 2020 - \$2.127M 2019 - \$0.977M 2018 - \$0 2017 - \$3.393M 2016 - \$4.139M 2015 - \$2.708M | 2021 - \$0.759M Budget 2020 - \$0.497M Budget 2019 - \$0 Budget 2018 - \$0.777M Budget 2017 - \$1.546M Budget 2016 - \$1.326M Budget 2015 - \$3.785M Budget |
| Land sales create new tax proceeds that support City program delivery. | Number of developed sites sold. | 2020: 67 residential lots sold 2019: 77 residential lots sold and 5 commercial lots sold | 2020: 67 residential lots sold 2019: 77 residential lots sold and 5 commercial lots sold |

Attachments

1. Previous Council Actions
2. ELD Holdings in City Plan Development Pattern Area
3. City Plan - Investment Areas 1 - 1.25 Million People
4. Alignment to The City Plan
5. Disposition Strategies and Timelines
6. Financial and Market Analysis
7. Previous Development Feedback - What We Heard
8. REAC - What We Heard

Others Reviewing this Report

- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- C. Owen, Deputy City Manager, Communications and Engagement
- K. Fallis-Howell, Acting City Solicitor