

Financial and Market Analysis

This attachment provides the results of the financial analysis that was carried out for the purposes of understanding the financial costs and revenues for the proposed disposition options. The purpose of this review was to provide clear, comprehensive information related to each option. This includes:

- the amount of net cash flow and net income generated,
- the Internal Rate of Return (IRR),
- the income generated through investment,
- the anticipated cash flows for each option,
- combined cash flows of each option with major redevelopment and node projects to determine the options ability to support those projects, and
- a market analysis to confirm market demand and timelines for disposition through the various options.

Revenue Generation

The table below provides information related to the revenue generation for each proposed disposition option. This includes a range of total gross revenues, total net revenues, time for total revenues and the estimated Internal Rates of Return for each option. A brief description of these items is included below.

- **Net Cash Flow** is the total profits received through the sale and/or development of the lands. It does not account for the book value (cost) of lands already invested in previous years.
- **Net Income** takes into account the historical book value of land sold. Net Income represents the profitability measure against which Land Enterprise dividend payments are calculated.
- **Time for total revenue** is the amount of time it takes to realize the total gross and net revenues.
- **Internal rate of return (IRR)** is the annual rate of growth of an investment. In terms of these disposition options, the investment is represented by the capital funding required to develop lands. The initial investment of land is taken at fair market value, as opposed to historical cost.

	Option 1: Sell As-is	Option 2: Partial Development
Total Net Cash Flow	\$68.3M - \$85.5M	\$141.3M - \$189.9M
Total Net Income	\$32.5M - \$49.6M	\$105.3M - \$154.0M
Time for total revenue	1 - 3 Years	26 - 29 Years
Internal Rate of Return (IRR)	N/A%	7.3% - 11.3%

Table 1 - Revenue Generation information for each Option

The following can be observed from Table 1, above.

- The range of values illustrates a +/- 10 percent adjustment to annual revenues and costs for each project within the given options
 - It can be assumed for the purpose of simplification that the base case for each scenario is the midpoint of each range
- Option 2, partial development generates significantly higher total net cash flows and income amounts than selling as-is.
- Partial development requires a significantly longer timeline to realize the total net cash flows and income amounts than selling as-is.
- Based on a Land-At-Market assumption, IRR is highest for partial development, while selling as-is does not generate an internal rate of return (land is assumed to be held and sold at market value).

Cash Flows of Projects

This section provides the cash flows for the various disposition options that will then be incorporated into the combined cash flows. These cash flows include all costs and revenues generated through the disposition of land holdings and land development activities. They do not account for operating costs or dividend payments and do not include any investment income.

Annual inflation was added to all cash flow models. For all ELD & greenfield development projects (Heritage Valley Town Centre included), project revenues are inflated at a rate of 1.0 percent per annum and project costs at 1.5 percent per annum. For the major infill redevelopment projects (Exhibition Lands and River Crossing) the rate of cost inflation is maintained at 1.5 percent per annum over the entirety of the development timeline. Revenues inflation rates grow periodically as the level of development expands. The difference between the two development models is due to the inherent infrastructure and City building investment required for the infill redevelopment projects to gain development viability and momentum. As the infill projects proceed through their development timelines, we would expect the attractiveness and underlying value of the development lands to increase as more surety is displayed during the progression of redevelopment. The table below highlights the inflation factors for both River Crossing & the Edmonton Exhibition Lands:

Project & Inflation Type	Yrs 1-6	Yrs 7-12	Yrs 13-18	Yrs 19-24	Yrs 25-30
River Crossing <i>Revenue</i>	1.0%	2.0%	-	-	-
<i>Cost</i>	1.5%	1.5%	-	-	-
Exhibition Lands <i>Revenue</i>	1.0%	2.0%	2.5%	2.5%	2.5%
<i>Cost</i>	1.5%	1.5%	1.5%	1.5%	1.5%

Table 2 - Revenue and Cost Inflation Amounts

Major Redevelopment and Node Projects

Specific cash flows for Exhibition Lands, River Crossing and Heritage Valley Town Centre were not included in this report, however they are incorporated into the combined cash flows section below. Cash flows for these projects are preliminary in nature. As these projects evolve, so will their cost and revenue estimates. A significant consideration is that the purpose of including these cash flows is not to evaluate the validity of those cash flows, but to assist in determining which disposition option is best suited to support these projects.

It should be noted that estimated costs related to the (re)development of the projects referenced above only include estimates of those costs considered “project costs” themselves. For example, the cost of the Coliseum demolition and LRT station construction at Exhibition Lands, along with any costs related to the restoration of the Rossdale Power Plant at River Crossing, among other things, are not included in these cashflow estimates as they are not considered typical development costs.

Cash Flows for Disposition Options

Below are the cash flows for each disposition option. The cash flows account for activities related to Aster, Schonsee and Goodridge Corners only. Revenue generated from Laurel 22 sales is not included.

Option 1 - Sell as-is

This option sells Aster, Schonsee and Goodridge Corners as-is, with no additional land improvements completed.



Figure 1 - Disposition Option 1: Sell as-is - Annual and Cumulative Net Revenue

As shown in Figure 1, the cash flow represented by Option 1: Sell as-is generates all of the cash flow within the first few years, followed by no activity. This is due to the City no longer participating in greenfield residential development and the funds being fully redirected to redevelopment projects or other initiatives.

Option 2 - Partial Development

This option involves Aster and Schonsee being sold as-is with no further development, while Goodridge Corners is sold as fully serviced lots, through continued land development. All of Goodridge Corners could be developed

under this option, however, the exact level of development may be altered based on the needs of the redevelopment and major node projects as the primary objective would be to ensure there was always sufficient capital available for those projects. Surplus capital would then be reinvested into greenfield residential land development activities to generate high returns.

If there was anticipated to be a shortfall in funds available to support the major redevelopment projects, it would be possible to sell off large portions of undeveloped land to provide an influx of cash flow.

Option 2: Partial Development - Annual and Cumulative Net Cash Flows

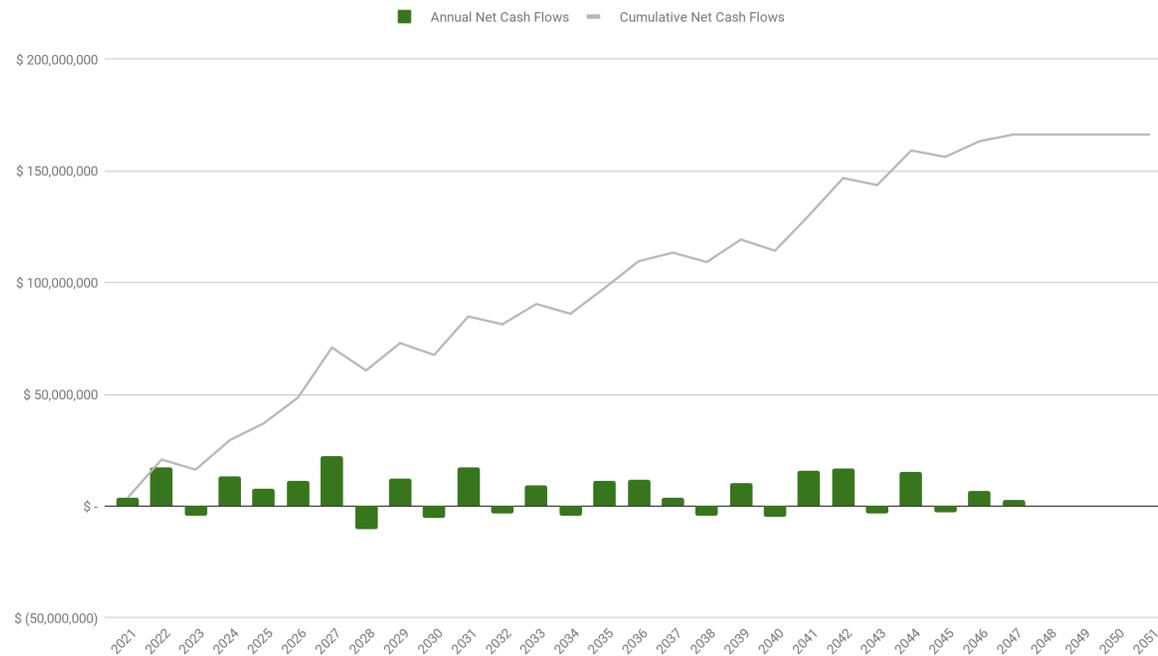


Figure 2 - Disposition Option 2: Partial Development - Annual and Cumulative Net Revenue

Figure 2, above, presents the cash flow for Option 2. The initial revenue generated in the first two years is from the sale of Schonsee and Aster. The subsequent cash flows are generated through development of Goodridge Corners.

Combined Cash Flows

The cash flow analysis below combines the cash flows of Exhibition Lands, River Crossing and Heritage Valley Town Centre and incorporates them with the Enterprise Land Development option presented. It also includes dividend payments on years with positive net revenues. These items are all combined to illustrate their effect on Land Enterprise Retained Earnings, which is the funding source for the land development activities.

For the cash flow analysis below, it is critical that the blue area representing Land Enterprise Retained Earnings has a positive balance. A zero or negative balance indicates the funding source has been depleted and other sources of funding, such as tax levy, would be required for that period.

A major assumption with this analysis is that development of the major redevelopment and node projects takes precedence over greenfield activities and should not be delayed.

The colours on the graph below are represented as follows:

- Greenfield residential land development activity is represented by **GREEN** in the below cash flows.
- Exhibition lands activity is represented by **YELLOW** in the below cash flows.
- River Crossing activity is represented by **PURPLE** in the below cash flows.
- Heritage Valley Town Centre activity is represented by **RED** in the below cash flows.
- The **AQUA** colour represents the dividend paid on years with positive net revenue on land sales.
- The area shown in **BLUE** represents the amount of funds available in Land Enterprise Retained Earnings.
- The **MAGENTA** dotted-line represents the investment return based on the information presented in the Use of a Reserve Fund section.

Option 1 - Sell as-is

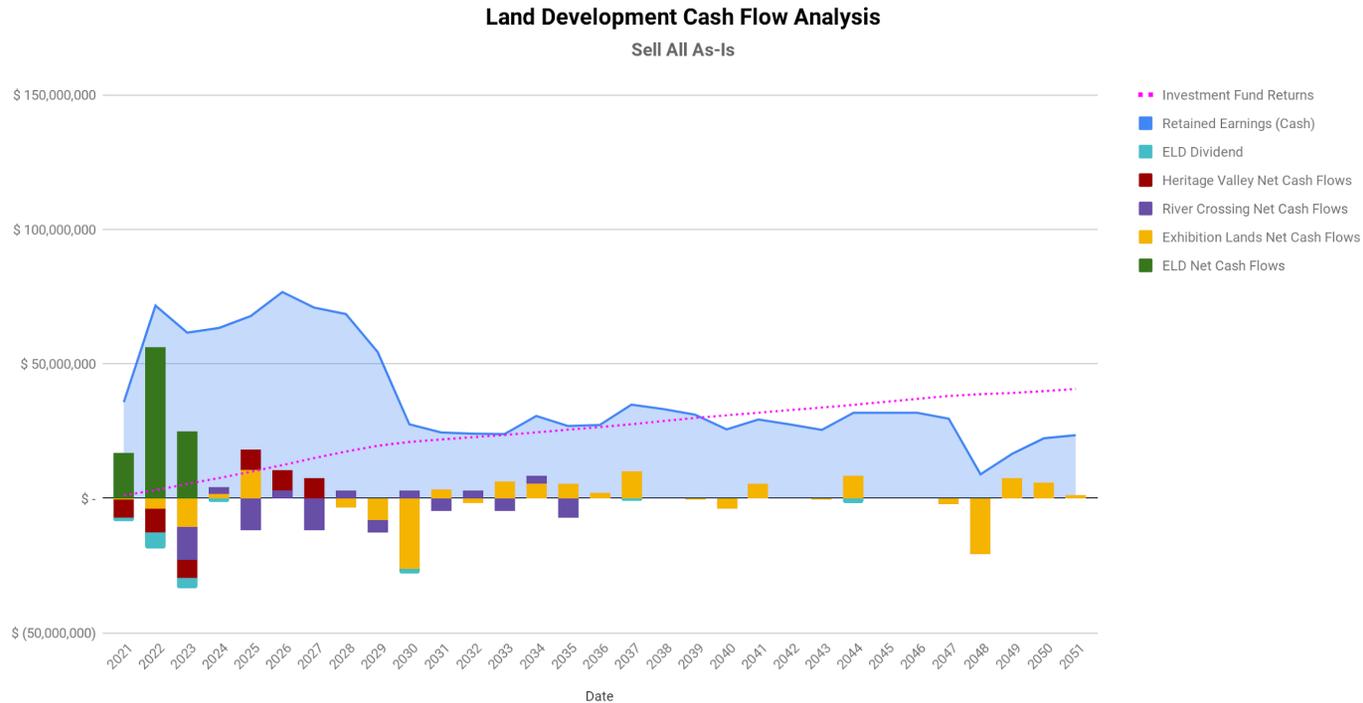


Figure 3 - Option 1: Sell As-Is Combined Cash Flow

As shown in combined cash flow, above, by selling ELD’s residential land holdings as-is, there is a large positive cash flow spike early in the timeline. While the Land Enterprise Retained Earnings balance is largely used up upon completion of the redevelopment projects, there does appear to be sufficient capital available at all times, other than the very final few years, to support all the major redevelopment projects and node projects noted above. This option has limited ability to support other projects or initiatives not yet determined, that may present themselves

over time. Following the completion of all land development activities, this option generates a total dividend paid of \$16 million and a surplus of \$18.6 million in retained earnings.

Option 2 - Partial Development

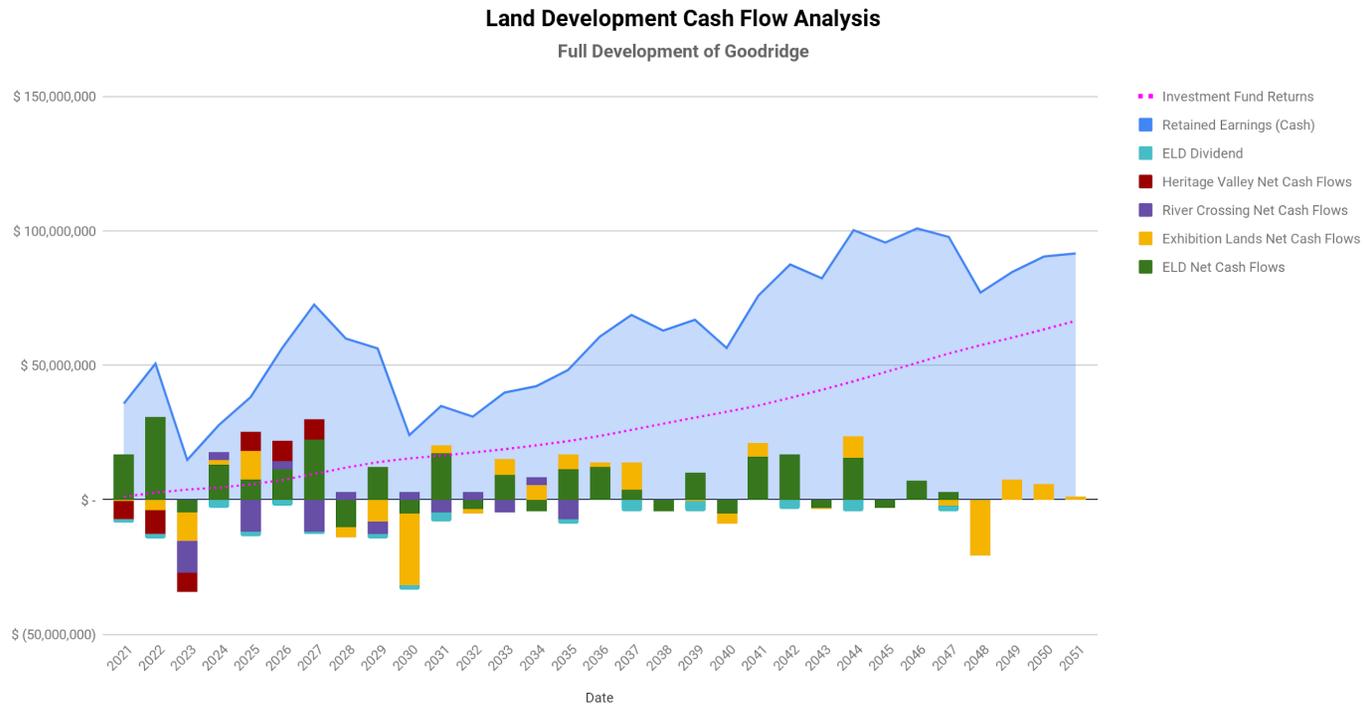


Figure 4 - Option 2: Partial Development Combined Cash Flow

Figure 4 illustrates that the initial cash flow generated through the quick disposition of Aster and Schonsee is sufficient to support the major redevelopment and node projects without delaying those projects. Continued development of Goodridge Corners generates a significant amount of surplus revenue which could then be used

for other real estate or land development opportunities that may present themselves in the future. When comparing Figure 4 to Figure 3 it can be seen that development of Goodridge Corners results in significantly more funding being available to these other opportunities than provided by Option 1. Following the completion of all land development activities, this option generates a total dividend amount of \$36 million and a surplus of \$91.6 million in retained earnings.

Use of a Reserve Fund

The section below outlines the impacts of the proposed disposition scenarios against the potential investment income that can be earned using the retained earnings (cash) from each of those scenarios. A key assumption of this analysis is that the City earns investment income on any funds held in treasury. The retained earnings balance for any City department is invested and managed as part of the overall investment and treasury mandates of the City. Therefore, any investment returns generated as a result of any of the proposed disposition strategies remain as part of the City's overall retained earnings and are not attributed to Land Enterprise or Enterprise Land Development.

Administration, with the guidance of the City's Chief Investment Officer, made assumptions as to where and how any retained earnings would be invested over the 30 year horizon of the analysis. In any scenario in which Land Development proposes using funds from the disposition of ELD projects, those funds would be invested in a blended mix of funds returning on average 3.50 percent per annum over the long term. For each option shown in Table 3, below, all ELD retained earnings would be reinvested into several proposed City Building (re)development projects with the exception of the Ed-Tel analysis option.

For Option 1A - the Ed-Tel Investment scenario, all ELD lands are sold as-is and all net cash from those sales is invested into the City's Ed-Tel Endowment Fund which has an expected return of 6.25 percent per annum. This option requires strategic withdrawals over the (re)development time horizon to ensure viability of the proposed City Building projects. Under this assumption, there are years where large capital withdrawals are required from the Ed-Tel Endowment Fund to sustain the (re)development of those City Building projects - at times in excess of

\$20M. If this assumption of access to invested funds can not be facilitated in practice, there would be an estimated \$67M funding shortfall to complete these projects which would have to be filled from alternative funding sources. It is important to note that, for any funds to be invested into the Ed-Tel Endowment Fund, or special withdrawals made, changes would be required to Bylaw 11713.

The table below highlights the investment returns from each disposition scenario over a 30 year period. In the table, below:

- *Row A, Investment Return / Dividend to Corporation* illustrates the total investment return by each option. For Options 1, 2 and 3, these investment returns do not flow back to Land Enterprise but instead remain as funds that accrue to the corporation. For Option 1a, these dividends are paid to the corporation on an annual basis.;
- *Row B, Ending Retained Earnings Balance* illustrates the amount of funds left in retained earnings after all accounting for all the costs and revenues related to the land development activities;
- *Row C, Ending Fund Balance* illustrates the amount of funds which were originally generated through the sale of the ELD land holdings, that is left in the Ed-Tel Fund after all withdrawals have been made to support the (re)development projects. This row only applies to the Ed-Tel Investment option; and
- *Row D, Total Cash Flow to Corporation* is the sum of Rows A, B and C, and represents the total net benefit to the corporation for each option presented, after accounting for all the investment income as well as land development activities.

	Option 1: Sell As-Is (Blended Fund)	Option 2: Partial Development (Blended Fund)	Option 1a: Sell As-Is (Ed-Tel Investment) ¹
Investment Return / Dividend to Corporation ^(A)	\$39.5M	\$66.5M	\$62.3M
Ending Retained Earnings Balance (2051) ^(B)	\$18.6M	\$91.6M	\$14.5M

Ending Fund Balance (2051) ^(C)	N/A	N/A	\$19.0M
Total Cash Flow to Corporation ^(D)	\$58.1M	\$158.1M	\$95.8M
BLENDED FUND: (A)+(B)=(D) ED-TEL FUND: (A)+(B)+(C)=(D)			

Table 3

As shown in Table 3, above, Option 2: Partial Development, generates the highest return, while Option 1: Sell as-is generates the least.

In Option 1a, despite having the highest investment return at 6.25 percent per annum, the withdrawals that are needed to support the major redevelopment projects erodes the principal balance and reduces the overall investment return. This results in it having a lower Total Cash Flow to the Corporation than Option 2, but higher than Option 1.

As noted above, funds held in treasury are invested as part of the city's overall investment and treasury management strategy and generate investment returns for the corporation. As such, no special reserve or fund needs to be created to allow proceeds from land development activities to generate returns through investment as this already occurs through standard City practices. It should also be noted that the investment returns for Options 1 and 2 in Table 3 are in addition to the revenue generated in Table 1 and flow back to the corporation, not retained earnings. These amounts are not included in the combined cash flow analysis discussed earlier in this document.

Market Analysis

Selling As-Is

In 2020, Administration retained Altus Group to complete a market study related to the disposition of the City's Aster, Schonsee and Goodridge Corners land holdings. The primary goal for the studies was to confirm market demand existed if the City were to list its greenfield land holdings for sale, as-is. Altus also presented

recommended strategies for disposition and expected timelines the City could anticipate it would take to sell the holdings.

The study considered residential macro market analysis and location specific market demand analysis, including demand drivers, and likely development timeframe. The development timeframes noted in the Altus study are in general alignment with previous development timeframe analysis work completed by PricewaterhouseCoopers (PWC) and presented to Council. The Altus study also considered development and land ownership trends, included a local developer survey on relevant market information, reviewed comparable transactions, and analyzed several other elements that would have a potential impact on the demand and saleability of the land holdings.

In general, the market studies found the City would be able to sell their holdings as-is within a reasonable timeframe, if listed.

A summary for each holding is presented below.

Aster

The study anticipated that Aster has a five to ten year development horizon. The study noted that:

“development is well entrenched in southeast Edmonton, with various groups actively developing in the surrounding area. Based on demand projections presented in [the market study], residential unit demand for southeast Edmonton is considered



to be strong, and the development of the subject parcel in the mid-term would be supported by the market.”

To sell the lands as-is, the recommended disposition strategy for Aster would be to undertake a plan amendment and sell it as a single parcel to a single, strategic developer. Anticipated timelines would see Aster publicly listed for sale by Q4 2021. It is expected that an exposure time of six to nine months would be required to sell the property at market value.

Figure 7 - Aster

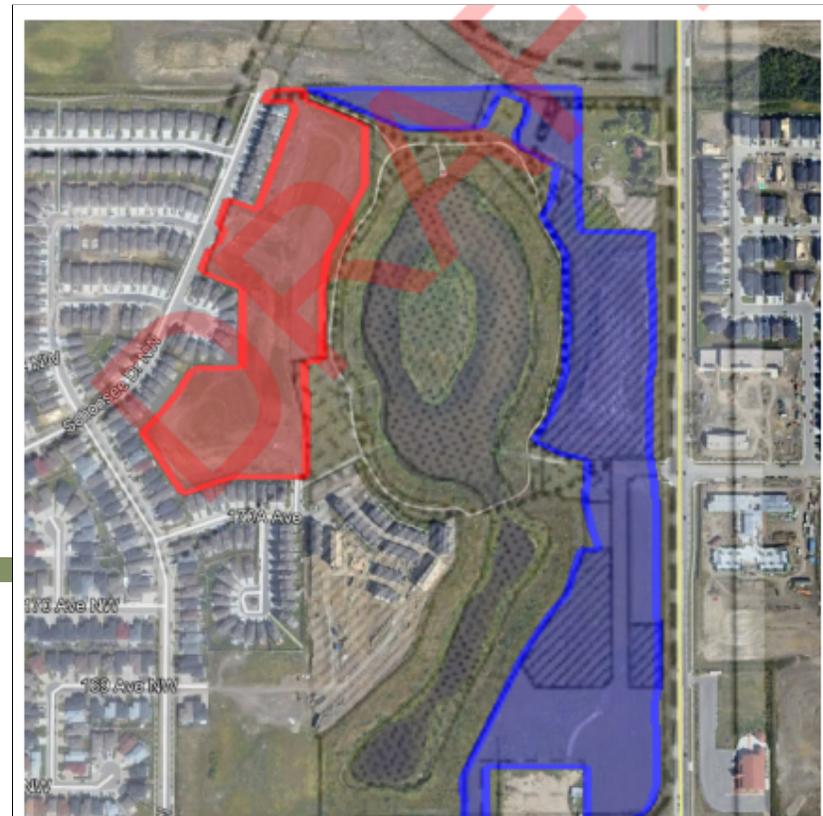
Schonsee

The study anticipated that Schonsee has a three to five year development horizon. The study noted that:

“the subject property is already well-positioned for sale and would likely garner considerable interest if brought to market today”.

To sell the land as-is, the recommended disposition strategy would be to split Schonsee into east and west sections to be sold separately. It noted

“Schonsee West would be marketed and sold to a developer seeking immediate development potential, whereas Schonsee East would be sold based on its short- to mid-term development potential. This disposition strategy would attract a multitude of smaller and mid-sized developers in the local market given the efficient size and development momentum in the immediate area”.



It is expected that an exposure time of six to nine months would be required to sell the property at market value. It should be noted that the City is already in negotiations with a purchaser for Schonsee - West.

Figure 8 - Schonsee East and West

Goodridge Corners

The study anticipated that Goodridge Corners has a 15 to 20 year development horizon. It noted a significant consideration in the disposition of this parcel is the overall magnitude of the lands. In total, the lands comprise over 400 ac of land, and would be a significant undertaking by any single developer. As such, the study considered three disposition strategies for consideration if the City were to sell the lands as-is. The strategies, as presented in the study are the following:

Strategy 1: *Sell off the entire parcel en-bloc; short-term disposition strategy (9 to 12 months)*

Strategy 2: *Divide the parcel into two sections (east and west) along the future collector road; subdivide the east portion into mid-sized parcels based on future designated land use and planned roadways and sell off each subdivided parcel individually; sell off the entire west portion en-bloc; mid-term disposition strategy (12 to 18 months)*

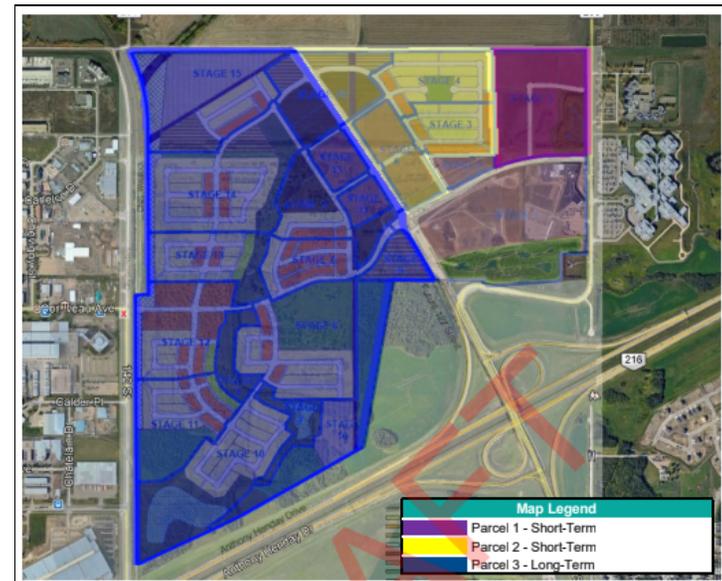


Figure 9
Goodridge Strategy 2

Strategy 3 (Preferred Sell as-is Strategy): Divide the parcel into two sections (east and west) along the future collector road; subdivide the east portion into mid-sized parcels based on future designated land use and planned roadways and sell off each subdivided parcel individually; subdivide the west portion into larger-sized parcels based on future designated land use and planned roadways and sell off each subdivided parcel individually; long-term disposition strategy (18 to 24 months)

The Altus analysis anticipated that Strategy 2 will generate approximately five percent more revenue than Strategy 1 and Strategy 3 will generate approximately 20 percent more revenue than Strategy 1.

The cashflow analysis of Option 3 - Partial Development indicates that initial support for the Exhibition Lands and River Crossing projects does not rely on the proceeds from the sale of Goodridge Corners. As such, there is no urgency to receive the proceeds of sale from this development. Given that Strategy 3 is anticipated to generate an additional 20 percent of revenue than Strategy 1 with only an additional six to twelve months of exposure time, it is recommended that the City proceed with Strategy 3 for Goodridge Corners.

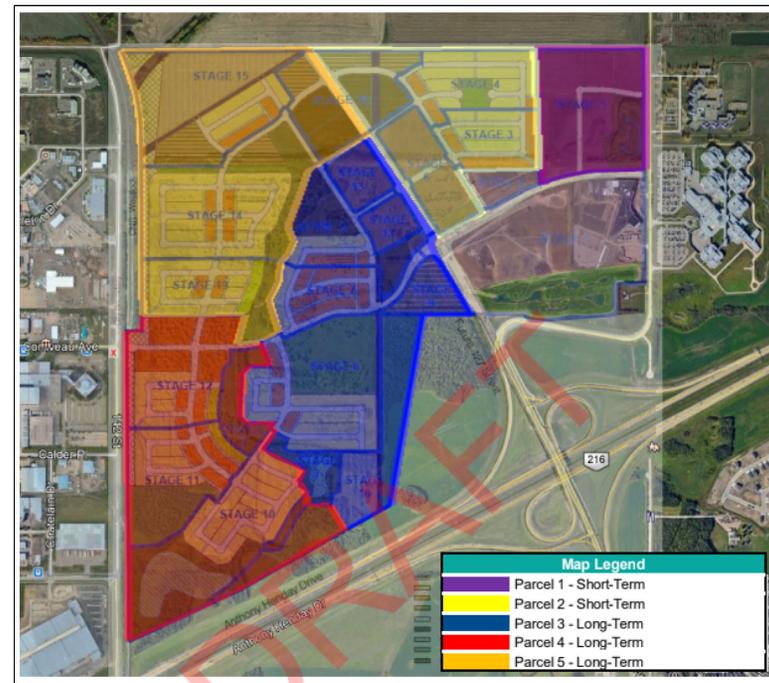


Figure 10
Goodridge Strategy 3

Land Development

Future market demand for development of the City's holdings was previously analyzed by PricewaterhouseCoopers (PwC). In that analysis, it was found that the City's current holdings would require approximately 25 years to fully develop. The development horizons noted in the Altus report generally align with the PwC analysis. From the previous analysis, the following is the anticipated development horizon and lot sale timelines:

- **Aster** - subdivision planning and servicing of the Aster lands are to commence in 2030 and be substantially completed by the end of 2033. Following completion of site servicing, lot sales are projected to occur, with all lots sold by the end of 2035.
- **Schonsee**
 - Schonsee East - planning and servicing of the Stage 20 and 21 lands are to take approximately two years. Following completion of site servicing, lot sales are projected to occur, with all lots sold by the following year.
 - Schonsee West - continue negotiations with purchaser with the intent to close the sale in 2021.
- **Goodridge Corners** - planning and servicing of the Goodridge Lands are to commence in 2021 and be substantially completed by the end of 2046. Following completion of site servicing for each stage, sales of single family lots and rezoned land are projected to occur, with all lots / land having been sold by the end of 2047.