

**Planning & Development Report to
Combined Meeting of Council
2020 April 27**

**ISC: UNRESTRICTED
C2020-0463**

Council Innovation Fund Application for Downtown Accelerator Program - 1 Million Square Feet

EXECUTIVE SUMMARY

Councillors Farrell and Woolley are sponsoring this application to the Council Innovation Fund that will be managed through the Calgary Downtown Association with the release of City funds to be overseen by Calgary Growth Strategies, Planning and Development. The application is seeking \$250,000 to support a lease accelerator program in the downtown. The Council Innovation Fund (CIF) amount would be matched by private sector contributions, providing a total of \$500,000 for start up and operational costs for the program. Private investment, mostly in leasehold improvements, is anticipated to generate more than \$500,000 in construction value. The proposed program goal is to fill empty building space with permanent leases by the end of the 18-month program.

This initiative is even more pertinent with the current global COVID-19 pandemic. The sweeping closures required to reduce the spread of the pandemic will cause the permanent closures of some business. These more recent closures will only amplify the previous critical situation of vacant retail spaces and diminished office space opportunities. Post pandemic, the 1M program would support the comeback of commercial services and public activity back to the downtown. The program would support new businesses by providing easier access to vacant spaces with temporary and flexible lease agreements, coordination of commercial offerings across the pilot area to test concepts that are integrated and complementary, with program assistance to facilitate terms with landlords to create long term leases and space improvements.

The Calgary Downtown Association and Makespace Group Inc. would lead the lease space accelerator program. This program aims to activate one million square feet of retail and amenity space in the downtown through a curated mix of pop-up, special events and entrepreneur development programming. The deployment of many of these tactics would need to wait until post pandemic, when more regular commercial access resumes. The program has three main objectives: accelerate and cultivate tenants into long term leases; change the image of downtown to a place of active and vibrant amenities; and, stimulate private investment into buildings and leasehold space by facilitating collaborative lease agreements.

A funding agreement between the Calgary Downtown Association and the City of Calgary would specify that this \$250,000 would be only available for the accelerator program. Funds would be released as the complementary match of private funds are secured. Initially, \$100,000 would be released, since the same amount has been secured to date by outside sources. Additional funds from the requested \$250,000 from the CIF would be released in a phased approach once the previous funds spent had shown success; if results were not realized, the funds would be returned to the Council Innovation Fund. To align with the Business Improvement Regulation, the Council approved budget for the Calgary Downtown Association requires an amendment to reflect management of the project fund, and this adjustment is reflected in the recommendations.

Calgary Growth Strategies will submit an update report to the Chief Financial Office within 12 months of project completion detailing how the Council Innovation Fund grant was spent and the outcomes of the program. The Chief Financial Office will submit the summary report to Council through Priorities and Finance Committee, as per the Council Innovation Fund Terms of Reference requirements.

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ADMINISTRATION RECOMMENDATION:

That Council:

1. Approve this application to the Council Innovation Fund for the Downtown Accelerator Program - 1 Million Square Feet (1M), in the amount of \$250,000;
2. Approve amendments to the Calgary Downtown Association's 2020 budget to reflect expenses and associated grant revenue for the proposed project (Attachment 2);
3. Direct Administration to execute an agreement with the Calgary Downtown Association that, among other items, identifies that the Calgary Downtown Association is to only use approved grant funds to cover the proposed project expenses; and,
4. Direct Administration to report back to the Priorities and Finance Committee on the outcomes of this project by Q2 2022.

PREVIOUS COUNCIL DIRECTION / POLICY

2020 February 3 Combined Council Meeting, Report PFC2020-0012 2020 Business Improvement Area Budgets and Enabling Bylaws, Council approved the following recommendation:

- Approve the proposed 2020 BIA budgets (Attachment 1) and authorize each BIA board to amend its respective budget by: (a) transferring amounts to or from a BIA board's reserves, and (b) transferring amounts between expenditures so long as the amount of the total expenditures is not increased.

2019 October 07 Strategic Meeting of Council, Report C2019-1302, a presentation entitled "Calgary's Comeback", was distributed along with a Verbal Report. The following was adopted; that Council:

- Receive the verbal report and presentation for the Corporate Record;
- Direct the Mayor and Councillors Farkas, Gondek and Sutherland to work with the City Manager on establishing performance management measures; and
- Direct that the Closed Meeting discussions remain confidential pursuant to Section 24 (Advice from officials) of the Freedom of Information and Protection of Privacy Act.

2019 July 22 Combined Council Meeting, Report PFC2019-0664, Council approved the following recommendation:

- Direct Administration to continue implementing the Downtown Strategy, as identified through this report.

2019 April 01 Strategic Meeting of Council, Report C2019-0415, a presentation entitled "Downtown Strategy and Focus" was given. Council approved the following recommendations:

- Endorse the direction as presented (C2019-0415 - Downtown Strategy and Focus);
- Direct Administration to provide an update on the further development of a Downtown Strategy to the Priorities and Finance Committee in 2019 July and October; and,

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- For the July Priorities and Finance Committee, Administration further refine the Downtown Strategy to include: heritage, safety, and competitive research.

BACKGROUND

Calgary's Comeback includes actions to facilitate revitalizing downtown with guidance from the Downtown Strategy, a strategy that brings together civic and community partners through coordinated and collaborative work guided by Calgary in the New Economy: An economic strategy for Calgary. Committed to making life better every day for citizens, customers, residents and businesses by focusing on four pillars:

1. Place - Building and supporting programming in the downtown that creates a destination and experience for all Calgarians and visitors to enjoy.
2. Work - Supporting the development of new and existing business in downtown Calgary by ensuring our policies and services support business success in Calgary.
3. Live - Ensuring that downtown is a neighbourhood of choice to reside by providing the amenities to enhance the quality of life for people living downtown.
4. Connect - Creating and managing the frameworks and networks that connect people, goods, information and ideas.

The proposed Downtown Accelerator Program - 1 Million Square Feet (1M), aims to achieve the same goals, with specific and thoughtful implementation actions for the Place, Work and Live pillars.

Recent amendments to the Land Use Bylaw include new rules that are supportive of this initiative, including, the permanent adoption of the Centre City Enterprise Area (CCEA). The CCEA was instituted as a pilot in July of 2017 (30P2017) to make it easier for tenants and new businesses to set up operations; and for building owners to make improvements to their buildings to accommodate and attract new tenants. The CCEA exempts a change of use in most of the downtown area from a Development Permit. Within a temporary period, ending July 2021, building additions and alterations within the CCEA do not require a Development Permit. The new uses of Pop-Up and Interim Uses added to the Land Use Bylaw (June 2019 Bylaw 42P2019) allow uses that have a low to moderate impact on surrounding areas to use commercial space for pop-up and interim periods without a Development Permit. All these bylaw changes support flexibility to pilot concepts and deliver these ideas to the leasehold spaces quickly. The Calgary Downtown Association and the Makespace Group have building owners willing to create a comprehensive test area that leverages these changes.

This application is limited in area, specifically chosen to align with existing amenities and assets, such as recent lobby and podium upgrades and access to LRT. The program aligns with Council and City efforts focused on enhancing Stephen Avenue, but it is the intention of the program to be transferred to other commercial areas throughout the downtown once successes are realised. Lessons learned can ultimately be used in other areas outside the downtown,

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including Main Streets or Transit Oriented Development areas, and could be used by other Business Improvement Areas to curate new lease and amenity opportunities.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

With job losses and sharp declines in office occupancy in the downtown commercial area, the ability of existing retail, restaurants, recreational amenities and other commercial services to remain open is becoming more of a challenge. As non-office businesses close, downtown employees and visitors have fewer options and services to choose from, further reducing the enjoyment and viability of the downtown.

Innovation and assistance are required to change the current situation. Recent policy support and Land Use Bylaw changes have increased flexibility and reduced regulatory barriers, but innovation by the private sector is also necessary to take advantage of these new opportunities. This proposal provides a new approach, supported by new lease options, performance evaluation and assistance to establish long term leases. The program will:

- evaluate the existing offering of commercial services in the first pilot area
- determine a complementary program of commercial services
- reduce competing services
- assist with lease creation, documentation and terms
- test retail and restaurant concepts
- provide activity spaces; and
- evaluate successes to secure long-term leases.

Once successes have been identified as a result of the program, they will be transferable to other areas of the downtown, using the same process.

Stakeholder Engagement, Research and Communication

The creation of ideas and approaches in many emerging and new businesses are often dynamic and outside traditional practices. More and more, start-up companies require a modern approach to leasing, marketing and flexibility to access capital. The conventional methods of property owners, lease agents and City regulations can limit the capacity of some new businesses. Today, many employees are seeking a work place that provides a blended experience of productive work time and time to recharge and relax with a variety of amenities. An amenity-rich environment complements modern worker desires and attracts all Calgarians and tourists to explore and enjoy an active downtown.

Project Goals and Actions

There are three primary goals for the proposed downtown accelerator program - 1 Million Square Feet (1M):

1. Accelerate and grow full time tenants
2. Change the image of downtown
3. Spark and leverage private investment

Fostering new tenants will start with an examination of the test area and the participating buildings. The program will then map and curate a vision for the area, determine ideal uses and activations and then create short term lease arrangements to accommodate these uses. The

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program will also prototype temporary retail and amenity uses thus supporting building owners and tenants with leases, marketing and other services.

This project will fund and facilitate the relationship between the landlord and tenant. It will create new tools that allow successful test concepts to move into permanent leases with associated leasehold improvements. An overarching objective of the program is to build knowledge and techniques that allow more flexibility in landlord/tenant agreements.

Project Phases

Implementation would focus on a project area with the support of several of the building owners and would be executed in two separate phases. The first project area is concentrated on five buildings (The Edison, Stephen Avenue Centre, Stephen Avenue Place, Brookfield Place and the Alberta Block) from 9 Avenue S to 7 Avenue S between Centre Street and 2 Street SW. The project would have an 18-month term, with two individual cohorts of tenants for the delivery and piloting of commercial services. This will eventually lead to some long-term leasing of space.

The project area was chosen because of the number of anchor office towers with redeveloped lobbies, the interesting mix of historic buildings, access to the LRT, concentration of indoor and public spaces available for programming and the ongoing Future of Stephen Avenue project. The rethink and redesign of Stephen Avenue was a key driver to choose this as a project area. The recent Council Innovation Fund request for The Future of Stephen Avenue – Activate + Experiment (PFC2020-0274) was approved by Council 2020 April 06 for approval will implement public realm activations that will complement the tenant concept testing and leasehold improvements and activities of the Downtown Accelerator Program - 1 Million Square Feet (1M).

1M will create an investment and governance model, define and gather commitments for tenant space with building partners, determine desired uses and potential locations. Recruitment for applications for prospective projects will occur with the first cohort, followed by a launch event. Lease space for the selected projects will be designed and built. Once in operation, the success of new business ventures will be monitored and evaluated. Long-term leases will be signed for financially viable ventures. Once the first cohort of businesses have transitioned into lease agreements, the second cohort will use the experience of the first round to follow a similar delivery method and incorporate lessons learned. It is expected that the second cohort would begin in February or March 2021.

Strategic Alignment

The 1M proposal aligns with Calgary's Comeback and the goals and objectives of the Downtown Strategy, is complementary to the Future of Stephen Avenue project and is guided by Calgary in the New Economy: An economic strategy for Calgary. Recent Land Use Bylaw updates have reduced regulatory barriers and allowed flexibility to pilot and test temporary business concepts. 1M will leverage this reduction in red tape to curate thoughtful retail and amenity spaces in the test area.

Success of the proposal will be transferable to other locations within the downtown. Future buildings and areas in the downtown can continue the program, support business growth and provide an attractive and desirable environment that will further attract more office tenants. The

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methods and approaches of the proposal can be a model for other commercial concentrations outside the downtown, such as Main Streets or Transit Oriented Development areas.

Social, Environmental, Economic (External)

The proposed program aligns and aims to action a triple bottom-line approach that supports small business start up and growth and increase the attractiveness of the downtown for potential office tenants. Calgary needs to attract new businesses and retain talent; the downtown has a high office vacancy rate, which will likely be further impacted by the COVID-19 pandemic, and the provision of commercial services and amenities is declining as the number of employees in the downtown decreases. Fewer numbers of employees and visitors to the downtown is impacting the vitality and attractiveness of the area.

Social

The 1M program will provide more retail and other commercial services to the downtown and will help to improve the vitality, economic viability and the vibrancy of the area. The new businesses will fill vacant storefronts and will intentionally have dynamic and active interfaces with public spaces and sidewalks. More foot traffic, more activity and more vitality in the project test area will attract more Calgarians and tourists to visit the downtown and provide a safer environment.

Environmental

Active and interesting streets, plazas and sidewalks will promote walking and cycling as many of the test concepts will intentionally seek pedestrian interaction. The increased attractiveness and comfort of the sidewalks will likely increase the use of alternate modes of travel to the downtown. This improved environment and usage supports the goals of The City's Cycling and Pedestrian Strategies.

Economic

Calgary's Comeback, the Downtown Strategy and the Future of Stephen Avenue project all recognize and aim to address the current challenges faced in the downtown, where low occupancy in office buildings resulted in a significant reduction in downtown workers, and thereby reduced viability of retail and commercial business. This, along with an increase in social disorder, impacted the image and attractiveness of the downtown for growing the commercial sector.

This program, in the immediate term, activates vacant commercial spaces with vibrancy, testing concepts expected to lead to long term leases. Long term leases increase cash flow to building owners, increase the assessment value of the lease space and contribute more revenue to the City of Calgary. A stronger, more active retail sector in the downtown increases the potential to lease office floor space since office tenants often seek the commercial amenities within or near their building.

Financial Capacity

As of 2020 April 6 the balance of the Council Innovation Fund is approximately \$3.1M. This application is a one-time funding request of \$250,000.

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Current and Future Operating Budget:

It is anticipated that the \$250,000 from the CIF will be matched by private sector corporate sponsors, including \$50,000 from Makespace Group Inc. and \$50,000 from the Calgary Downtown Association. This request would require matching funds from external partners prior to releasing City funds. Funds will be released incrementally, with an initial release of \$100,000 and the remaining funds released based on performance of the program.

The Council Innovation Fund will support operational and start-up costs for the program, staff time for supporting the activities, including marketing, technology, legal, design, inventory and development of a 1M project dashboard.

Calgary Growth Strategies would provide oversight regarding the release of City funds based on a funding agreement between The City and the Calgary Downtown Association. The operation of the 1M program would be the responsibility of the Calgary Downtown Association.

Under the Business Improvement Area Regulation (the Regulation), a Business Improvement Area's budget must be approved by Council. BIA 2020 budgets, including the 2020 budget prepared by Calgary Downtown Area's board, were approved by Council on 2020 February 3 in PFC2020-0012 2020 Business Improvement Area Budgets and Enabling Bylaws. Under the Regulation, a BIA board can only make an expenditure if the expense is included in the board's budget and the budget has been approved by Council. As the proposed expenditures are outside of the 2020 budget approved by Council, this report recommends that Council approve an amendment to the CDA's budget to include the proposed project expenditures as presented in Attachment 2. Any project expenditures will be covered by related grant revenue and will not impact the previously approved total expenditures approved by Council for 2020.

Current and Future Capital Budget:

No impact on City of Calgary capital projects.

Risk Assessment

The downtown continues to struggle with job losses and empty retail and office spaces. The current global COVID-19 pandemic will likely further negatively impact this situation. This proposal aims to accelerate lease growth, test concepts and develop long term leases that ultimately increase the amount of commercial services and the attractiveness for new office tenants. The proposed program term is 18 months to completion and requires efforts for program set up prior to delivery thereby highlighting the importance of proceeding with this work as of Spring 2020.

Not approving the funding will limit the ability of the private sector to take advantage of recent Land Use Bylaw changes that support the ability to pilot new concepts and occupy vacant spaces quickly. The Calgary Downtown Association and Makespace Group have building owners willing to leverage these funds with private investment and resources. This private sector investment is available now and The City should support this private effort for innovation.

There is a risk that approving the funding of the program may not deliver long term results for longer term leases. While short-term activation will be beneficial, the long goal is to secure stable leases. However, this risk is mitigated by the proposed funding agreement that will see

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The City only release the entire amount upon a demonstration of success in a first phase. The first phase area leverages the upcoming temporary activations and long-term improvements for the Stephen Avenue pilot program. Efforts of this work and of the Stephen Avenue work mutually support common goals of attracting investment into the city's downtown and have the potential to amplify each other's impact.

REASON(S) FOR RECOMMENDATION(S):

The Downtown Strategy aims to support the recovery of Calgary's downtown and this proposal uses private sector investment and leverages capacity of the local Business Improvement Area (Calgary Downtown Association) to revitalize commercial areas in a phased approach with limited City investment that achieves many objectives of Council policy priorities.

ATTACHMENT(S)

1. Attachment 1 – Application for Council Innovation Fund: Downtown Accelerator Program – 1 Million Square Feet – C2020-0463
2. Attachment 2 – Downtown Accelerator Program - 1 Million Square Feet | Year One Budget – C2020-0463
3. Attachment 3 – Letters of Support – C2020-0463