

Realizing Calgary's Greater Downtown Plan - Initial Investments and Incentives

RECOMMENDATIONS:

Administration recommends that Council:

1. Approve Attachment 3, "Greater Downtown Plan – Initial Investment and Approvals", including investment categories and allocations, and with the \$200 million initial investment funded by \$60 million from the Budget Savings Account, \$63 million from the Fiscal Stability Reserve and \$77 million from the *Canada Community Building Fund* subject to receipt of the 2021 increase;
2. Request the Mayor write letters to the provincial and federal governments, advocating for funding and other support for Calgary's Greater Downtown Plan, and direct Administration to pursue the same support by contacting provincial and federal government officials and departments;
3. Authorize entering into a Housing Agreement on Sierra Place at 706 7 Avenue SW and authorize the Community Services General Manager to develop, approve, and execute the agreements identified in Attachment 7 and necessary to implement the HomeSpace project; and,
4. Direct Administration to report back to Council no later than 2022 Q2.

HIGHLIGHTS

- This report outlines a holistic initial investment package of \$200 million to support the implementation of *Calgary's Greater Downtown Plan: Roadmap to Reinvention* (The Plan), and to respond to *Notice of Motion C2020-1439 Providing Incentives for Residential Development in the Downtown Core*.
- What does this mean to Calgarians? Downtown is the economic and cultural heart of Calgary. It is the central hub for business, innovation and creativity. What happens downtown, especially in terms of real estate, has a direct impact on the rest of the city. Calgary needs a strong core to grow our economy, create jobs and fund the city services we rely on every day.
- Why does this matter? A thriving downtown means a thriving Calgary. We need bold action and intentional investment to transform our downtown from vacancy to vibrancy. The success of our city relies on downtown being a place where people want to live and visit and where businesses want to set up shop, now and for decades to come. Downtown must transform toward a vision that includes a more balanced mix of residential, office, retail, entertainment, tourism, and culture.
- Administration worked in collaboration with industry experts including Calgary Economic Development's (CED) Real Estate Sector Advisory Committee (RESAC) and the Real Estate Working Group on the analysis, and considerations in response to Notice of Motion C2020-1439. To help address downtown office vacancy and stabilize values over the next decade, approximately six million square feet of office will need to be removed from the market through absorption, conversion, adaptive reuse, and/or demolition. Converting office to residential uses is complex and expensive, therefore incentives are required to stimulate investment.
- Reinventing downtown requires a multi-pronged investment program, funding partnerships, and strategies to enable near-term and medium-term actions; a multi-phased approach over the next decade and beyond, multi-stakeholder collaboration and partnerships; and, a dedicated team that is empowered to be nimble, flexible, operate at the speed of business, and laser-focused on driving implementation and results. The

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components of the investment program are interdependent and must work together to build a thriving and vibrant downtown.

- As downtown office vacancy rates continue to rise, the impacts are far-reaching. The status quo scenario is the biggest risk to downtown vibrancy, Calgary's economic competitiveness, and fiscal sustainability. See Attachment 10 for a full risk summary.
- Strategic Alignment to Council's Citizen Priorities: A prosperous city
- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

Where We Are Today: The Challenge

- Downtown office vacancy is at approximately 12 million square feet which translates into approximately 30 percent.
- Downtown office property values have declined by \$16 billion since 2015, or 60 percent, resulting in the tax shift situation.
- Downtown office absorption is forecast to be negative one million square feet in 2021. This will exert further downward pressure on downtown property values and tax shift impacts.
- The pandemic has globally accelerated the need for action on downtowns. The City of Calgary (The City) participates in and supports the Canadian Urban Institute's "*Restore the Core and Main Streets*" initiatives to collectively focus effort, action, and advocacy on downtown revitalization. Calgary's current downtown state of the economy is summarized in Attachment 2.

Calgary's Greater Downtown Plan: Roadmap to Reinvention (PUD2021-0220)

The Plan is our vision, roadmap and commitment to build a thriving, future-focused downtown over the next decade and beyond. "*Greater Downtown is the economic and cultural heart of Calgary. It is a resilient and vibrant place for everyone, with welcoming neighbourhoods and active streets, and well-used public spaces.*" The Plan is an initiative of the Downtown Strategy which will be the principle driver for implementation, coordinate future budget requests and prioritize corporate action. The Plan was presented and supported at Standing Policy Committee on Planning and Urban Development on 2021 April 07.

Notice of Motion C2020-1439 Providing Incentives to Residential Development in the Downtown Core

In response to the Notice of Motion, a corporate project team was established to conduct analysis and bring forward recommendations in collaboration with the Real Estate Working Group and CED's RESAC group. With the input of industry experts and to ensure alignment, the analysis considered the following: scope of the problem, time horizon, downtown and industrial competitiveness, office and residential market conditions, tools such as Bill 7, talent and company attraction, innovation, funding sources, grant stacking, opportunities, risks, and intergovernmental advocacy.

According to industry, and the University of Calgary's School of Public Policy report *Obsolescence as an Opportunity: The Role of Adaptive Reuse in Calgary's Office Market* (Graham and Dutton, 2021), "*Adaptive reuse is a promising approach to help address Calgary's serious office-space surplus and build a resilient recovery, but it can be a highly complicated and often expensive undertaking. Without the right incentives and processes in place for*

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conversion, the city could be facing an increasingly hollowed-out downtown, with all the physical and economic deterioration that it will bring.”

RESAC has identified a list of 28 potential downtown office buildings for conversion or adaptive reuse (i.e. to residential, student housing, seniors housing, post-secondary institutions, and/or amenities). RESAC and the project team also connected with cities such as Denver, Houston, Detroit, and consulted with Gensler (a global architecture, design and real estate consulting firm) on conversion analysis, feasibility, best practices and programs across North America that made a difference. In addition to financial incentives, regulatory certainty, timeliness of approvals, simplicity of programs, moving at the pace of business, and public and private investment were all key factors for success. As the downtown office vacancy continues to rise, the impacts are far-reaching. The status quo or “do-nothing” scenario is the biggest risk to downtown vibrancy, Calgary’s competitiveness, and significant issues for future affordability, service levels, and the financial capacity for The City going forward.

- Attachment 4 details the scenario analysis conducted by RESAC and the project team on the status quo no-action and the proposed take-action incentives scenario. RESAC’s recommendation and business case for investment is compelling by driving metrics to turn the curve on downtown office vacancy.
- To better understand the downtown residential market conditions including supply, demand, and potential impacts, Administration will develop a comprehensive Greater Downtown residential strategy. This strategy will not only help identify high-potential market opportunities but also address concerns for creating potential over-supply in the downtown residential market. See Attachment 6 for details.
- Attachment 8 outlines items for future analysis.

Call to Action

The 10-year implementation of The Plan will require near-term and medium to long-term actions. Achieving the vision will require a multi-pronged, multi-phased, and multi-stakeholder approach. The investment required from 2021 to 2031 is estimated at \$1 billion (\$450 million to \$500 million to address office vacancy and \$500 million for downtown vibrancy infrastructure and amenities). The initial investment proposed in the report represents only 20 percent of the overall need to get started. We will need to look hard at alternate sources of funding and support from other orders of government to help address 80 percent of the funding gap.

Call to Action: Initial Investment Package for Downtown Vibrancy and Implementation Near-Term Actions (2021 – 2024)

To achieve the Greater Downtown Plan vision, a complementary suite of implementation methods is required. The proposed initial investment package is a holistic proposal to support implementation. The package reflects a proposed initial investment of \$200 million which represents only 20 percent of the overall need to get started. Details are outlined in Attachment 3.

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Investment Categories	\$ Allocation
A. Incentive for office to residential conversion, redevelopment, or adaptive use (only represents 10% or first year of 10-year need)	45 M
B. Incentive to offset +15 Fund contribution for residential development	5 M
C. Downtown Vibrancy Capital Program	55 M
D. Programming (2021-2024)	5 M
E. Dedicated Downtown Team (2021-2024)	10 M
F. Arts Commons Transformation Phase 1 (Capital Program 639-010) (upon receipt of funding through the <i>Canada Community Building Fund</i>)	80 M
Total	\$200 M

Business Environment

Listening to the real estate industry, the business sector, citizens, and the community, there are high expectations for The City to take urgent action and move at the speed of business on downtown implementation. We have been asked to make bold moves and this is *"not business as usual."*

Marketing and Communication

Administration is focused on executing a marketing and communications strategy to strengthen advocacy for funding and other supports to other orders of government, to the private sector, and the public following approval of The Plan and the initial investment package.

Next Steps

Organizational focus with a dedicated team with the right set of skills and experience, and financial resources will be required to drive execution and results. The team composition is based on the model for successful "innovation teams" used by many start-ups and includes the disciplines of financial analysis, marketing, design, and project management/delivery.

Emerging Opportunities to Accelerate Implementation

HomeSpace Society's Sierra Place Project (Attachment 7)

HomeSpace Society's Sierra Place proposal presents a unique demonstration opportunity which will take 95,000 sq. ft. of office space in the downtown core and convert it to 108 affordable residential rental homes. Lessons learned from this development will help inform future proposals. With a development permit in hand, this project is poised to proceed. A municipal grant of \$5.5 million will increase the likelihood HomeSpace will be successful in securing other federal, provincial and philanthropic contributions to the project. Administration recommends that Council authorize entering into a Housing Agreement on Sierra Place at 706 7 Avenue SW and authorize the Community Services General Manager to develop, approve, and execute the agreements identified in Attachment 7 and necessary to implement the HomeSpace project.

Priority Capital Projects in Downtown

On 2019 March 04, Council approved the financial strategy to fund four priority capital projects over the next 10 to 15 years, three of these projects, are key foundations of a future Cultural and Entertainment District: the Event Centre in Victoria Park (funded); BMO Convention Centre Expansion (funded); and, Arts Commons Transformation (awaiting final portion of funding). In addition, the Contemporary Calgary on the west side of downtown (renovations-City funded)

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and the Glenbow Museum renovation project (City portion funded) are critical to achieving the vision of The Plan. Together, these capital projects strengthen Calgary's economy, foster business development and are catalysts for revitalization and private investment.

Arts Commons Transformation Project (ACT) Phase 1

The Government of Canada recently announced its intention to double the federal Gas Tax Fund for one year, as the newly renamed *Canada Community-Building Fund*. If approved by Parliament, this is expected to provide an additional \$77 million in federal funding for The City. Administration recommends that Council approve and appropriate that \$77 million of new federal funding and the remaining \$3 million from the Budget Savings Account (as part of the \$200 million initial investment) for a total of \$80 million to achieve the funding required for ACT Phase 1. For over a decade, the ACT project has been under development and seeking funding from all three orders of government. The federal funding now brings the balance of funding that was needed to proceed to construction following completion of detailed design. The ACT project has been identified as a catalytic project for downtown vibrancy. Arts Commons contributes \$53 million to Calgary's economy and supports 683 jobs.

Medium to Long-Term Plan (2025 to 2031)

Administration will continue implementation of The Plan to 2031 and will bring initiatives, projects, opportunities, funding considerations into future business planning and budgeting cycles.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder dialogue/relations were undertaken

Stakeholders from the private sector, community groups, and civic partners have repeatedly asked for The City to play a leadership role in downtown transformation while engaging them to keep people informed and working together toward common objectives. Ongoing partnerships with public and private sector will be essential to implementation and success.

IMPLICATIONS

Social

The social, environmental, and economic impacts are summarized in Attachment 9.

Service and Financial Implications

Other:

The proposed initial investment package will be funded through the following sources: \$60 million from the Budget Savings Account, \$63 million from the Fiscal Stability Reserve, and \$77 million subject to receipt of the 2021 increase in the *Canada Community Building Fund*.

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RISK

Attachment 10 provides a summary of the risk analysis undertaken on the proposed incentive program. One of the top risks is the significant funding gap for the latter years, outside of the initial investment.

ATTACHMENTS

1. Background and Previous Council Direction
2. Downtown Calgary State of the Economy
3. Greater Downtown Implementation - Initial Investments and Approvals
4. Real Estate Sector Advisory Committee Recommendation – Downtown Vibrancy One-pager
5. Regulatory Improvements
6. Greater Downtown Residential Strategy
7. HomeSpace Project – One-time Capital Grant for Rapid Affordable Housing Pilot
8. Items Identified for Future Analysis
9. Summary of Implications
10. Risk Summary

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Stuart Dalgleish	Planning & Development	Approve
David Duckworth	City Manager	Consult
Carla Male	Chief Financial Officers Department	Consult
Chris Arthurs	Deputy City Manager's Office	Consult
Katie Black	Community Services	Consult
Jill Floen	Law	Consult
Doug Morgan	Transportation	Consult
Michael Thompson	Green Line Project	Inform