

## Downtown Strategy Implementation and 2020 Annual Report

### RECOMMENDATIONS:

That the Priorities and Finance Committee direct that this Report be forwarded as Urgent Business to the 2021 July 26 Combined Meeting of Council.

That the Priorities and Finance Committee recommends that Council:

1. Receive the State of Downtown Calgary 2020 (Attachment 2) for the corporate record;
2. Approve the Downtown Calgary Development Incentive Program Terms of Reference (Attachment 3);
3. Direct Administration to bring the Downtown Calgary Development Incentive Program Phase 2 -Terms of Reference to Council no later than 2021 Q4;
4. Direct Administration to report on the implementation of the Downtown Calgary Development Incentive Program, the financial status, and recommendations on future program terms of reference to Council no later than 2022 Q4; and,
5. Approve Redirection & Reprioritization of Cultural Municipal Sustainability Initiative Budget Funds (Attachment 5), including allocations of previously approved budgets totaling \$15.5M as outlined in Table 1 - Redirection of CMSI Funds.

### HIGHLIGHTS

- This report showcases the intentional effort and holistic approach towards Calgary's downtown revitalization including: the State of Downtown Calgary 2020; the proposed terms of reference for the Downtown Calgary Development Incentive Program (the Incentive Program); the accelerated investment in cultural amenities through the redirection and reprioritization of Cultural Municipal Sustainability Initiative (CMSI) funds; and, a summary of work underway to support the implementation of *Calgary's Greater Downtown Plan: Roadmap to Reinvention*.
- 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 contribute to funding 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 Calgary relies on downtown being a place where people want to live and visit and where businesses want to set up shop. Downtown must transform toward a vision that includes a more balanced mix of residential, culture, tourism, retail, entertainment, and office. Investments in arts and culture capital projects supports transforming downtown into a more vibrant, livable and economically prosperous place.
- Strategic Alignment to Council's Citizen Priorities: A prosperous city
- Background and Previous Council Direction is included as Attachment 1.

## **DISCUSSION**

### **Looking Back: State of Downtown Calgary 2020**

The downtown strategy team is proud of the level of collaboration to jointly deliver the second annual State of Downtown Calgary report (Attachment 2), to be received for the corporate record. 2020 has been an unprecedented year and the COVID-19 pandemic has taken an enormous toll on Calgarians, our city and our downtown. The impact from unemployment, small business struggles and closures, and office space vacancies has been staggering. This report highlights where the downtown is currently in relation to the four pillars of the Downtown Strategy – Place, Work, Live, and Connect. It highlights this past year's successes, challenges and the opportunities that the Downtown Strategy partners are moving forward with in 2021 and beyond.

### **Where We Are Today: The Challenge**

- Downtown office vacancy is at approximately 12 million square feet which translates into approximately 32 percent (Q1-2021, CBRE).
- Downtown office property values have declined by approximately \$16 billion since 2015, or 60 percent, resulting in non-residential tax responsibility shifting from properties in the Downtown Core to non-Downtown properties.
- Downtown office absorption is forecasted to be an additional negative one million square feet in 2021. This will exert further downward pressure on downtown property values and tax shift impacts.
- Downtowns across the globe are the areas hardest hit by the effects of the COVID-19 crisis. The pandemic has globally accelerated the need for action on downtowns.

### **Call to Action: Downtown Calgary Development Incentive Program Terms of Reference**

The Downtown Calgary Development Incentive Program (the Incentive Program) was approved on 2021 April 26 by Council in report *C2021-0524 Realizing Calgary's Greater Downtown Plan: Initial Investments and Incentives*, with an initial \$45 million to fund the program. Council directed Administration to report back with the Incentive Program terms of reference and criteria to the Priorities and Finance Committee no later than 2021 July. The purpose of the Incentive Program is to provide financial incentives to assist with the removal of approximately six million square feet of office space in the Greater Downtown Area over the next ten years (2021 to 2031). The full projected ten years of the Incentive Program will require a total estimated \$450 million investment to have a meaningful impact upon downtown office and residential space. The funding approved for the Incentive Program is only 10 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 90 percent of the funding gap. Advocacy efforts with other orders of government for funding support and enabling tools are underway (Attachment 4).

The removal of office space can be achieved through conversion to residential or other adaptive uses, or through potential demolition and rebuild of non-office space. It is important to note that the real estate industry, including Calgary Economic Development's Real Estate Sector Advisory Committee (RESAC) have been exploring office to residential conversions since 2015. Since Council's approval on 2021 April 26, there has been significant interest and excitement from the market (local and national) on the Incentive Program. The market is keen to see the Incentive Program launched as soon as possible.

The Downtown Calgary Development Incentive Program Terms of Reference (Attachment 3) was developed with input and in collaboration with industry to ensure it is set up for success. The Terms of Reference requires Council's approval prior to the official launch of the Incentive

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Program. The downtown team targets the program launch by the middle of 2021 August. The sooner the Incentive Program is implemented, the faster we can start addressing the downtown vacancy situation, and in return stimulate economic recovery through employing workers and contractors for office conversion projects. As part of sound program management best practices, Administration will closely monitor market conditions and bring forward required future revisions for Terms of Reference to continue to set up the Incentive Program for enduring success over the next ten years.

**Work Underway**

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 proceed on the basis that this is *“not business as usual.”* The downtown team is laser focused on taking actions. A highlight of the work underway since Council’s approval of The Plan and initial investment package on April 26 is outlined in Attachment 4. The team is focused on the vibrancy of downtown Calgary, encouraging private investment in business and buildings; aligning programming to generate visits and spending; providing amenities and services to enhance the comfort and quality of life for Calgarians living, working, learning, and visiting downtown; and advocating to other orders of government for funding support and enabling tools.

**Re-opening & Welcome Back**

With the third stage of the Province’s re-opening plan starting on 2021 July 01, the downtown strategy team is taking a balanced and measured approach to work with partners to welcome workers, students, visitors, and tourists back to downtown. There is excitement about programming and activation opportunities. Safety is a top priority. The City and the Calgary Downtown Association have partnered, along with other stakeholders including Alpha House Society and Tourism Calgary, to deliver the Downtown Ambassador pilot for the 9 Block/Stephen Avenue area. Downtown Ambassadors are connecting Calgarians and visitors to information on services, places and supports in the downtown.

One sector that was hit hard by the pandemic is the tourism sector. According to the report *The Impact of the Pandemic on the Downtown Areas of Canada’s Six Major Cities* (PWC, 2021 March), *“the ability to reposition rapidly when reopening begins will be key to mitigating the impact of the pandemic and revitalizing the tourism industry. In the long term, the quality of tourism ecosystems that prevailed before the pandemic could contribute to the cities’ recovery if measures are implemented to support businesses. With business tourism expected to decline, cities should focus more on leisure tourism. However, there will still be a need for major business events beyond 2022. Downtowns that can offer a high-quality experience for business events through a state-of-the-art technological infrastructure could return to pre-pandemic levels of activity.”*

**Emerging Opportunity to Accelerate Downtown Vibrancy: Redirection and Reprioritization of Cultural Municipal Sustainability Initiative Budget Funds**

The Cultural Municipal Sustainability Initiative (CMSI) funding program ends in 2024. Administration is recommending consolidating and reprioritizing CMSI funds as per Attachment 5: Table 1 - Redirection of CMSI Funds. The consolidated funds will be reprioritized to projects that can be delivered within the funding timeline, as per Attachment 5: Table 1 – Redirection of CMSI Funds, and aligns with and supports the objectives of *Calgary’s Greater Downtown Plan: Roadmap to Reinvention*; the Culture Plan for Calgary, Calgary’s Destination Strategy; and, the Rivers District Master Plan - Calgary’s Culture & Entertainment District. Accelerating

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investments towards a clustering of cultural amenities in the downtown will help drive tourism and increased visits by Calgarians by increasing volume, frequency, and duration of trips, which in turn will support businesses and enhance downtown vibrancy.

Next Step

Following Council's approval of Terms of Reference, the downtown strategy team plans to launch the Incentive Program by the middle of 2021 August.

**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

Extensive engagement was undertaken with industry experts including Calgary Economic Development's RESAC group, the Real Estate Working Group, the Building Owners and Managers Association (BOMA), NAIOP Commercial Real Estate Development Association, BILD Calgary Region, and the non-market housing sector on the considerations for the Incentive Program Terms of Reference. The downtown strategy team also met with over 30 interested representatives from private industry including developers, brokers, architects, designers, and consultants.

Engagement with stakeholders that hold CMSI budgeted projects was conducted in the form of a survey (2021 May-June). The Glenbow Museum and the Fort Calgary Renovation and New Museum Project were identified as demonstrating the highest level of project readiness based on ability to have: viable match-funding in place, project costing and executable plan in place, meeting a project delivery timeframe, and operational sustainability (with/without the investment). As a result of this survey, and in alignment with *Calgary's Greater Downtown Plan: Roadmap to Reinvention*, the remaining CMSI funds have been redirected and reprioritized to priority projects with one outlier - The Calgary Opera Community Arts Centre. Calgary Opera's \$7.5M CMSI funding will not be impacted by the redirection of funds identified in Attachment 5: Table 1 - Redirection of CMSI Funds.

**IMPLICATIONS**

**Social**

The Incentive Program stimulates development and investment in the downtown thereby promoting vibrancy and improving quality of life. The proposed recommendation on CMSI optimizes funding for projects that provide artistic, cultural, economic and social value to downtown Calgary.

**Environmental**

The Incentive Program will leverage opportunities to adapt downtown office buildings to residential and/or other uses to be more energy efficient.

## **Economic**

The Incentive Program directly responds to the Financial Task Force's recommendation #33: investigate the crisis level vacancy in the downtown office market and respond with actions. Calgary needs a strong downtown to grow our economy, create jobs and fund the City services we rely on. Calgary's future success depends on our downtown being a place where people want to live, visit and set up businesses.

## **Service and Financial Implications**

### **Other:**

Upon Council approval, funds will be transferred to the Civic Partners for distribution to CMSI recipients as per Attachment 5: Table 1 - Redirection of CMSI Funds.

## **RISKS**

As downtown office vacancy rates continue to rise, the impacts are far-reaching including impacting Calgary's economic competitiveness, and fiscal sustainability. As noted in the risk summary in report *C2021-0524 Realizing Calgary's Greater Downtown Plan: Initial Investments and Incentives*, the identification of risks and response strategies has informed the development of the Incentive Program Terms of Reference. A comprehensive risk register is being maintained and risks will continue to be monitored and managed as the program progresses. One of the top risks is the significant funding gap for the latter years, outside of the initial investment of \$45 million for the Incentive Program. To manage the risk, a multi-stakeholder collaboration, partnerships and advocacy to both federal and provincial governments is required to support the Incentive Program beyond the initial investment.

CMSI funds are at risk of not being invested in the arts and culture sector if they are not spent within the funding timeline. As a result of general economic challenges and COVID-19, some organizations have been unable to meet matched-funding requirements under current project approvals. Funds allocated to these projects are at risk of being relinquished to the province if unspent by the funding program end date. The recommendation mitigates this risk by supporting a strategic approach to distribute the remaining funds to projects that have demonstrated the highest level of project readiness. Stakeholders were made aware of the possibility that the funds allocated to their projects may be redirected or reduced if project readiness cannot be demonstrated prior to the program deadline or sooner. There is a political risk that they may not accept this decision and may go to Council for support. The Mayor's Office was informed, and feedback was gathered on the concept of redirecting and reprioritizing allocated funding at risk of being relinquished to the Province.

## **ATTACHMENTS**

1. Background and Previous Council Direction
2. State of Downtown Calgary 2020
3. Downtown Calgary Development Incentive Program Terms of Reference
4. Updates on Initiatives Underway
5. Redirection & Reprioritization of Cultural Municipal Sustainability Initiative Budget Funds

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Department Circulation

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