

# Executive Committee

Real Estate Working Group Verbal Update – EC2021 - 1672

December 14, 2021

ISC: Unrestricted

# Agenda



- Authority, Mandate & Reporting
- Topic #3 - Untapped Revenue Potential
- Topic #4 - Res./Non Res. Tax Distribution
- Real Estate Working Group – Year in Review
- Recognition



## Authority, Mandate & Reporting

**Authority:** The Real Estate Working Group was established by Council on 2020 July 27 (C2020-0815 Motion Arising).

**Mandate:** To assist the Chief Finance Officer (CFO) and the Business & Local Economy (BLE) team with tackling recommendations stemming from the Financial Task Force, specifically:

- Recommendation #19 - Distribute tax responsibility appropriately;
- Recommendation #21 - Leverage untapped revenue potential – specifically related to return on Real Estate Assets and Investments; and
- Recommendation #33 - Investigate the crisis level vacancy in the downtown office market and respond with actions.

**Reporting:** The Real Estate Working Group reports bi-monthly to the Priorities and Finance Committee of Council through a standing agenda item until such time that Administration recommends the working group be disbanded.

## Untapped Revenue Potential Background

REWG was tasked with assisting the Chief Finance Officer (CFO) and the Business & Local Economy (BLE) team with providing insight on recommendations stemming from the Financial Task Force, specifically:

- Recommendation #21 (Leverage Untapped Revenue Potential – specifically related to return on Real Estate Assets & Investments)

Building on the work completed by RESAC, which included a thorough review of all 8,000+ City owned properties, REWG reviewed shortlisted properties and provided additional context around opportunities for consideration. Key evaluation criteria included the following metrics:



MARKET  
CONDITIONS



VALUE ADD



TRANSACTION  
TIMELINE &  
COMPLEXITY

# Untapped Revenue Potential

REWG identified four (4) potential sources of untapped revenue for further evaluation. In principle, properties identified could provide a win by disposing of underutilized City land holdings.

These revenue sources could be leveraged to fund new initiatives, such as the Downtown Revitalization Program.

Dispositions  
Underway

Quick Wins

Sale/Leaseback  
Opportunities

Future Wins



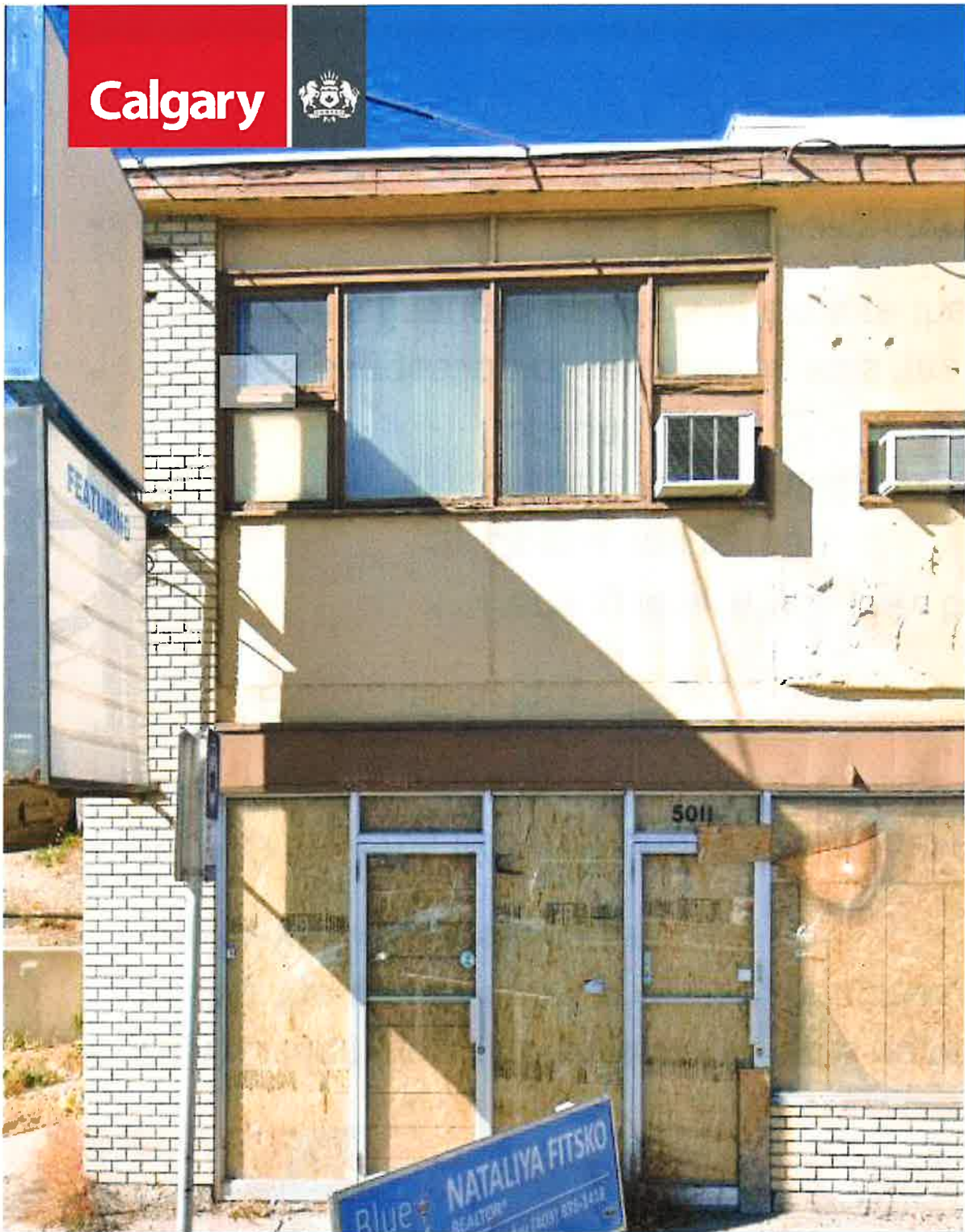
## Dispositions Underway

REWG identified sites that currently form part of the City of Calgary's disposition strategy.

Examples include:

- 1141R, 1143, 1147, 1149 11 Street SE
- 1851 Sirocco Drive SW
- 800 84 Street NE
- 920, 954, 990 & 1020 16 Avenue NE
- 5750 76 Avenue SE
- 5011 Macleod Trail SW





## Quick Wins

REWG identified sites that could serve as a quick win in terms of market demand. These sites were identified by RESAC and REWG as sites that could be disposed of over a short-to mid term horizon and were low in terms of complexity.

Examples include:

- 1920 Highfield Cr SE (Land)
- 4704 Macleod Trail SW (Land/Improvement)
- 5211 Macleod Trail SW (Land/Improvement)
- 9555 116 Street SE (Unserviced Land)
- 110 Meridian Rd NE (City Improvement)

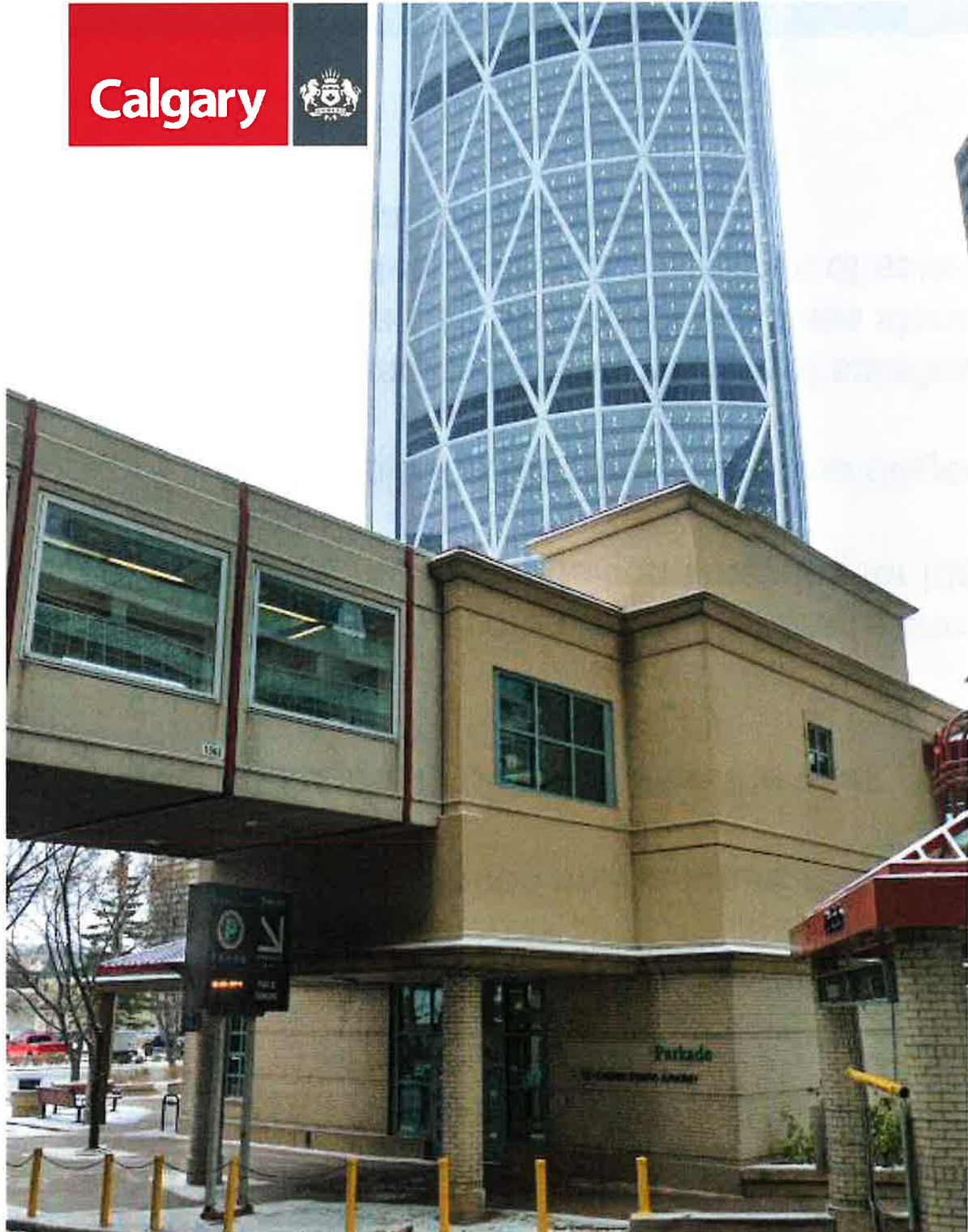
## Sale/Leaseback Opportunities

- REWG identified sale/leasebacks as a potential revenue source for further consideration posing the question, are there opportunities to leverage the City's covenant to free up capital to divest elsewhere?
- REWG believes this scenario would be most appropriate for City owned and occupied sites where there is future intent to relocate or consolidate.

Examples include:

- Parking lots (which may be a short-term hold)
  - Operations yards
  - Office spaces anticipated to be utilized by the City over a short-term horizon
- REWG's suggestion of sale/leasebacks has prompted further discussion within the City and with its financial advisors to explore the potential impacts and opportunities.
- Further internal discussions on viability and practicality would be required.





## Future Wins

REWG identified potential future wins for City's future consideration that could be disposed of when market conditions permit.

Examples include:

- CPA Downtown Parking Sites
- Greenview Industrial
- East Shepard Industrial
- Land holdings earmarked for industrial, which could be developed for higher and better uses (residential etc)

REWG believes there are opportunities to tap into revenue sources through the disposition of underutilized City real estate holdings. Funds sourced could be redeployed to finance new & future real estate initiatives within the City of Calgary.

REWG suggests building upon the work completed by RESAC and REWG evaluating potential sites for disposition by:

- Engaging commercial brokerage firms to provide opinions of value and firm up estimated disposition timelines for identified sites.
- Completing recommended due diligence required for site dispositions.
- Undertaking further review of sale/leaseback concept, identifying pros/cons from a City of Calgary business standpoint. Engage advisory firms to complete a financial analysis of sale/leaseback concept with examples for internal discussions.

# Questions



## REWG Mandate #19 Distribute Tax Responsibility Appropriately

To assist the Chief Finance Officer (CFO) and the Business & Local Economy (BLE) team with tackling recommendations stemming from the Financial Task Force, specifically;

- Recommendation #19 (**Distribute tax responsibility appropriately**)

Real Estate Working Group responsibilities include:

- Provide insight into the current real estate environment (i.e. economic forces, social impacts, fiscal challenges),
- Identify where current City practices may be a barrier and could be impeding progress or recovery,
- Prioritize identified barriers for immediate action or further investigation,
- Identify, engage and work with relevant key stakeholders as needed; and
- Provide ideas for short, medium- and long-term solutions to the Business & Local Economy (BLE) team and the Chief Financial Officer (CFO)'s delegate as they work towards implementation of the Financial Task Force recommendations.

## FTF: #19 Distribute Tax Responsibility Appropriately

**Recommendation #19:** Contract with a reputable independent expert to provide an acceptable and reasonable split of the property tax responsibility between residential and non-residential taxpayers.

- Determine the objectives that would inform the determination of the acceptable and reasonable split
- The extent to which it makes sense to determine tax rate thresholds that once breached would trigger the need for mill rate stabilization using an existing or new reserve
- The range of fiscal tools, including reserves like the fiscal stability reserve, to minimize tax volatility while also maintaining a stable fiscal position
- The policy guidelines that would focus on strong discipline for using the fiscal stability reserve and a minimum level of reserves dedicated to mill rate stabilization
- Use the results to address the risk that one taxpayer category may be overpaying for services
- Use the results to anchor future tax redistribution decisions



# Goals for Non-Residential Property Taxes

Stability

Predictability

Reduce Tax Volatility

Attract/Retain Business

Regional Competitiveness

## Historical Problems:

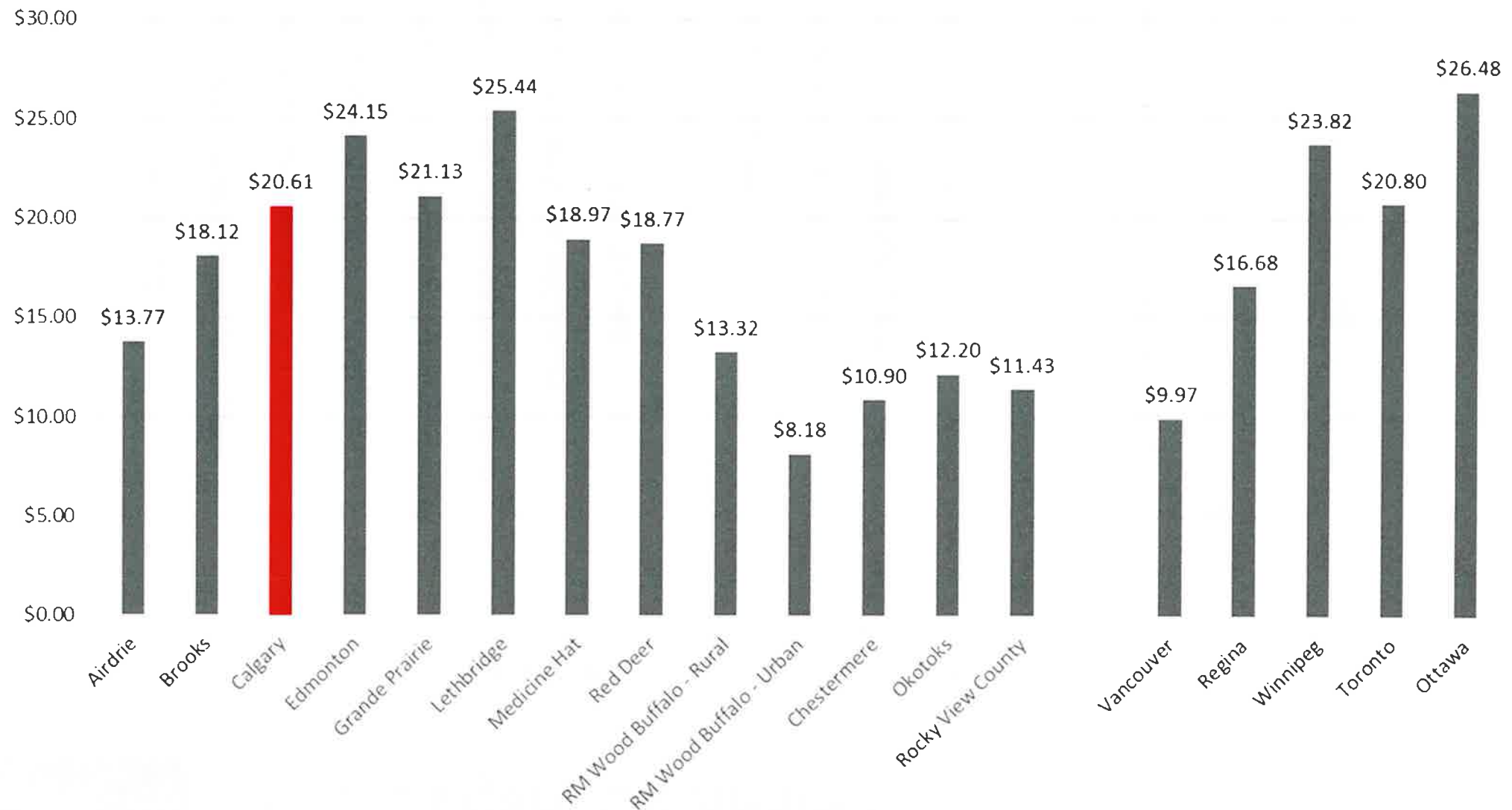
- Large Fluctuations
- Phasing in of business tax onto non-residential base
- Depletion of Downtown Property Values
- Over-Reliance on non-residential assessment base



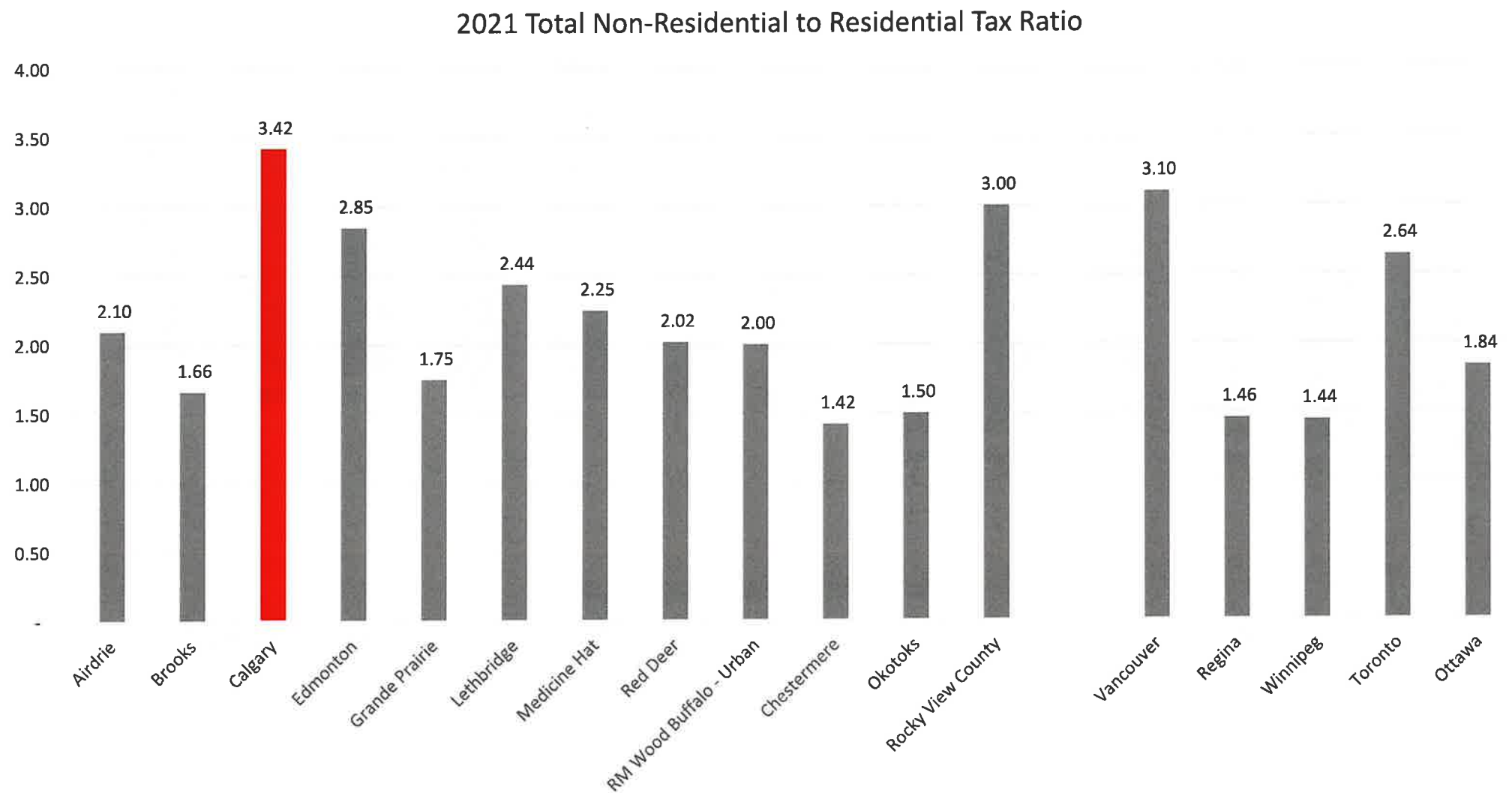
# How Calgary Compares



## 2021 Commercial Property Tax per \$1,000 of Assessment



# Municipal Tax Share – Ratios (2021)



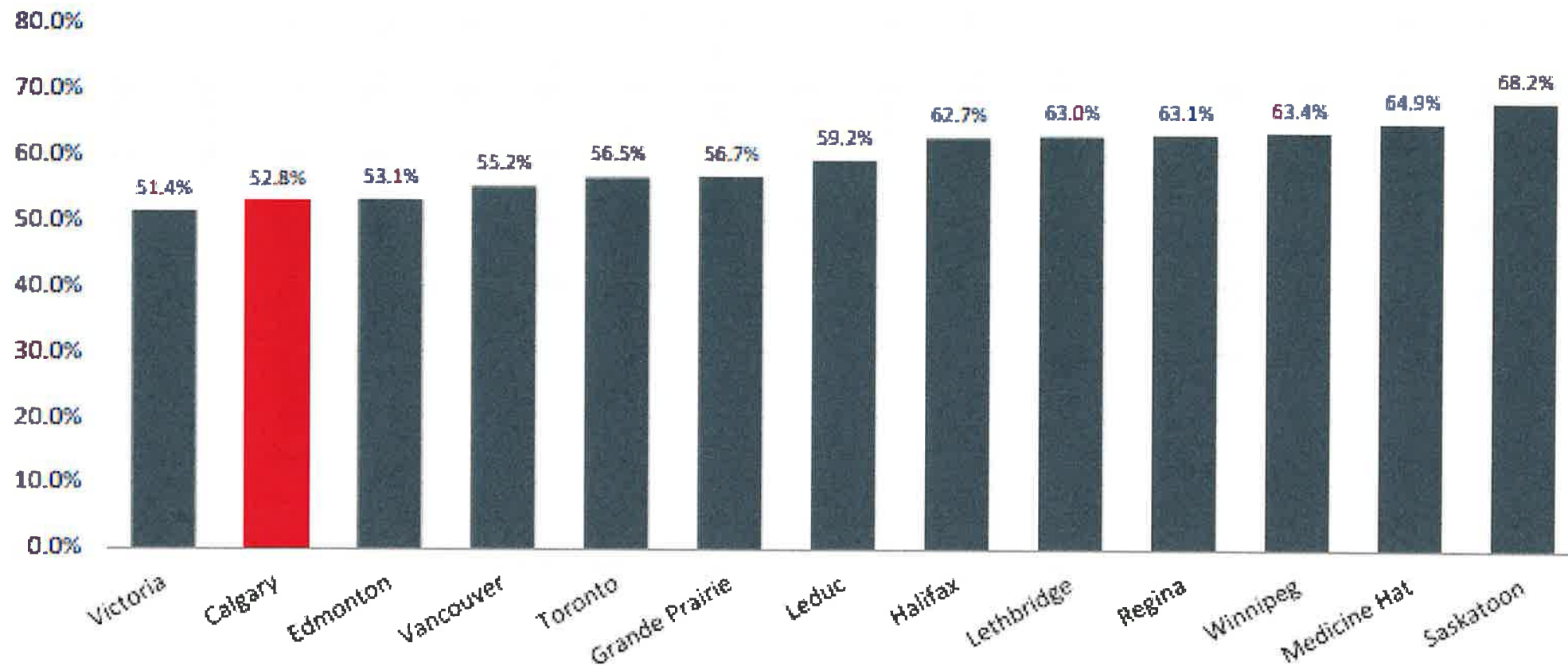
\*MGA sets maximum ratio at 5:1





## Tax Share - % of Budget

**Figure 17: Residential Property Tax as Percent of Total Tax Levy in 2019**  
*(Farm included in Residential Property Tax, Not including "other taxes") -*  
**Selected Canadian Cities**



## Tax Distribution – Real Estate Working Group Advice – Short Term Outcomes

1. Commit to the principles outlined herein to guide future tax distribution decisions, with an emphasis on current data and consideration for the effects on competitiveness and predictability. (Saskatoon Report Attach 2)
2. Establish a list of key metrics to be reviewed annually prior to making tax rate/distribution decisions. At a minimum this should include final assessment base values, projected mill rates, comparability metrics, large property shifts, and redistributive effects. If not available, invest in gathering/maintaining this info.
3. Commit to a distribution approach: Tax share or Tax rate ratio. REWG suggests a targeted tax rate ratio approach is the more optimal to address the volatility to the non-residential tax base when there is a decreasing non-residential base and an increasing residential base.
4. Align tax distribution process/timing to have all necessary information prior to decision making.

## Tax Distribution – Real Estate Working Group Advice – Long Term Outcomes

1. In Keeping with Recommendation 19 of the Financial Task Force, prioritize an investigation into whether and at what time is it appropriate to use reserves to mitigate tax shifts due to changes in the assessment base. (i.e if base drops <5%). The REWG believes the use of reserves should be considered in order to stabilize tax rates in years of extraordinary flux.
2. Recognizing Recommendation 35 of the FTF, prioritize the investigation and legal feasibility of an assessment averaging system for hot-spot properties (e.g. industrial).



# Questions

# Real Estate Working Group – Year in Review







## Mandated Topics

1. Industrial Analysis & Tax Incentives
2. Downtown Office Vacancy
3. Untapped Revenue Potential
4. Residential/ Non-Residential Tax Distribution



# Industrial Analysis & Tax Incentives

## Grant Program Concerns & Considerations

- Proposed grant perceived as a short term, band-aid solution
- Disparity between residential and non-residential tax rates
- Identified need for a regional approach to infrastructure cost sharing
- Risk of tenant cannibalization and downward pressure on rental rates

## Bill 7 Potential

Similar concerns but remains an option that can be further explored once other issues addressed.

## Future Steps

Stakeholders agreed the priority should be to address the larger, systemic issues that have exacerbated the competitiveness problem (i.e., tax rates, levies, development standards, permitting times). *\*The Industrial Strategy Working Group current workplan incorporates these issues*

## Downtown Office Vacancy

- On April 26, Council approved the Calgary Greater Downtown Plan and an initial \$200-million investment in the plan.
- The Real Estate Working Group was well positioned to add value to the Greater Downtown Plan and was approached to provide industry insights specifically related to the \$45 million office conversion financial incentive program.
- The group provided a summary of feedback to the Downtown team working on the program:
  - Grant Amount & Funding Cap
  - Eligibility & Criteria
  - Timing of Incentive Allocation
  - Administration & Reporting
  - Market Demand

## Recommendations

That the Executive Committee recommends the Real Estate Working Group be disbanded.



# Recognition







## Recognition

Lori Suba	Scout Real Estate
David White	CivicWorks
Krista Nauss	Riverpark Properties
Rob Blackwell	Aspen Properties
Robyn Ferguson	MNP
Ryan Sirski	Oxford Properties
John Fisher	CBRE Limited
Paul Marsden	Colliers Calgary
Dave Mewha	Altus Group
Jessica Abt	University of Calgary's Haskayne School of Business