

Advancing the Downtown Strategy through Incentive Program Expansion

RECOMMENDATIONS:

That the Executive Committee recommend that Council:

1. Approve the Revised Downtown Calgary Development Incentive Program Terms of Reference contained in Attachment 2;
2. Approve the use of any remaining unallocated budget for the Downtown Calgary Development Incentive Program for the Revised Downtown Calgary Development Incentive Program;
3. Approve the Downtown Post-Secondary Institution Incentive Program Terms of Reference contained in Attachment 3;
4. Approve the Downtown Office Demolition Incentive Program Terms of Reference contained in Attachment 4; and
5. Approve the redirection of \$3 million of the Plus 15 Fund offset incentive budget towards the Downtown Office Demolition Incentive Program.

RECOMMENDATIONS OF THE EXECUTIVE COMMITTEE, 2023 FEBRUARY 28:

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2. Approve the use of any remaining unallocated budget for the Downtown Calgary Development Incentive Program for the Revised Downtown Calgary Development Incentive Program;
3. Approve the Downtown Post-Secondary Institution Incentive Program Terms of Reference contained in Attachment 3;
4. Approve the Downtown Office Demolition Incentive Program Terms of Reference contained in Attachment 4; and
5. Approve the redirection of \$3 million of the Plus 15 Fund offset incentive budget towards the Downtown Office Demolition Incentive Program.

Opposition to Recommendations: Councillor Chabot

HIGHLIGHTS

- This report brings forward strategic updates and advancements to the Downtown Calgary Development Incentive Program and proposes the creation of two new incentive programs that support the goals and vision of the Greater Downtown Plan.
- What does this mean to Calgarians? The ability to leverage additional private investment in the downtown with more opportunities for redevelopment and removal of vacant office space and enhanced vibrancy through a more diverse mix of uses and amenities.
- Why does this matter? Downtown is the economic and cultural heart of Calgary. It is the central hub for business, innovation, and creativity. A thriving downtown means a thriving Calgary. Repurposing vacant office space in the downtown to diversify the types of uses, and users will contribute to a vibrant, thriving and resilient neighbourhood.
- Increasing the internal approvals threshold from \$10 million to \$15 million will streamline the review and approvals process for larger scale conversion projects, expediting The

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City's goal of removing six million square feet of office space from the downtown by 2031.

- Repurposing a portion of the unused Plus 15 Fund offset incentive budget to support office demolition allows The City to continue advancing the overall downtown strategy without additional financial impact.
- Broadening the list of incentivized uses to include hotels, schools, performing arts centres along with a specific post-secondary program will encourage a more diverse mix of uses in the downtown and will provide complementary services and amenities for the growing resident population.
- Introducing office demolition incentives will encourage the removal of vacant, end-of-life buildings and will provide the opportunity for new public amenity space or other priority needs and uses in the downtown.
- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

The Downtown Calgary Development Incentive Program (Incentive Program) was established in 2021 April by Council in report [C2021-0524 Realizing Calgary's Greater Downtown Plan: Initial Investments and Incentives](#). Council then approved the original Terms of Reference for the program ([PFC2021-0779](#)), which focus solely on office-to-residential conversion projects. The purpose of the Incentive Program is to encourage the removal of vacant office space in the downtown to help address vacancy rates and stabilize property values over the next decade.

Through the establishment and implementation of the Incentive Program, Calgary has quickly become a global leader in addressing the office vacancy crisis that many downtowns are facing due to the global pandemic and remote work environments. In less than two years, The City has secured project commitments amounting to nearly 20 percent of the ten-year goal of removing six million square feet of office space from the downtown area by 2031.

Administration has closely monitored the implementation of the Incentive Program, as well as market conditions and community needs. While the program has proven to be successful in stimulating office-to-residential conversion projects, Administration has identified strategic improvements to support the program's continued success and meaningful impact for downtown Calgary. These improvements are captured below and in the proposed Revised Downtown Calgary Development Incentive Program Terms of Reference. Administration is also proposing advancements to the overall downtown strategy through the establishment of two new programs: a new incentive program for post-secondary institutions, and a new incentive program for office demolition. These programs would further support and expedite the removal of vacant office space and enhance downtown vibrancy.

Business Improvements: Two business improvements have been identified to support Administration's commitment to innovation and *'moving at the speed of business'*.

Internal Funding Approval Threshold: The existing Terms of Reference outlines funding decision-making and approval levels for the Incentive Program. Currently, the Incentives Approval Committee (comprised of the City's Chief Financial Officer and General Manager of Planning & Development Services) is authorized to approve funding requests up to \$10 million, while Council approval is required for any amount exceeding this threshold. With an incentive rate of \$75 per square foot of converted space, this funding threshold requires office-to-residential conversion projects over 130,000 square feet in size to obtain Council approval.

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Due to this approval threshold limit, three of the eight initial successful candidates of the Incentive Program required Council approval. This entailed three separate reports, two Closed Session meetings of Council, delays to Funding Agreement timelines, uncertainty for applicants, and significant staff resources. All three funding requests were approved by Council, demonstrating alignment between Council and Administration.

To encourage larger scale conversion projects in the downtown, Administration is proposing an increase to the Incentives Approval Committee threshold from \$10 million to \$15 million. This would allow quicker and more streamlined approvals for office-to-residential conversion projects up to 200,000 square feet in scale, which better reflects typical submissions and inquiries to the program. Funding requests beyond the \$15 million threshold would require Council approval.

Plus 15 Fund Offset Incentive Budget: As part of report [C2021-0524 Realizing Calgary's Greater Downtown Plan: Initial Investments and Incentives](#), \$5 million was allocated to the Plus 15 Fund offset incentive. The intent of this grant was to provide a maximum of \$1 million per project in financial incentives to assist with the development of new residential use within the downtown, specifically within the Plus 15 boundary area, by providing an offset to required Plus 15 Fund contributions as part of the Land Use Bylaw and Plus 15 Policy for these projects.

To date, however, no applications have been made requesting access to the Plus 15 Fund offset incentive and Administration does not anticipate any funding requests for this grant in the near-term. At the time of writing this report, there was only one active development permit for residential use within the Plus 15 boundary that would be eligible for grant funding.

Administration is therefore proposing that \$3 million of the existing fund be redirected to support further removal of vacant office space in the downtown through the proposed Downtown Office Demolition Incentive Program (outlined below), expediting the removal of an additional 200,000 square feet of vacant office space from the downtown without requiring new budget.

While removal of office space remains a top priority in the downtown, supporting new residential development is also critical. Administration will therefore be reviewing the Land Use Bylaw provisions for downtown residential use including requirements for the Plus 15 Fund contributions to better support and further reduce barriers to new residential development.

Revised Downtown Calgary Development Incentive Program Terms of Reference

The existing Terms of Reference for the Incentive Program are limited to the conversion of vacant office space to residential use. This has proven extremely successful in the market, with the program consistently over-subscribed. The prioritization for residential use in the downtown is a critical first step towards revitalization and vibrancy, and The City is well on its way towards achieving this goal. Expansion of the eligible list of uses and refinements to the terms have been anticipated from the outset of the program, and improvements to ensure its continued success are outlined below.

To encourage further adaptive reuse of vacant office space and increase the mix of uses downtown, Administration is proposing to incentivize the additional uses of hotel, school, and performing arts centres for office conversion projects. These uses would be incentivized at specified rates per square foot, as outlined in Table 3.2 of the proposed Revised Downtown Calgary Development Incentive Program Terms of Reference (Attachment 2). Active commercial uses at grade would also be incentivized, when proposed as part of a comprehensive building conversion, to further promote downtown investment, the local economy, and vibrancy at street level.

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With the proposed internal approval threshold of \$15 million, the Revised Downtown Calgary Development Incentive Program Terms of Reference would encourage a more diverse mix of uses in the downtown and would allow for a more efficient approval process for applications up to 200,000 square feet, improving the ability to stimulate and expedite private investment in the downtown.

Downtown Post-Secondary Institution Incentive Program (PSI Program)

In November 2022, Council approved an initial budget allocation of \$9 million to support a greater presence of post-secondary institutions in the downtown through the conversion of existing vacant office space. Council committed this initial investment to the establishment of a downtown location of the School of Architecture, Planning and Landscape at the University of Calgary, with the intent to broaden the program to other faculties, schools or institutions pending funding commitments from the Government of Alberta.

As the criteria, approvals process, funding sources, and other elements of the proposed PSI Program scope would differ from other office conversion projects, Administration is proposing a separate PSI Program with its own Terms of Reference (Attachment 3).

The PSI Program would focus on the Downtown Core and would offer a grant at a rate of \$50 per square foot. The internal approval threshold is proposed at \$15 million to align with the Revised Downtown Calgary Development Incentive Program Terms of Reference.

Downtown Office Demolition Incentive Program

Administration is also proposing to establish a new incentive program for office demolition. Terms of Reference have been developed (Attachment 4) which outline specific criteria and strategic outcome requirements for these projects. Introducing a demolition incentive for vacant downtown office buildings would further contribute to The City's goal of removing six million square feet of office space from the downtown by 2031 and would allow for the removal of inefficient and end-of-life buildings that negatively impact downtown vibrancy.

In addition to expediting the removal of vacant office space in the downtown, the demolition incentive would support new non-office redevelopment and create opportunities for new public amenity and greenspaces in strategic locations to support new and existing residents. Where immediate redevelopment is not planned post-demolition, landowners would work with The City to implement programming and landscaping in alignment with the Greater Downtown Plan goals for supporting vibrant urban life and establishing a green network for healthy communities.

The Downtown Office Demolition Incentive Program would focus primarily on the Downtown Core and would offer a grant at a rate of \$20 per square foot, up to 50% of total demolition costs.

EXTERNAL ENGAGEMENT AND COMMUNICATION

- Public engagement was undertaken
- Public/interested parties were informed
- Dialogue with interested parties was undertaken
- Public communication or engagement was not required

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IMPLICATIONS

Social

The proposed revisions to and additions of downtown incentive programs would make it easier and more attractive for building owners in the downtown to convert vacant office space into residential and commercial uses. This would increase housing choice and affordability, provide complementary uses and amenity critical to a resilient downtown, as well as establish new employment opportunities for Calgarians. It would create opportunities for additional public amenity for new and existing residents of the downtown.

Environmental

An expanded scope for conversion projects would further support the adaptive reuse of existing buildings, while bringing old buildings up to current Alberta Building Code requirements. The demolition of old, derelict buildings reduces climate risk as such buildings are more vulnerable to climate impacts and therefore at high risk of damage. Furthermore, these sites create opportunity for new greenspaces and landscaping towards a comprehensive green network.

Economic

Downtown office vacancy is at approximately 14 million square feet (CREB Q4 2022) and office property values have declined by \$16.4 billion since 2015, or 67 percent, resulting in a situation where taxes previously generated from downtown office space have been redistributed to other non-residential and residential properties in Calgary. The proposed revised and additional downtown incentive programs respond to this crisis by supporting the removal of excess office space downtown and the reactivation of underutilized sites towards restoring property values by creating demand for remaining office.

Service and Financial Implications

No anticipated financial impact

RISK

No risks have been identified with the approval of this report.

Current immigration and market projections reinforce the need for incentives to support the creation of affordable rental housing in the downtown. Calgary is expected to welcome a minimum of 40,000 new residents every year to the city for at least the next three years, significantly increasing the need for rental housing in the downtown. There is a risk to The City of not being able to build or enable the construction of adequate housing which could reduce affordability. Along with housing demand, The City must also address the need for amenities and services in the downtown to support the growing population. The proposed downtown incentive programs would support the delivery of these needs.

Furthermore, should this report and recommendations not be supported, there is significant risk of excluding a variety of opportunities in the downtown to (i) catalyze redevelopment; (ii) expedite the removal of excess office space; (iii) establish new public amenity spaces; and (iv) attract further private and public investment to the downtown.

**Planning and Development Services Report to
Executive Committee
2023 February 28**

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ATTACHMENTS

1. Background and Previous Council Direction
2. Revised Downtown Calgary Development Incentive Program Terms of Reference
3. Downtown Post-Secondary Institution Incentive Program Terms of Reference
4. Downtown Office Demolition Incentive Program Terms of Reference
5. Presentation – Advancing the Downtown Strategy through Incentive Program Expansion

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Stuart Dalgleish	PDS	Approve
Carla Male	Finance	Consult
Lynn Davies	Law	Consult