

Planning & Development Report to
Combined Meeting of Council
2022 February 15

ISC: UNRESTRICTED
C2022-0157
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Downtown Calgary Development Incentive Program – Application Funding Request

RECOMMENDATIONS:

Review By: 2022 December 31

That Council:

1. Approve an allocation of up to \$15 million in funding from the Downtown Calgary Development Incentive Program for the office to residential conversion project located at 125 9th Avenue SE (“Palliser One”);
2. Direct Administration to enter into a Downtown Calgary Development Incentive Program funding agreement with the property owner(s) of 125 9th Avenue SE (“Palliser One”) no later than 2022 December 31 that outlines the terms and conditions of funding outlined in the Terms of Reference and Program Guide to the satisfaction of the Director, Downtown Strategy; and
3. Direct that this Report, Attachments, Closed Meeting recommendations 1 & 2, Closed Meeting discussion and presentation be held confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party), 19 (Confidential evaluations), 23 (Local public body confidences), and 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed by 2022 December 31.

HIGHLIGHTS

- The Palliser One Project meets the criteria, goals, and intent of the Downtown Calgary Development Incentive Program (the ‘Program’) and has been identified as a priority applicant in Phase 1 of the Program.
- What does this mean to Calgarians? The Palliser One Project will provide housing choice at a well-connected and amenity-rich location in downtown.
- Why does this matter? The Palliser One Project implements the vision of the Greater Downtown Plan and the overall Downtown Strategy of going ‘from vacancy to vibrancy’ through the removal of vacant office space and the inclusion of residential use.
- The Palliser One Project will provide several benefits to downtown Calgary and will act as a catalyst site for residential use in the Olympic Plaza District.
- The Palliser One Project will convert nearly 200,000 square feet of office space to residential use, creating 176 new residential units at a strategic location in the Downtown Core.
- The funding request for the Palliser One Project can be fully accommodated through the existing Program funds (no additional funds required) and will utilize the standard incentive rate of \$75 per square foot. Council approval is required as the project funding request exceeds \$10 million due to the large scale of the project (~200,000 square feet x \$75).
- Strategic Alignment to Council’s Citizen Priorities: A city of safe and inspiring neighbourhoods
- Background and Previous Council Direction is included as Attachment 1.

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DISCUSSION

In April 2021, Council approved an initial investment package (C2021-0524) for the implementation of the Downtown Strategy, which included an initial \$45 million allotment towards the Downtown Calgary Development Incentive Program ('the Program'). The purpose of the Program is to provide financial incentives to assist with the removal of approximately six million square feet office space in the downtown within a 10-year period (2021-2031) to address the crisis-level vacancy rate and declining property values. The [Terms of Reference](#) for Phase 1 of the Program (PFC2021-0779) was approved by Council in July 2021 and authorized the Incentives Approval Committee (consisting of the GM Planning & Development and the Chief Financial Officer) to approve incentive funding requests up to \$10 million per project. Projects seeking incentive funding totalling more than \$10 million are permitted but require Council approval.

The purpose of this report is to seek Council approval for an allocation of up to \$15 million for the Palliser One Project located at 125 9 Avenue SE from the initial \$45 million investment in the Program.

Application Review Process

Phase 1 of the Program focuses solely on office to residential conversions and offers an incentive of up to \$75 per square foot of existing office floor space converted to residential use. During the Phase 1 application submission period (August 16 – September 15, 2021), 13 applications were received by The City. The City undertook a thorough and consistent review process of each application against the Program's eligibility criteria and additional scoring considerations, as per the [Program Guide](#). Through this process, 11 applications totaling approximately \$100 million in incentive funding requests were identified as eligible candidates; with five being prioritized for funding through the initial \$45 million Program investment based on advanced project readiness. The Palliser One Project is one of the five prioritized applications. The other four prioritized applications, each with funding requests below \$10 million, have all received funding approval by the Incentives Approval Committee.

To ensure the Palliser One Project is viable from a regulatory review perspective, the Corporate Planning Applications Group (CPAG) undertook a preliminary review of the Palliser One application. No major issues were identified through the CPAG review and the application is expected to be supported through the approvals process.

The Incentives Approval Committee has been involved and consulted throughout the process and supports the funding allocation request of up to \$15 million for the Palliser One Project to Council. For additional details on the application review process, refer to Attachment 2.

Project Overview

Palliser One is a 27-storey, B-class office tower located at 125 9 Avenue SE on the eastern portion of the Palliser Complex site. The site is managed and co-owned by Aspen Properties, the applicant of this proposal. Effective April 2022, the upper half of the tower will be entirely vacant, with tenants occupying the lower levels. The Palliser One Project will convert the upper 12 floors (approximately 200,000 square feet) to residential use while retaining the lower floors as office space, resulting in a true mixed-use tower development and the addition of 176 residential units in the Downtown Core. The total project cost is an estimated \$58 million, with

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an incentive funding request of nearly \$15 million based on the Program's incentive rate of \$75 per square foot. For full project details, please refer to Attachment 3.

Alignment with the Program

The Palliser One Project meets all the key criteria of the Program, as follows:

- Includes the removal of vacant office space through the conversion to residential use.
- Demonstrates reasonable project readiness (estimated full vacancy of conversion area by April 2022, and estimated construction commencement in Spring 2022).
- Evidence of strong financial backing, capacity, and commitment by the Palliser One building owners.
- Proven applicant track record by Aspen Properties of refurbishing older office buildings (i.e. the Edison and the Ampersand).

Beyond project eligibility requirements, the Palliser One Project also demonstrates a number of other elements desirable for the Program:

- Located within the Priority Area of the Downtown Core; and strategically located within the Olympic Plaza District of the Greater Downtown, neighbouring key cultural amenities such as the Glenbow Museum and Arts Commons.
- The tower has recently undergone a full exterior recladding project, adding to the property's investment value, attractiveness, and environmental sustainability.
- A range of amenities already exist within the Palliser One tower that will be accessible to residents, including a fitness centre, golf simulator and an outdoor skating rink. Further, residents of Palliser One will also have access to all Aspen Property building amenities enhancing quality of life through recreation and social opportunities.
- The proposal includes a unit mix of one- and two-bedroom units of varying sizes.
- Public realm improvements are being planned in the area in conjunction with The Future of Stephen Avenue, Arts Commons Transformation and Glenbow Museum Reimagining projects, together with key pedestrian improvements connecting this area south to the Beltline. These connections are complemented by existing Plus 15 and Plus 30 pedestrian links to surrounding buildings and amenities. The strategic location of Palliser One takes advantage of this existing connectivity and activates these significant public investments to help further promote this area of downtown as a neighbourhood to live, rather than just a place to work or visit.
- The project site is considered a potential catalyst location for additional residential uses in the area in the future that will further enhance the vibrancy and safety of this important downtown district.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

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

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IMPLICATIONS

Social

This project will increase housing options for Calgarians in the Downtown Core within the Olympic Plaza District – the cultural heart of the downtown and a strategic area currently lacking residential use. The addition of dwelling units in this area supports the vision of developing a complete community in the downtown and enhancing quality of life through investments towards vibrancy.

Environmental

The main environmental benefit of this project is the retention and re-purposing of the existing building. New construction of a building of the same size would require approximately 8,400 tonnes of concrete to construct the tower and parking components, resulting in approximately 5.3 million kilograms in greenhouse gas (GHG) savings by repurposing this building versus building new. Additionally, the overall energy consumption of the building will be greatly reduced with the conversion to residential use and the upgrades to mechanical and electrical systems.

During construction, the project team will endeavor to re-use as much of the existing building elements as possible, including modular partitions, glass and fixturing (either within the Palliser One Project or other properties). The Palliser One tower offers ample bike parking, and is highly connected to all modes of transit, including a direct Bus Rapid Transit route to the airport, helping to limit the need for vehicle use for residents.

Economic

Downtown office vacancy is at approximately 14 million square feet and office property values have declined by \$17.3 billion since 2015, or 60 percent, resulting in the tax shift situation where taxes previously generated from downtown office space have been redistributed to other non-residential and residential properties outside of the downtown. The purpose of the Program is to respond to this crisis and support the removal of vacant excess office space downtown and the reactivation of vacant sites. The Palliser One Project will see the removal of nearly 200,000 square feet of office space and the reactivation of a critical area of the downtown through the addition of 176 residential units. Surrounding businesses will benefit from this new residential population base and the site will act as a catalyst to attract new investment and stimulate renewal in the area. Finally, the construction of the Palliser One Project will create approximately 200 jobs.

Service and Financial Implications

There are no additional service or financial implications from the approval of this report. The full incentive request of up to \$15 million for the Palliser One Project will be funded through the existing Program funds, and there will be sufficient remaining funds to support all other eligible applications to Phase 1 of the Program.

RISK

There are no identified risks associated with the approval of this report. As per the Program's Terms of Reference, incentive funding will only be disbursed to applicants upon full project completion, following final building inspection and permission to occupy. A consistent and thorough review process was undertaken for all applicants to the Program, and the Palliser One

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Project meets all eligibility requirements and is a top-ranking proposal based on scoring considerations noted in the Program Guide. The Palliser One Project will receive the same incentive rate of \$75 per square foot of converted office space as all other successful candidates, and only exceeds the \$10 million threshold due to the large scale of this conversion. Finally, there is adequate Program funding to support all five priority applications through this first phase of the Program, even with the Palliser One Project funding exceeding \$10 million.

There is however significant risk to the success of the Program and the implementation of the Downtown Strategy should this funding request not be approved. Specifically, it would result in the loss of approximately \$43 million of leveraged private investment in the property and 176 future residential units in a high priority area of the downtown. More broadly, it would create uncertainty for investors as to the implementation of approval criteria and may negatively impact the momentum and further interest in the Program. It would also represent a missed opportunity to showcase the early success of the Downtown Strategy and help begin to shift the perception of Calgary's downtown for other future investors, countering the recent negative media stories on increasing vacancy rates and property value losses.

Due to the commercially sensitive information of the project and potential impacts to existing tenants, it is prudent to bring forward the report as a confidential item, pursuant to Sections 16, 19, 23 and 24 of the *Freedom of Information and Protection of Privacy Act* until such time that an executed funding agreement is in place.

ATTACHMENTS

1. Background and Previous Council Direction – Confidential
2. Phase 1 Timeline and Application Review Process – Confidential
3. Palliser One Project Proposal – Confidential

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Stuart Dalgleish	Planning & Development	Approve
Carla Male	Finance	Approve