

**Planning and Development Services Report to
Regular Meeting of Council
2023 June 06**

**ISC: CONFIDENTIAL
C2023-0418
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**Downtown Calgary Development Incentive Program – Application Funding
Request**

RECOMMENDATIONS:

Review By: 2024 June 30

That Council:

1. Approve an allocation of up to \$16.3 million in funding from the Downtown Calgary Development Incentive Program for the office to residential conversion project located at 125 9 Avenue SE (“Palliser One Phase 2”);
2. Direct Administration to enter into a Downtown Calgary Development Incentive Program funding agreement with the property owner(s) of 125 9 Avenue SE (“Palliser One Phase 2”) no later than 2023 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, 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 2024 June 30.

HIGHLIGHTS

- The Palliser One Phase 2 project meets the criteria, goals, and intent of the Downtown Calgary Development Incentive Program (the ‘Program’) and has been selected as a successful applicant for the Program.
- What does this mean to Calgarians? The Palliser One Phase 2 project will provide new housing options at a well-connected and amenity-rich location within the downtown.
- Why does this matter? The Palliser One Phase 2 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 Phase 2 project will provide several benefits to downtown Calgary, including housing choice with 1- and 2-bedroom rental options.
- The Palliser One Phase 2 project will convert over 216,200 square feet of office space to residential use, creating 200 new homes within the Priority Area of the Program.
- The funding request for the Palliser One Phase 2 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 this funding request exceeds Administration approval levels due to the large scale of the project (~216,200 square feet x \$75).
- Background and Previous Council Direction is included as Attachment 1.

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’). Due to its early

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success, Council has since allocated an additional \$108 million to the Program for a total investment of \$153 million to date (refer to Attachment 1).

The original [Terms of Reference](#) for the Program (PFC2021-0779) was approved by Council in July 2021 and provided an incentive rate of \$75 per square foot of office space converted into residential use. The approved terms authorized the Incentives Approval Committee (consisting of the GM Planning & Development Services and the Chief Financial Officer) to approve incentive funding requests up to \$10 million per project, while projects seeking incentive funding in excess of \$10 million require Council approval.

A Revised Terms of Reference for the Program was approved by Council in March 2023 ([EC2023-0102](#)) and applies to all proposals received thereafter. The Palliser One Phase 2 proposal however was received under the original terms and is subject to the conditions therein.

The purpose of the Program is to provide financial incentives to assist with the removal of 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.

To date, 11 office-to-residential projects have been approved through the Program, with three additional projects currently in the review process (the Palliser One Phase 2 project represents one of the three awaiting approval). Collectively, these 14 projects will contribute to the removal of nearly two million square feet of office space and the creation of nearly 2,000 new dwelling units in the Downtown Core. This Program, in conjunction with the broader Downtown Strategy, is actively repositioning the downtown towards economic and social resiliency, while expediting the delivery of much needed housing.

Palliser One Project Overview

In September 2021, Aspen Properties applied to the Program for an office-to-residential conversion of the upper half (floors 15-27) of the Palliser One tower. At the time of submission, the intention was to retain the existing tenants occupying the lower half of the building while converting the vacant upper half into residential dwelling units. In February 2022, Council unanimously approved the funding request of up to \$15 million to support the proposal.

Following its approval to the Program, the remaining tenants of the Palliser One tower requested a relocation, resulting in the vacancy of the lower half of the building as well. With the tower approaching 100 per cent vacancy, Aspen Properties submitted a second application to the Program for the conversion of the remaining half of the tower (floors 2-14), referred to as *Palliser One Phase 2*.

The Palliser One Phase 2 project proposes to convert approximately 216,200 square feet of vacant office space into residential use, creating an additional 200 dwelling units in the downtown. Collectively, the full tower conversion will create 395 new dwelling units and will result in the removal of nearly 420,000 square feet of vacant office space, representing the most significant single contribution to the Program's portfolio to date.

Application Review Process

The Palliser One Phase 2 project was submitted in September 2022 as part of the re-opening of the Program (second intake). A total of nine applications were received during the submission period. The City undertook a comprehensive and consistent review process of each application against the Program's eligibility criteria and additional scoring considerations (refer to

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Attachment 2). Each applicant was also subject to a thorough due diligence process to ensure credibility, ability to execute, and overall alignment with the Program. Through this process, six applications totaling approximately \$65 million in incentive funding requests were identified as eligible candidates, including the Palliser One Phase 2 project.

The Development Approvals Review Team (DART) undertook a preliminary review of the initial Palliser One conversion application to the Program. No major issues were identified through the DART review, and this first phase of the project is now undergoing Development Permit review. The Palliser One Phase 2 Project does not present additional challenges from a regulatory perspective and is expected to be supported through the approvals process.

The Incentives Approval Committee has been consulted throughout the process and supports the funding allocation request of up to \$16.3 million for the Palliser One Phase 2 Project.

Alignment with the Program

The Palliser One Phase 2 Project meets all the key criteria of the Program, as follows:

- Located within the Priority Area of the Downtown Core and at a strategic location across from Arts Commons, Olympic Plaza, Glenbow Museum and Stephen Avenue.
- Includes the removal of vacant office space through the conversion to residential use.
- Demonstrates reasonable project readiness: the building will be ~100% vacant by September 2023, demolition will begin September 2023 and construction commencement is planned for June 2024.
- Evidence of strong financial backing, capacity, and commitment by the building owners.
- Proven applicant track record of refurbishing and repositioning older office buildings.

Additionally, the site is located across the street from another office-to-residential conversion project within the Program, creating a hub for new residential uses at a critical location. Further, the building owners have fully supported the relocation of their remaining tenants to other buildings in the downtown, resulting in 110,000 square feet of office space absorption, further contributing to reductions in downtown vacancy.

ENGAGEMENT AND COMMUNICATION

- | | |
|--|---|
| <input type="checkbox"/> Public engagement was undertaken | <input type="checkbox"/> Public/Interested parties were informed |
| <input type="checkbox"/> Dialogue with interested parties was undertaken | <input checked="" type="checkbox"/> Public communication or engagement was not required |

IMPLICATIONS

Social

This project will increase housing options for Calgarians in the Downtown Commercial Core community, an area still dominated by commercial developments and in need of diversification of use. It will also create a critical mass of residents, providing 'eyes on the street' and enhanced safety in the area. 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

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The most significant environmental benefit of office to residential conversion projects is the retention and re-purposing of the building itself. New construction of a project of the same size would require approximately 32,000 tonnes of concrete to construct the tower and parking components, resulting in approximately 7.1 million kilograms in greenhouse gas (GHG) savings by repurposing this building versus building new. Additionally, energy efficiencies will be achieved through upgrades to existing mechanical and electrical systems.

Economic

In 2021, downtown office vacancy was over 33 percent and approximately 14 million square feet of space sat empty. Office property values had declined by \$17.3 billion, or 68 percent, since 2015 due to this vacancy. The purpose of the Program is to respond to this crisis and support the removal of excess office space downtown and the reactivation of vacant sites. With full implementation of the Program, downtown office vacancy is projected to decrease to 15.49% by 2031. The Palliser One Phase 2 project will support the removal of 216,200 square feet of office space, as well as the reabsorption of 110,000 square feet through tenant relocations. The project will create approximately 150 direct jobs and surrounding businesses will benefit from the resulting resident population in the area.

Service and Financial Implications

Existing operating funding - One-time

There are no additional service or financial implications from the approval of this report. The full incentive request of up to \$16.3 million will be funded through the existing Program funds.

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 Phase 2 project meets all eligibility requirements.

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 \$52 million of leveraged private investment in the property and 200 new residential units at this location, maintaining vacancy and creating a zone of inactivity at a critical location in 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.

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*.

ATTACHMENT(S)

1. CONFIDENTIAL Background and Previous Council Direction
2. CONFIDENTIAL Downtown Calgary Development Incentive Program Guide
3. CONFIDENTIAL Palliser One Phase 2 Project Proposal

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Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Stuart Dalgleish	Planning & Development Services	Approve
Les Tocher	Corporate Planning & Financial Services	Approve

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