

Planning & Development Report to
Combined Meeting of Council
2022 June 7

ISC: UNRESTRICTED
C2022-0630
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Downtown Calgary Development Incentive Program – Application Funding Request (2)

RECOMMENDATION(S):

Review or Release By: 2023 June 30

That Council:

1. Approve an allocation of up to \$12 million in funding from the Downtown Calgary Development Incentive Program for the office to residential conversion project located at 521 3 Avenue SW (“Eau Claire Place II”);
2. Direct Administration to enter into a Downtown Calgary Development Incentive Program funding agreement with the property owner(s) of 521 3 Avenue SW (“Eau Claire Place II”) 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, 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 2023 June 30.

HIGHLIGHTS

- The Eau Claire Place II 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 Phase 1 of the Program.
- What does this mean to Calgarians? The Eau Claire Place II Project will provide new housing choice options at a well-connected and amenity-rich location within the community of Eau Claire.
- Why does this matter? The Eau Claire Place II 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 Eau Claire Place II Project will provide several benefits to downtown Calgary, including housing choice with 1-, 1+den, and 2-bedroom rental options as well as new retail at grade.
- The Eau Claire Place II Project will convert approximately 160,000 square feet of office space to residential use, creating 181 new residential units within the Priority Area of the Program.
- The funding request for the Eau Claire Place II 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 (~160,000 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.

At time of Program launch, the Program was oversubscribed by an additional \$55 million in funding requests beyond the committed \$45 million in April 2021. Due to the overwhelming response to the Program from industry and the immediate interest in office to residential conversion projects in the downtown, Council approved an additional \$55 million investment in November 2021 into Phase 1 of the Program to provide sufficient funding for the eligible candidates of the Program.

The purpose of this report is to seek Council approval for an allocation of up to \$12 million for the Eau Claire Place II Project located at 521 3 Avenue SW from the additional \$55 million investment to 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, including the Eau Claire Place II Project. Subsequently, each applicant has been required to go through a due diligence process to ensure overall alignment with the Program.

To ensure the Eau Claire Place II Project is viable from a regulatory review perspective, the Development Approvals Review Team (DART) undertook a preliminary review of the Eau Claire Place II application. No major issues were identified through the DART 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 \$12 million for the Eau Claire Place II Project. For additional details on the application review process, refer to Attachment 2.

Alignment with the Program

The Eau Claire Place II Project meets all the key criteria of the Program, as follows:

- Includes the removal of vacant office space through the conversion to residential use.

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- Demonstrates reasonable project readiness (building is currently ~50% vacant and will be 75% vacant by end 2022. Demolition will begin August 2022 and construction commencement is planned for early 2023).
- Evidence of strong financial backing, capacity, and commitment by the Eau Claire Place II building owners.
- Proven applicant track record of refurbishing older office buildings

The project site is adjacent to another office-to-residential conversion project within the Program, creating a hub for new residential uses within the same city block.

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

IMPLICATIONS

Social

This project will increase housing options for Calgarians in the community of Eau Claire, which experienced 'office creep' during the early 2000s, eroding some of the residential fabric of the neighbourhood. 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 most significant environmental benefit of office to residential conversion projects is the retention and re-purposing of the building itself. New construction of a building of the same size would require approximately 21,000 tonnes of concrete to construct the tower and parking components, resulting in approximately 4.7 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.

Economic

Downtown office vacancy is at approximately 14 million square feet and office property values have declined by \$17.3 billion since 2015, or 68 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 Eau Claire Place II Project will see the removal of nearly 160,000 square feet of office space and the reactivation of an important area of the downtown through the addition of 181 residential units. Surrounding businesses will benefit from this new

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residential population base and the construction of this project will create approximately 140 direct 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 \$12 million for the Eau Claire Place II Project 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 Eau Claire Place II Project meets all eligibility requirements noted in the Program Guide. The 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 eligible applications through this first phase of the Program, even with the Eau Claire Place II 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 \$24 million of leveraged private investment in the property and 181 future residential units in the downtown core. 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* until such time that an executed funding agreement is in place.

ATTACHMENT(S)

1. Previous Council Direction, Background
2. Phase 1 Timeline and Application Review Process
3. Eau Claire Place II Project Proposal

Department Circulation

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