

# Branch - Land Enterprise

## Introduction

City Council established the Land Enterprise in the 1970s as a land development and sales operation to maintain presence in the industry (supplying affordable serviced lots for housing and industrial development). By maintaining an expertise in land development, greater flexibility is available to the City in the management and disposition of the lands bought by the City for capital projects. This land development activity provides an annual dividend to the corporation of 25% of the net income generated the previous year.

The activities of Land Enterprise are guided by Policy C511 Land Development Policy (2005), Policy C516B Land Enterprise Dividend Policy (2008) and the Industrial Land Strategy (2002).

Land Enterprise operates on a continuous cycle with respect to its land development activities. Land for development is acquired, it is serviced and sold in a manner consistent with private sector land development processes and with the objectives outlined in the "Ways". Retained profits fund ongoing servicing and acquisition of

land for further development, when justified. When a new development project is considered, a business plan is developed which addresses, among other things, a staging plan and schedule, sustainability, servicing, financing requirements and marketability.

The Land Development Policy limits the City's activity in the residential land development sector to no more than 10% of the total number of lots produced in the Edmonton area and towards lower priced lots. The City's existing Industrial Land Strategy strives to provide a 3 year inventory of serviced industrial land within City boundaries. The Strategy is currently under review.

Activities within the Land Enterprise operation include reviews of all properties within the municipal operations portfolio which have been deemed surplus to Civic requirements in order to maximize value or benefit to the City through sale, long term lease or exchange.

Highlights for 2012 include planning and stakeholder consultation activities for the City Centre Airport lands, servicing of residential lands in Oxford, Schonsee and Goodridge Corner, and on-going industrial land development in Rampart and Pylypow.



## MAJOR SERVICES & ACTIVITIES

### Lands Sales and Acquisitions

Sale of Industrial and Residential Development Properties

Sale of Surplus City Properties

Opportunities / Strategic Land Acquisitions

### Land Development

Land Planning and Servicing

Airport Redevelopment

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## Opportunities and Challenges

### Development Focus

Through its residential land development activities and policy, the City focuses on the lower 10% of the market range and the target market is towards smaller builders and members of the general public who wish to build their own homes. Edmonton's residential land development activities are of a modest scale, on average reflecting less than 5% of the residential market and restricted by Policy to no more than 10% of this market. Development has been further reduced over the past 3 years due to the slower market and oversupply of inventory in the marketplace. The historic inventory has been largely absorbed and City lots will again be introduced into the market in 2012 in Oxford.

The objective of the developments is to transform Edmonton by developing attractive and compact physical design with diverse neighbourhoods, amenities and public open space, which shows leadership in reducing impacts on the environment.

Land development activities within the Land Enterprise are established through the Capital Priorities Plan and reflect the current market conditions relative to the objectives of the planned development. For projection purposes, the basic assumption is for 10% of new inventory to be sold the year of servicing (as lots are generally not available for sale until late fall), 60% the following year, and the final 30% the year after. The Annual Capital Program is reviewed and adjusted annually to reflect prevailing market conditions (including overall lot supply and demand).

### Greening the Land Development Focus

Consistent with the City's Land Development Policy, the City's land development activities are evolving with an even greater emphasis on sustainability, while still recognizing the necessity for each project to be financially viable and affordable to the buyer. The challenge is that pursuit of being "greener or more sustainable" can take more time, may increase the costs and can potentially reduce net returns on the sale of a property. Although initial focus on these goals may lead to lower net incomes on a specific project basis, the long term goal of increased sustainability and affordability will ultimately benefit all Edmontonians.

Existing projects with a sustainability focus include: Station Pointe, Rampart Industrial and the La Perle Secondary Suites/Built Green Pilot. Incorporating more sustainable principles in new developments and planning for even greater sustainability opportunities on projects like the City Center Redevelopment and Goodridge Corner and Oxford will produce more measurable and longer term social, environmental, economic and community gains.

### Edmonton City Centre Airport

In July of 2009, City Council approved the phased closure of the City Centre Airport. The Corporate Properties Branch, through the Land Enterprise is responsible for the development of the plan and implementation of this long term project. A project development office has been established under the Land Enterprise. In addition to these elements the project office is also responsible for the acquisition of leasehold interests, and in conjunction with Law Branch addressing any lawsuits. This package would be funded from the retained earnings of Land Enterprise, and as such is not tax levy supported.

This Project Office is responsible for the day-to-day project management and administration of the project, coordination and direction of consultants and city staff, and stakeholder relations. In 2011, City Council approved Perkins + Will (P+W), from the international Request for Proposals design competition. The Project Office has executed an agreement with P+W to complete the Master Plan, and its associated comprehensive public involvement plan, for an environmentally sustainable, transit-oriented development for the City Centre site. The Master Plan is to be completed in the fall of 2012.

Detailed Design of phase I, as identified in the Master Plan NASP, will occur in 2013, with shovel in the ground projected for 2014.

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## Approved 2012 Budget – Branch Summary (\$000)

	2010 Actual	2011 Budget	\$ Change '11-'12	2012 Budget	% Change '11-'12
<b>Revenue &amp; Transfers</b>					
Land Sales	\$ 18,816	\$ 28,439	\$ 11,185	\$ 39,624	39.3
Other Revenue	1,389	3,800	(200)	3,600	(5.3)
<b>Total Revenue &amp; Transfers</b>	<u>20,205</u>	<u>32,239</u>	<u>10,985</u>	<u>43,224</u>	34.1
<b>Expenditure &amp; Transfers</b>					
Cost of Land Sold	9,154	14,220	5,988	20,208	42.1
Personnel	83	1,765	100	1,865	5.7
Materials, Goods & Supplies	1	47	1	48	2.1
External Services	1,186	4,635	8	4,643	0.2
Intra-municipal Services	2,705	2,554	110	2,664	4.3
Utilities & Other Charges	53	29	-	29	-
Transfer to Reserves	600	-	-	-	-
Subtotal	13,782	23,250	6,207	29,457	26.7
Intra-municipal Recoveries	-	-	-	-	-
<b>Total Expenditure &amp; Transfers</b>	<u>13,782</u>	<u>23,250</u>	<u>6,207</u>	<u>29,457</u>	26.7
<b>Net Income</b>	<b>\$ 6,423</b>	<b>\$ 8,989</b>	<b>\$ 4,778</b>	<b>\$ 13,767</b>	<b>53.2</b>
<b>Full-time Equivalents</b>	21.0	21.0	-	21.0	

## Budget Changes for 2012 (\$000)

### Revenue & Transfers - Changes

#### Land Sales \$11,185

Land sales revenue is expected to increase based on projections of more land being available and some sales being deferred from 2011.

#### Other Revenue \$ (200)

Other revenue was reduced due to reduction in interest revenue \$(100) and reduced income from City Centre Land leases \$(100).

### Expenditures & Transfers - Changes

#### Cost of Land Sold \$5,988

The increase in cost of land sales is due to higher land sales projections in 2012.

#### Personnel \$100

Movement within the salary ranges, changes in benefits and the last year of a 3-year contribution increase account for increase of \$100.

#### Material, Goods & Supplies \$1

Increase relates to inflation at \$1.

#### External Services \$8

Increase relates to inflation at \$8.

#### Intra-municipal Services \$110

The increase of \$110 is due to inflation and increased charges for space rent.

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## Pro-Forma Income Statement - Resale Land (\$000)

	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
<b>Revenues</b>					
Land sales - external	\$ 39,624	\$ 49,003	\$ 73,919	\$ 97,054	\$ 113,833
Cost of land sold	20,208	25,482	39,177	52,409	62,608
Gross Margin	\$ 19,416	\$ 23,521	\$ 34,742	\$ 44,645	\$ 51,225
1 Gross Margin %	49%	48%	47%	46%	45%
Other revenues:					
Interest income	100	103	106	106	106
Airport revenues	3,500	3,500	3,500	3,500	3,500
<b>Total Revenue</b>	<b>23,016</b>	<b>27,124</b>	<b>38,348</b>	<b>48,251</b>	<b>54,831</b>
<b>Expenditures</b>					
Personnel	1,865	1,901	1,939	1,978	2,017
Material & Equipment	48	50	51	52	53
External Services	4,643	4,768	4,896	4,994	5,094
Interdepartmental	2,664	2,726	2,790	2,846	2,903
Utilities	16	17	17	18	18
Travel & Training	13	13	14	14	14
Debt interest - Fort Road	502	483	453	442	420
Debt interest capitalized	(502)	(483)	(453)	(442)	(420)
	9,249	9,475	9,707	9,902	10,099
<b>Net income</b>	<b>13,767</b>	<b>17,649</b>	<b>28,641</b>	<b>38,349</b>	<b>44,732</b>
Retained earnings, beginning of year	129,429	140,649	154,856	179,084	210,273
2 Dividends paid to General Government	(2,547)	(3,442)	(4,412)	(7,160)	(9,587)
<b>Retained earnings, end of year</b>	<b>\$ 140,649</b>	<b>\$ 154,856</b>	<b>\$ 179,084</b>	<b>\$ 210,273</b>	<b>\$ 245,418</b>

1. The gross margin percentage for external land sales is expected to gradually decline starting in 2012 over a number of years as the Land Enterprise's existing undeveloped land inventory is exhausted. The anticipated gross margin percentage is expected to be in the range of 40% - 45% from 2015 onward.

2. Dividend paid to the City of Edmonton is based on 25% of the Net Income in the preceding year. The dividend of \$2.55 M budgeted for 2012 is based on the projected Net Income of \$9.0 M in 2011 and a special dividend of \$0.3 M.

### Additional Notes

City Council voted in July 2009 to have a phased in closure of the Edmonton City Centre Airport. To facilitate Council's decision, the City Centre Lands activity was established within Land Enterprise to oversee the development of the Airport land in anticipation of the phased in closure.

In July 2010, the City of Edmonton signed an agreement with Edmonton Regional Airports Authority for a partial surrender of the airport lease. As a result of this agreement, the City of Edmonton has assumed some of the lease agreements and will be responsible for the City Centre Airport operating revenues and expenses. The anticipated lease revenues and user fees and the operating expenses are included in the budget figures.

Project costs for Station Pointe will be financed by Community Revitalization Levy. Debenture debt has been issued as interim financing.

The amount of station Pointe CRL revenues are anticipated to increase as the redevelopment is completed, generating new tax revenues which are redirected to repay the City's specific project investment for 20 years. After this time, the increased tax base benefits the City general revenue at large.

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## Pro-Forma Balance Sheet - Resale Operation(\$000)

	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget
<b>Assets</b>					
<b>Financial Assets:</b>					
Accounts receivable	\$ 1,982	\$ 2,450	\$ 3,696	\$ 4,853	\$ 5,692
1 Land for resale	172,610	194,417	178,372	173,235	141,529
2 Due from (to) the City of Edmonton	(21,120)	(29,135)	11,438	49,554	113,900
	153,472	167,732	193,506	227,642	261,121
<b>Total Assets</b>	<b>\$ 153,472</b>	<b>\$ 167,732</b>	<b>\$ 193,506</b>	<b>\$ 227,642</b>	<b>\$ 261,121</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 801	\$ 794	\$ 1,523	\$ 3,762	\$ 1,731
Deposits	1,981	2,450	3,696	4,853	5,691
3 Long-term debt - Station Pointe	10,041	9,632	9,203	8,753	8,281
<b>Total Liabilities</b>	<b>12,823</b>	<b>12,876</b>	<b>14,422</b>	<b>17,368</b>	<b>15,703</b>
<b>Equity</b>					
4 Retained earnings	140,649	154,856	179,084	210,273	245,418
<b>Total Liabilities and equity</b>	<b>\$ 153,472</b>	<b>\$ 167,732</b>	<b>\$ 193,506</b>	<b>\$ 227,641</b>	<b>\$ 261,121</b>

1. Land for resale consists of the original acquisition costs of undeveloped land, plus any servicing costs that are incurred. Through the Capital Budget, City Council approves funding for servicing of residential and industrial lands. These costs are captured until the land is sold. When sold, the total costs incurred to bring the land to market are included in the Cost of Land Sold on the Income Statement. Examples of significant land parcels in inventory are Oxford, Schonsee, Goodridge Corner for residential lands and Pylypow, Ellerslie, Rampart for industrial lands. We expect more residential and industrial land will be serviced and available for the market in the next few years.

2. Due from (to) the City of Edmonton reflects a cash surplus or shortfall position for the operations. Land Enterprise is projected to remain in a negative cash position for 2012 and 2013. The cash shortfall is mainly due to the long lead time between investments in land acquisition, developing and servicing costs to the time the land parcels are sold. The budget assumes that no net additional land will be acquired for this purpose for 2012 to 2016.

3. Long term debt related to the Station Pointe Redevelopment Project is based upon the amount borrowed to-date under Borrowing Bylaw #14833. Depending on the net proceeds from land sales, the amount of actual borrowing may be increased.

4. Retained Earnings represent the accumulated profits from the operations of Land Enterprise. The majority of the Retained Earnings is invested in land inventory.