

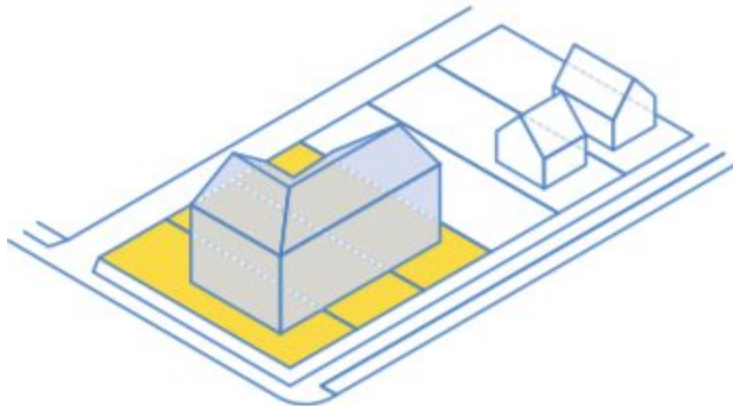
Infill Land Assembly and Mixed Use Financing

INFILL ROADMAP 2018 - ACTION 7 REPORT

ACTION 7

“Investigate available tools to address the challenge of infill land assembly and financing mixed use developments.”

Infill Roadmap 2018



Introduction - Action Background

The Infill Roadmap 2018 is a city-wide initiative that consists of 25 actions that the City of Edmonton is undertaking to support more and better infill. Infill is recognized as a necessary component of the City's overarching city-building goals to make the best use of existing infrastructure, provide a range of housing options, and manage environmental and fiscal constraints. The Infill Roadmap was guided and informed by a rigorous public engagement process over two years and received Council endorsement on July 3, 2018. The implementation of these actions began in Q1 2019 and is expected to continue through 2022. The City has committed to advance the 25 actions and to provide updates to stakeholders, engagement participants, and the city as a whole about each of the outcomes.

This report completes Action 7 of the Infill Roadmap:

“Investigate available tools to address the challenges of infill land assembly and financing mixed use developments.”

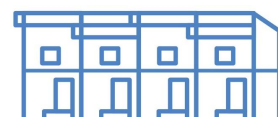
This action was selected because two key challenges of infill (specifically forms such as low rise apartments) are consolidating lots and securing financing for mixed use developments, which are encouraged by City policies. These challenges were identified in the first round of Evolving Infill engagement, and persisted throughout the Evolving Infill project.

To investigate these challenges, we interviewed a variety of professionals working in Edmonton's infill industry, including developers and City of Edmonton staff. These interviews were to confirm that land assembly and financing mixed use development were still seen as major challenges, and determine if there were appropriate actions that the City could take to improve them.

These interviews are the primary source of information used in this report to identify challenges and potential solutions to these issues. These were supplemented by a secondary review of tools used to inform the actions in the Infill Roadmap.

Interviews

Semi structured interviews were conducted to allow participants to share their perspectives on both of the challenges. Interviewees were a mix of industry and municipal representatives from Edmonton. In many instances they had expertise in only one of these areas. Interviews lasted between 30 and 90 minutes. A total of 16 interviews were used to establish a better understanding of the current situation, recent changes to improve it, and potential tools for further improvement.



Interviewees from the building industry had expertise in mixed use development, medium or high scale residential infill, land assembly, and project financing. Representatives from the City who contributed had expertise in the areas of subdivision, planning coordination, zoning, real estate, small business and urban design.

Overall, we heard from the interviews that these challenges have diminished over the time that has elapsed since the creation of the Infill Roadmap. However, there are opportunities for further improvement. Many interviewees, both from industry and the City, expressed uncertainty as to whether this is an area that the City is able to have any significant level of influence because these challenges are with private markets and land rights. Participants cautioned that City efforts to intervene in these markets should be limited and that any changes that could be made should be carefully considered.

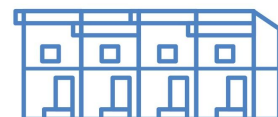
Thematic Analysis

Land Assembly

Single lots are often too small to accommodate the development of mixed use and medium density buildings. Therefore, developers need to acquire multiple adjacent sites to build their projects. Land assembly, for the purposes of our Action, is the ability to secure two or more contiguous parcels of land to create additional opportunity for development. It involves locating suitable land which the developer feels they are able to improve, purchasing the land from the owners, and legally consolidating the parcels into a single parcel of land through the Alberta Land Titles Office.

Legally consolidating land is not a challenge. This aspect of land assembly is a simple process executed by the Alberta Land Titles office and developers are aware of the timelines and costs involved, neither of which are onerous.

On the other hand, locating suitable land for infill development was identified as a challenge. When the land was intended to be used for larger scale projects, developers would need information from the City regarding the required infrastructure upgrades to support their development. Developers interviewed were not always satisfied with the City and EPCOR's ability to answer infill questions, especially regarding infrastructure upgrades, in a timely manner. This would slow down land assembly efforts. Both EPCOR and the City generally prioritize information requests for active development applications (i.e. rezoning applications or development permit applications). These applications do not occur until after land has been purchased or an option to purchase is secured, and therefore are not helpful at the land acquisition stage. Ensuring that planners have current information available to them allows the applicant to receive high quality advice in a timely manner. Water and fire flow information specific to a site was seen as the most difficult to obtain, while waste services and emergency access were consistently identified as the most challenging to design for.



Fire flow information (minimum water provision to meet fire code requirements) is now available through the City's Open Data Portal (see Figure 1), but provides average fire flow information. This is useful for evaluating development opportunities, but more precise information is typically required to make an informed investment decision.

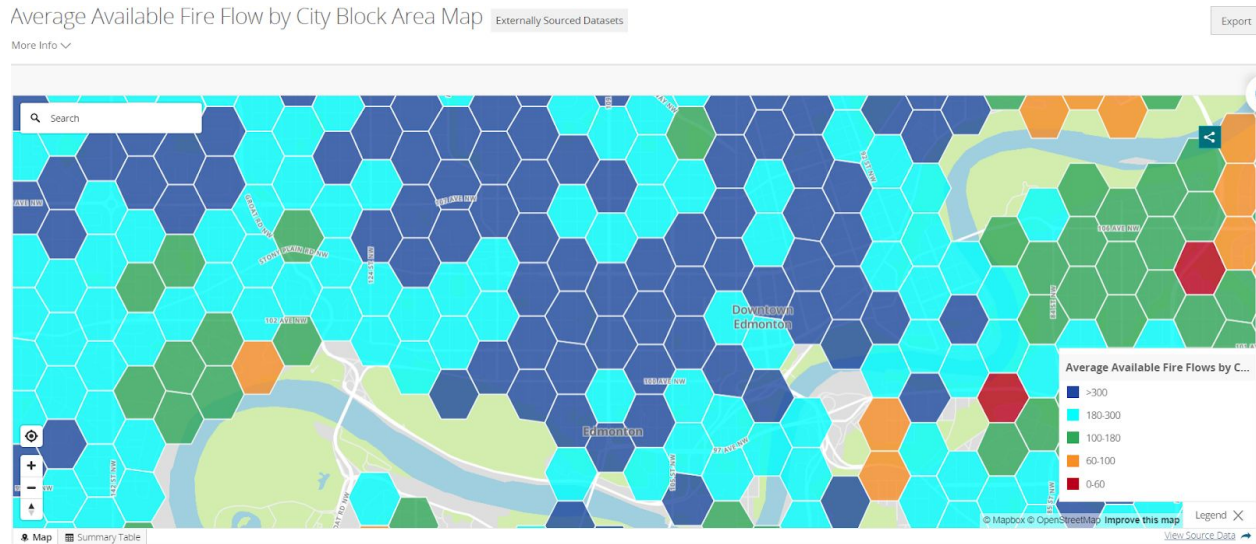
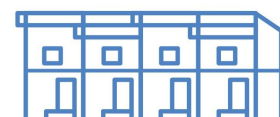


Figure 1 - Average fire flow map in downtown Edmonton. Source: Edmonton Open Data Portal - <https://data.edmonton.ca/Externally-Sourced-Datasets/Average-Available-Fire-Flow-by-City-Block-Area-Map/nt23-wztj> Accessed December 18, 2020

When attempting to purchase land, there appear to be more significant barriers, including working with sellers who are not familiar with commercial real estate transactions. The sellers may not understand the caveats or restrictions on their land or land valuation and the real estate process beyond that of a typical private homebuyer sale. Also, unless a seller is particularly motivated, they will be able to set the price for the land, which may not align with the intended development's ability to pay. Some interviewees mentioned that the land price was raised when the seller found out the prospective buyer was a developer. This kind of divergence can significantly slow or stall an acquisition. Longer condition periods for additional due diligence are also more typical in a development prospect. This is not something that all land owners are familiar with or willing to accept, so developers need to move quickly on these acquisitions.

Rezoning and plan amendment decisions by Council were identified as a contributing factor to the inflation of prices. When Council approves significant increases in density or divergence from a plan in effect, similar parcels nearby may increase in value because landowners expect that projects of a similar scale will be permitted on their land. Zoning, plans and guidelines rarely align with what developers are looking to achieve, so these alone do not determine which properties are desirable to acquire for redevelopment. In spite of these challenges, interviewees did not perceive land assembly in Edmonton to be more difficult than in other jurisdictions.



Mixed Use Financing

Securing financing for mixed use development is a fundamentally different obstacle, although a given development may face this challenge along with difficulties assembling land. Financing is highly variable, and dependent on a variety of factors. There are aspects of regulation, process, and external market conditions that all play a significant role in a potential lender's decision.

General

The feedback from the interviews was generally positive. Interviewees indicated that experienced infill developers do not have greater difficulties securing financing for mixed use development than for other projects, provided the project offers a comparable return on investment. The developers interviewed felt that planners at the City are “good champions of [mixed-use], and other good development”. However, interviewees did express concern that policies, direction, and guidelines are not always applied consistently by the City and indicated that acting with greater consistency would have the biggest value for this issue.

Some developers find it difficult to obtain timely information on servicing requirements for a proposed project, most specifically from the utility providers. Servicing reports can cost between three and five thousand dollars, but can reduce project risk if the information is available prior to purchasing land. Information that is needed early on in the project includes cost of infrastructure upgrades like hydrants.

Another hurdle identified through interviews was a lack of confidence in the demand for mixed use development downtown right now. This lack of confidence can create a major barrier to financing. Integrating commercial development into residential projects can pose challenges. Speaking of low and mid-rise projects, one developer stated, “The land economics don’t work. For many [projects], 22 [stories] are needed to make it work”. Land economics are tied to financing, with a limited amount of the funding coming from traditional lenders (often less than 50% of the total amount needed), a substantial amount secured through higher cost sources (mezzanine funding). These sources carry a much higher interest rate (typically between 6 and 12% interest). Even with both of these borrowing avenues secured there often remains a significant gap in funding to be filled by equity partners. City support such as advanced clearance letters for lenders could provide more certainty and enable funding to be secured more easily.

Figure 2 shows Edmonton and Calgary tied for last place in terms of current real estate lender confidence. The CBRE 2020 Canadian Real Estate Lender’s Report shows that interest in lending to Edmonton based real estate development projects is mostly project specific (34%) or relationship specific (31%), meaning that lenders may consider financing development if the project or partner is right. However, only a small percentage of lenders (<15%) have even a moderate interest in lending in the Edmonton market.

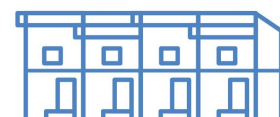




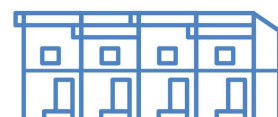
Figure 2 - Lender interest in Canadian real estate markets. Source: CBRE 2020 Canadian Real Estate Lender’s Report, Page 11

Regulations

Interviewees discussed recent regulatory improvements at length. The work that was done on the Missing Middle zones in 2019 has been well received, and has had significant uptake. Not permitting new single detached houses in the land zoned RA7 was seen as particularly valuable, as this encourages redevelopment to multifamily buildings, rather than new houses. Improving the Missing Middle zones was also valuable to the development industry because having conventional zones provides significant certainty to lenders and is important for financing opportunities. Direct Control zoning decreases this certainty, adds costs and can pose a challenge when market changes force a redesign and an accompanying rezoning.

One of the most significant regulatory changes achieved through the Infill Roadmap was the introduction of universal open option parking. This allows developers to determine the amount of parking required to support the occupants and patrons of their buildings, rather than provide parking minimums set by the City. Excess parking can create an expense that a project cannot bear, particularly in urban contexts where land is expensive and parking is underground. However, short term parking can also be used to leverage business viability.

Overall, interviewees expressed a desire for less regulation of uses, design, and density. In particular, they encouraged the City to rethink focusing on height as the dominant design concern, as there are opportunities to mitigate the impacts of height using outcome based





approaches to regulations. However, there are still challenges in this regard, such as the requirement for setbacks to help improve the public realm adjacent to the development. This design requirement creates a shift in the load bearing structures and adds significant cost to the design and construction of the project. To support the commercial component, interviewees suggested using regulations that allow for more flexibility in leasable areas. Design requirements can increase the cost of development, but they also protect the public realm, so regulations must balance these interests.

Other design concerns discussed included mechanical systems and waste management requirements, which interviewees felt are too onerous in some cases. Adding commercial space to a residential project substantially increases costs because of the commercial standards for these systems.

Predictability/Flexibility

To attract interest from lenders and investors, projects must reduce risk. Interviewees indicated that conflicting policies and inconsistent decision making create uncertainty and increase project risk. One interviewee gave the example of when a rezoning was not supported in spite of supportive language in a statutory plan to illustrate the type of inconsistency that creates project risk.

When financing is approved, project timelines become extremely sensitive to manage the cost of carrying debt. Shifting timelines can significantly increase borrowing costs, so City efforts to maintain consistent land entitlements and permitting timelines are essential to the success of private development. When uses are mixed within a project, it creates additional complexity for zoning, development and building permits, which can create delays in each of these processes.

Overall Scorecard - Planning Features, Government Charges, Approvals Timelines

	Planning Features <i>rank (1=best)</i>	Government Charges <i>rank (1=lowest)</i>	Approvals Timelines <i>rank (1=best)</i>	Score (Average Rank) <i>lower=better</i>	Rank
Regina	11	9	1	7.0	1
Edmonton	1	17	4	7.3	2
Calgary	7	8	9	8.0	3
London	5	13	6	8.0	3
St. John's	18	3	5	8.7	5
Charlottetown	23	1	2	8.7	5
Winnipeg	15	6	7	9.3	7
Saskatoon	11	14	3	9.3	7
Oakville	1	19	8	9.3	7
Ottawa	1	11	21	11.0	10
Halifax	9	4	20	11.0	10
Hamilton	7	12	15	11.3	12
Moncton	21	2	13	12.0	13
Toronto	1	21	17	13.0	14
Pickering	9	16	14	13.0	14
Surrey	19	10	11	13.3	16
Delta	16	7	18	13.7	17
Brampton	5	22	16	14.3	18
Markham	11	23	10	14.7	19
Burnaby	21	5	22	16.0	20
BWG	11	18	19	16.0	20
Coquitlam	17	15	n.a.	16.0	20
Vancouver	19	20	12	17.0	23

Note: Government Charges based on average of low-rise and high-rise scenarios, as measured by government charges as % of housing prices
Source: Altus Group Economic Consulting

Figure 3 - CHBA Overall Scorecard. Source: CHBA Municipal Benchmarking Study, September 21, 2020, page v

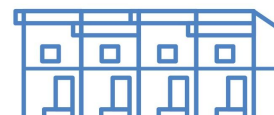


Figure 3 shows that the Canadian Home Builders Association ranks Edmonton second overall for planning features, government charges and approval timelines. This ranking covers all development, and is not exclusive to mixed use.

Commercial spaces are often difficult to lease initially. It can take years for residential development to provide enough customers to support the commercial spaces at grade. Interviewees suggested that the option of having convertible spaces (“retail ready”) on the main floor could assist with an organic transition of the spaces over time. Allowing residential on the main floor while requiring the design to incorporate structural requirements for standardized commercial use needs (higher 9 foot ceilings, separated ventilation systems, etc.), would allow for transition of the space over time, and provide additional stability for lenders. This would be challenging given the position of local Business Improvement Areas and could require some changes to their funding models to enable some support from residential development.

Moving from a restrict/require approach to encourage/allow with mixed use is seen as a way to balance a variety of these needs. These considerations will be incorporated into the Zoning Bylaw Renewal initiative.

Programs

Interviewees indicated that the City’s [Brownfield Redevelopment Grant program](#) has been particularly successful at increasing the economic viability of qualifying projects. This has helped them to secure funding, and additional programs of this type were highly encouraged.

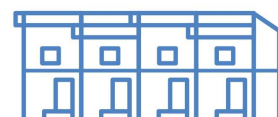
Actions Taken

Recent Changes

Since the Infill Roadmap was being prepared, much of the City’s work has removed previous pinch points both in the process (through work done by Urban Form Business Transformation initiative) and regulations (through updates to the Zoning Bylaw). A more comprehensive look at where the City has already begun removing barriers or making improvements can be found below.

Regulatory and Policy Changes

As part of the Infill Roadmap, the [City made changes to the ‘missing middle zones’](#) and overlays. Interviewees confirmed that these changes included significant improvements for the development industry. Changes that were impactful include reducing setbacks, removing minimum site areas, adding height and floor area ratios in the main streets overlay, and making it more difficult to maintain a single detached house in perpetuity where higher density zoning is in place.



The recent introduction of [open option parking requirements](#) also removed a major barrier to high density development. Previously, parking requirements had both significant design and cost implications that could make some projects unviable.

The newly adopted City Plan also provides additional clarity to where the City encourages redevelopment. Ongoing work to implement The City Plan, including the Growth Management Framework project and District Planning will further clarify the City's priorities and commitment to support redevelopment.

Process Changes

Recent [service improvements](#) have significantly improved both the process and timelines for a variety of applications. As an example of these improvements, pre-application meetings have been introduced to offer the opportunity to get information on site influences and infrastructure issues prior to submitting an application. These services will be refined as more information is available to evaluate their impacts.

Other Completed Projects

Projects that have been completed include:

- [The Infill Cost Share Program](#) which pilots a shared approach to water infrastructure improvements triggered by medium scale redevelopment.
- The [Development Incentive Program](#) in Business Improvement Areas which is competitive and outcomes based, considers design principles, and includes a letter to lenders showing city support.

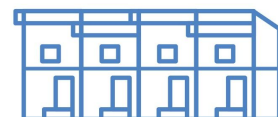
Changes currently underway that will address barriers

There are projects that are currently underway which will provide additional benefits to industry's ability to assemble land and obtain financing for mixed use development:

- Action 2 of the Infill Roadmap is focused on assessing existing infrastructure capacity in nine nodes and corridors in the City's redeveloping area.
- The [Zoning Bylaw Renewal initiative](#) will further simplify and reduce regulations as appropriate.
- The City Planning Framework project will reduce redundant and outdated planning tools and provide lifecycle management for tools on an ongoing basis.

Conclusion

Both the interviewees and participants in the creation of the Infill Roadmap 2018 acknowledged that municipal government has limited influence on the issues of land assembly and finance.



Decisions to finance development, sell land, and at what price, are made by private individuals and corporations. Local government's powers over these matters are limited by law to very specific circumstances.

Many of the suggestions made for this action are not specific to these two issues, but would help support infill development generally. As the City focuses on the core services of planning, permitting, and providing consistent policy and decision making, the private sector will have the right conditions to pursue development projects. These conditions will make land assembly and financing easier, and will help Edmonton welcome more people and new homes into our existing communities.

Contact

This report was prepared for the City Planning Branch by Anne Huizinga and Sean Bohle. For more information, contact sean.bohle@edmonton.ca

