



City of Burlington

Strategic Real Estate Model and MDC Needs Assessment

July 14th, 2020

Council Workshop
CWC-04-20-1


urbanMetrics inc.

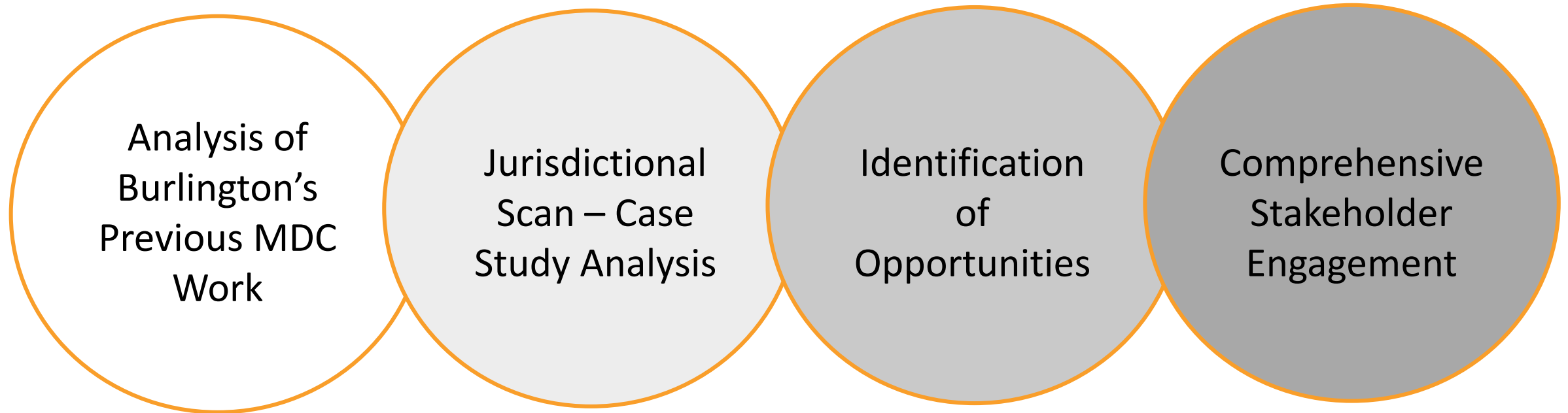
 MDB
INSIGHT

ECONOMIC DEVELOPMENT
Burlington

Agenda

- Presentation
 - urbanMetrics' Work to Date
 - Overview of Previous Burlington MDC Work
 - MDC Case Study Financial Examples
 - Review of Stakeholder Engagement
 - Burlington's Municipal Development Opportunities
 - Example Financial Project Overview
- Q & A
- Breakout Rooms
 - Participation
 - Quantified Feedback

urbanMetrics' Work to Date



Overview of Previous Work

2013 KPMG Report – BEDC Review of Governance & Structure

- Explored stakeholder responses to the adoption of recommendations to re-structure BEDC to allow for land development and asset enhancement activities that would “unlock the value of under-utilized real estate holdings”
- Recognized the need for any entity engaging in the functions typically associated with an MDC to be more arms-length than BEDC was at the time
- Explored the potential structure needed to enable BEDC to acquire assets, enhance value, and bring to market

2016 Cresa Report – Strategic Land Framework for Burlington

- Review of sites and structures used by municipalities to optimize the management and value creation processes relating to real estate portfolios
- Provided built form options for identified sites, with a high level feasibility analysis of each option
- Created a list of city building outcomes and measurements to evaluate the worth of potential projects and the success of undertaken projects
- Constructed a framework for strategic land evaluation on a site by site basis
- Outlined a mechanism for dealing with unsolicited proposals

Overview of Previous Work

Cresa Continuum of Delivery Models - 2016

“MDC Heavy” refers to the model that would have a larger more robust organization and Board of Directors and would be a “full service” developer, including investing equity capital into deals and working through the entire development cycle.

The **“MDC Lite”** model would use a similar organizational structure as “MDC Heavy”, but would be involved in the front end of the development process and would make investments into transactions consisting of only equity land contributions.

The **“MDC Superlight”** is a scaled down model with a smaller organization and smaller Board of Directors and would be involved in a similar model as the “MDC Lite”. While it would have more limited capacity, the MDC has advantages in that it is scalable and would be able to ramp up over time as the balance sheet is established and projects are completed.

Existing City Real Estate Structure and Development Capabilities	New Dedicated City Strategic Real Estate Program	MDC Lite – Land Prep Only	MDC Heavy – End to End Development
<ul style="list-style-type: none"> • Status quo • Primary management role but without significant value creation expertise or activities • Typically rewarded for stewardship and management, not innovation or risk taking 	<ul style="list-style-type: none"> • New dedicated individual or group, or retooling of existing team with an executive “champion” • Focus on value creation and achieving strategic outcomes • Include BEDC, City Planning, Real Estate, and Finance 	<ul style="list-style-type: none"> • Small dedicated external corporation • Target to enhance and unlock value on a small number of sites • Primary “front end” of the development cycle and would vend or JV land with private developers 	<ul style="list-style-type: none"> • Larger corporation and board with more capacity (and overhead) • Target more of an “end to end” development role and would actively JV with developers • Higher risk and higher overheads but if sufficient land assets and throughput then it can be supported

Strategic Real Estate Entity Continuum



Midland Bay Landing Development Corporation



Mission: Maximize the value of the Town's most significant and strategic real estate asset to the residents of Midland as per the direction of Council

Functions:

- Develop active partnerships with the Town, investors, and private sector partners
- Facilitate the development of the site with consideration for the waterfront lands masterplan
- Undertake work necessary to provide for interim uses as the site develops

Governance

- Wholly owned subsidiary of the Town of Midland

Midland Bay Landing Development Corporation

MBLDC 2020 Budget

Operating Budget	\$277,000
Site Maintenance Work	\$250,000
Environmental Consulting	\$55,000
Total	<hr/> \$582,000

Site Purchase Price	\$3,400,000
Annual Internal Operational Loans	\$50,000 - \$150,000
Covers general professional services	



Mission: A non-profit corporation that creates and expands economic opportunity for low to moderate income people

Functions:

- Provide a range of affordable housing development
- Strategic revitalization of commercial real estate
- Business development
- Workforce training and development
- Community engagement and community-based market research

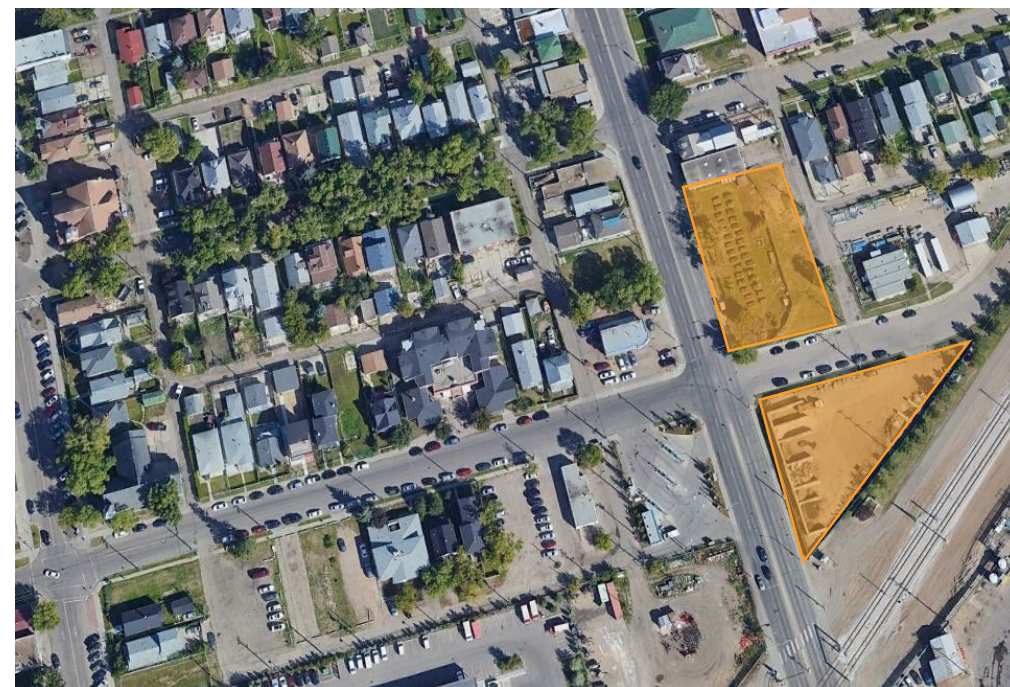
Governance and Finance

- Edmonton Community Foundation
- City of Edmonton
- Regional non-profit associations

- Managing 4-5 active projects with different partners, a typical project capital budget of approximately \$5,000,000
- Engages with other public and private sector partners and is not yet undertaking projects as the sole financier

Edmonton CDC Annual Progress Report

Start Up Costs	\$100,000
Municipal Land Contribution	\$10,000,000
Annual Operating Costs	\$455,000
Annual Project Costs	\$100,000
5 Year Project Financing Budget	\$10,000,000



Purpose: Be a vehicle to lead a city-wide real estate strategy, modernize and harmonize municipal real estate operations, and maximize value of the City's portfolio in the pursuit of economic, environmental, and program benefits

Governance

- A city agency integrated into the existing municipal umbrella

Functions:

- Implement the City's Housing Now initiative by working as partner developer on sites
- Advance strategic infrastructure and recreational projects to meet City needs
- Centralize real estate functions to realize efficiencies
- Support Council's modernization strategies for office development and civic centres
- Provide corporate services to City Staff and other City agencies

CreateTO - City Real Estate Agency (2020)

Operating Budget	
Revenues	<u>\$14,400,000</u>
Gross Expenditures	<u>\$14,400,000</u>
Net	\$0

Build Toronto - External Development Corporation (2018)

Value of Real Estate Inventory	<u>\$141,000,000</u>
Real Estate Inventory Gross Profit	\$32,800,000
Rental Gross Profit	\$700,000
Other Revenue	<u>\$2,700,000</u>
General Expenses	<u>\$8,200,000</u>
Net Income	\$28,000,000



Stakeholder Engagement Themes

- Defining the Form and Autonomy of an MDC
- Functions and Capabilities of an MDC
- Identifying Objective and Goals of an MDC

Mandate and Autonomy of an MDC

City Staff

BEDC Board

External Stakeholders

Adding experience managing complex real estate transactions and development projects was seen as a key component of any municipal real estate strategy by the majority of respondents

- Favoured an internal structure and a phased approach

- Debate as to the correct balance of autonomy and capability

- Concerns that a lack of autonomy would make an MDC ineffective

- Concerns as to whether the capabilities of an external entity might be unnecessary or ineffective

- Generally favoured a fully capable MDC, given a degree of municipal control

- Favoured a fully capable MDC that could act as end to end partner on projects

Breakout Room Discussion Question

- What skill sets should an MDC bring to expand or augment Burlington's municipal capabilities?



Leadership




Complex
Real Estate
Experience



Marketing
of Real
Estate
Projects



Site Specific
Visioning



P3
Experience



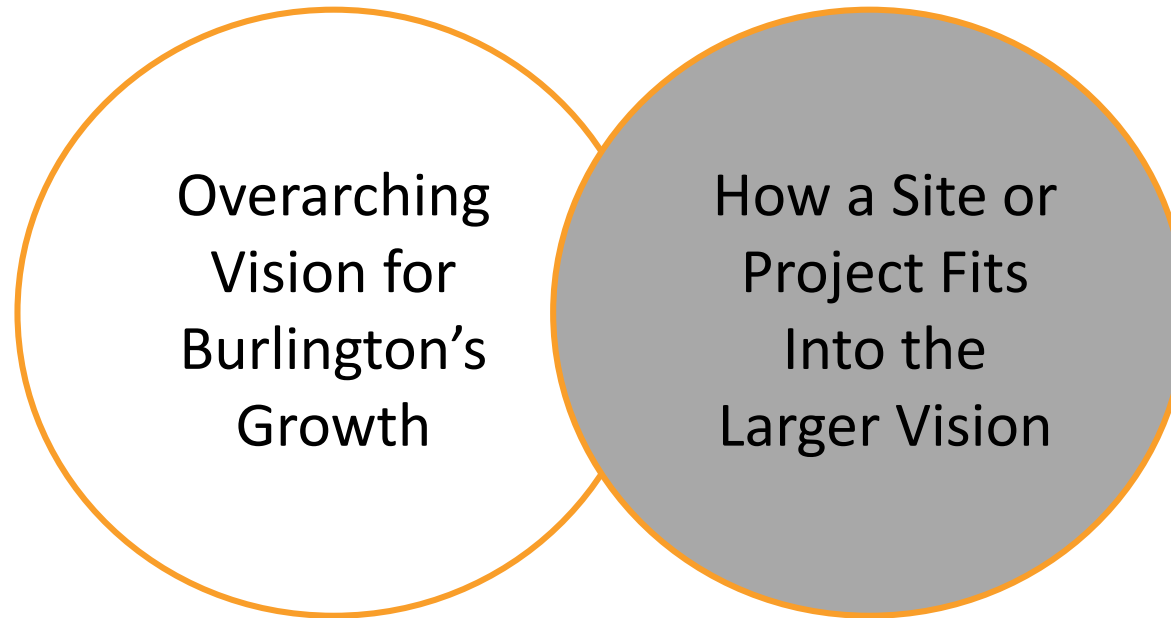
Urban
Design

Breakout Room Discussion Question

- What mandate or capabilities do you think a Burlington MDC should have? What level of autonomy should it have?



Concepts of Vision for Burlington and the MDC

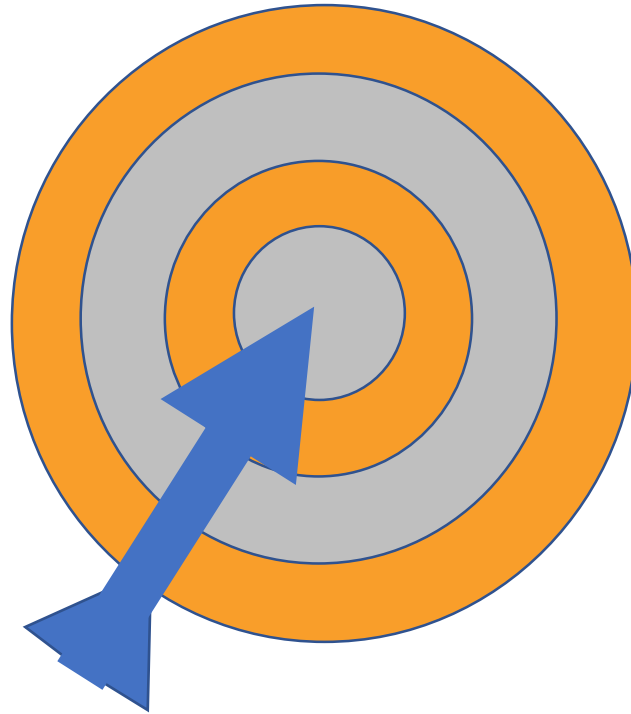


The Goal of Creating an MDC

City Staff	BEDC Board	External Stakeholders
<ul style="list-style-type: none"> Concerns about ineffectiveness, wasted resources without a clear goal for the MDC 	<ul style="list-style-type: none"> More differences of opinion amongst the board than City staff 	<ul style="list-style-type: none"> Had a more aggressive interpretation of what an MDC could be capable of
<ul style="list-style-type: none"> City staff felt that an MDC would develop community and civic uses 	<ul style="list-style-type: none"> MDC could undertake large infrastructure or development projects, but also single-site amenities 	<ul style="list-style-type: none"> Viewed the MDC through a more transactional lens, such as sharing risk on large city building projects
<ul style="list-style-type: none"> Projects discussed included community centres, parks, libraries, sports facilities, etc. 	<ul style="list-style-type: none"> Felt that an MDC could also help develop employment generating or attracting uses 	

Breakout Room Discussion Question

- If an MDC was to exist, what should its principal objectives be?



Identified Opportunities

1. Robert Bateman High School
2. Lester B Pearson Secondary School
3. Parking Lot 3
4. Parking Lot 4
5. Burlington GO
6. Aldershot GO
7. Appleby GO
8. Art Gallery of Burlington
9. Sims Square Parking Lot



Order of Magnitude Example Opportunity – AGB

- Concept based on 2016 Cresa Report Concept, but maintains AGB on-site
- Still requires significant municipal expenditure
- Requires partnership and risk sharing with private sector
- Incorporates between 100-200 low rise multi-family residential units at market prices

Residential Floor Area	29,000 sq. m.
Art Gallery Floor Area	4,645 sq. m.
Total Built Area	34,645 sq. m.
Estimated Site Area	18,000 sq. m.
Floor Area Ratio	1.9



SOURCE: Cresa Toronto – Strategic Land Framework for Burlington (2016)

Order of Magnitude Example Opportunity – AGB

Order of Magnitude Example

Land Assembly	\$5 million
Construct New Art Gallery/Commercial Space	\$40 million
Construct New Park	\$1 million
Underground Parking	\$6 million
Construct Residential Component	\$135 million
Gross Cost Estimate	<hr/> \$187 million
Potential Revenue From Residential Component	<hr/> \$200 million
Gross Profit Estimate	\$13 million

SOURCE: Cresa Toronto – Strategic Land Framework for Burlington (2016).
urbanMetrics inc., Altus Data Solutions

Breakout Room Discussion Question

In your opinion, would a project of this nature/scale significantly benefit from the involvement of an external MDC?



SOURCE: Cresa Toronto – Strategic Land Framework for Burlington (2016)

Order of Magnitude Example MDC Costs

	Limited MDC (e.g. Midland)	End-to-End MDC (eg. Calgary, Edmonton)
Start-Up Costs	\$250,000	\$500,000
Annual General Operating Costs	\$600,000	\$1,500,000
Annual Professional Services Expenditures	\$150,000	\$200,000
Total Annual Operating Costs	\$750,000	\$1,700,000
Land and/or Capital Requirements	\$10-20 million	\$20-40 million
Annual Financing Costs	\$800,000	\$1,600,000

- The cost of operating an MDC depends significantly on its scale and mandate
- Accurate cost projections are difficult without an understanding of the objective and type of development an MDC would be undertaking
- Capital requirements vary significantly, but can include the value of land transferred to the MDC
- Financing costs are dependent on risk sharing and the given financial capacity of the City

Questions?

Breakout Rooms Discussion Questions

- If an MDC was to exist, what should its principal objectives be?
- What skill sets should an MDC bring to expand or augment Burlington's municipal capabilities?
- What mandate or capabilities do you think a Burlington MDC should have? What level of autonomy should it have?