

INDUSTRIAL LAND STRATEGY – UPDATE REPORT 2015

EXECUTIVE SUMMARY

This report provides an update on the Office of Land Servicing & Housing's (OLSH) activities over the past year to implement the actions identified in the *2013-22 Industrial Land Strategy*. The focus of the report is on the specific market research and stakeholder engagement actions that are helping to inform the overall industrial development program within OLSH as well as the delivery of current and future industrial park projects.

ADMINISTRATION RECOMMENDATION:

That the Land and Asset Strategy Committee recommend that Council receive this report for information.

PREVIOUS COUNCIL DIRECTION

On 2014 April 24 (LAS2014-13) Council directed Administration to continue to provide annual updates on the industrial land development program commencing with a report to Land and Asset Strategy Committee in 2015 April.

On 2013 March 18, Council approved the *2013-22 Industrial Land Strategy: For the development of City-owned lands* (LAS2013-06) and directed Administration to report back to Council through the Land and Asset Strategy Committee with a progress report on the implementation of the actions identified in the strategy and stakeholder engagement with industry, no later than 2014 April.

BACKGROUND

The *2013-22 Industrial Land Strategy: for the development of City-owned lands* (the Industrial Land Strategy) was approved by Council in 2013 March 18. The purpose of the Strategy is to provide a framework for how The City will develop its own industrial lands over the next 10 years.

The Industrial Land Strategy provides a vision for The City to “lead in the creation of sustainable industrial parks that support economic development in Calgary and maximize long-term benefits for all Calgarians”. The Strategy supports this vision through its five organizing principles:

1. Support local economic development;
2. Achieve corporate objectives;
3. Operate within our financial capacities;
4. Foster a fair and transparent business environment; and
5. Attract the right business.

The Industrial Land Strategy is being implemented through the actions of the core business lines within the Office of Land Servicing & Housing (Attachment 1). In particular, the program delivery will:

- Provide serviced land that supports economic diversification and the land needs of smaller owner/user businesses in Calgary;
- Deliver broader corporate triple bottom line objectives and long-term City benefits through industrial land development;
- Complement the private sector industrial development activities in Calgary;
- Apply a more business-based approach to delivering the industrial program; and

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- Continue to build relationships with key industrial stakeholders to bring greater market awareness and knowledge to OLSH and its land development projects.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This year's update report will focus on the key research learnings and stakeholder relationships that are increasing OLSH's understanding of Calgary's industrial market.

Increasing Research and Knowledge

A major action stemming from the Industrial Land Strategy is to build better market knowledge within OLSH. In 2014, OLSH completed an analysis of its previous SE industrial parks and the current businesses and development forms. This work included:

- Analysis of businesses that have located to the city's southeast industrial area and the number of jobs provided by industry type. Retail and wholesale trade, businesses serving the energy sector, general manufacturing, construction, and warehousing and distribution are the dominant industries locating in SE Calgary. Knowing this, and the demands placed by each on City services, will help OLSH better anticipate future demands and plan its new industrial parks to accommodate the needs of these users.
- A healthy industrial market needs to offer a mix of lease and ownership space. Current industrial areas in SE Calgary include multi-user (lease and condo bay units) buildings (60%) and standalone, purpose-built buildings (40%). An analysis of lot coverage by these user types found that the multi-user buildings on larger lots tend to provide higher site coverage (45%) than the average 30% coverage for lots less than two acres. Site coverage is an indicator of the level of on-site investment and thus influences assessment values. This finding is important for OLSH to be aware of in planning new parks that cater to both the small owner-user business as well as the larger institutional investors who provide lease or ownership bay product.

There has also been considerable research and knowledge gained by OLSH on the goods movement sector, which is an industry specifically targeted for Calgary's economic diversification. This is also a sector that has had a strong attraction to SE Calgary where a majority of OLSH industrial parks are located.

- Owing to Calgary's geographic location relative to pacific ports and population centres, the Calgary region has become the dominant inland port for western Canada. The Home Depot, Sears and Canadian Tire distribution centres are all examples of businesses that transfer inbound cargo directly from ships in Vancouver to railcars in order to transport products inland for further processing and redistribution away from the congested port facilities.
- The two railroad intermodal yards that serve the Calgary region underpin its emerging inland port status. Companies are increasingly using intermodal as rail efficiencies improve – especially for shipments less than 500 miles where trucking used to be more competitive. While rail is cost effective, it's also sustainable, producing 40 to 60 percent less carbon emissions than solely relying on trucks. As more retailers recognize Calgary's benefits as an inland port, OLSH expects to see continued demand for large warehouse lots (greater than 10 acres). OLSH is especially aware of this opportunity for the Dufferin North Intermodal Park. Similar air cargo opportunities are occurring around the Calgary International Airport. Growth of this sector is expected to be attracted to the

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Calgary region given its intermodal infrastructure and availability of land for warehousing and goods distribution.

- Research shows that the presence of large retail distributors attracts small and mid-size firms as the efficiency of the location (supply chain model) is proven. Economic spin-offs from the presence of large warehouses are also a draw for second tier suppliers and third party logistics providers (i.e. freight forwarders and courier companies). Companies in this sector typically require smaller lots (less than 10 acres) in a mixture of lease or ownership options. This potential is identified as a market for OLSH's smaller lot product in Point Trotter Industrial Park and the future Forest Lawn Creek Park.
- Canada is five years behind the United States in terms of online buying but the demand for e-commerce distribution facilities (fulfillment centres) is expected to increase in Calgary. These centres typically require small and medium sized lots and provide higher employment densities than the larger warehouse operations. OLSH is monitoring this as a market opportunity. It is examining the feasibility of creating specific employee intensive locations in new industrial areas served by regular transit service and in proximity to local retail.
- Research by the Calgary Logistics Council in 2015 found that a daily 20 minute delay for trucking can result in an extra expense of \$4,316 per truck, per year. To maintain a competitive advantage, trucking and warehousing companies will seek locations with good linkages to major roads and regional highways (limited traffic congestion, right turn movements and few traffic signals). This need may take some businesses out of Calgary to industrial parks in neighbouring municipalities. Attention to these challenges is being paid as OLSH works to ensure accessibility is being considered in parks being targeted to businesses relying on truck accessibility.
- Manufacturing for the oil and gas sector is a segment that should be nurtured. These businesses tend to employ large workforces (350 to 500 people per site) and pay above average salaries. They often require medium to large serviced sites (more than 10 acres) and invest in substantial on-site improvements. Some also rely on the high and wide corridors (traffic signals need to swivel, absence of overhead wires, access to regional highways) to move high-value products out of the city. Given the importance of this sector, OLSH will continue to work to identify market opportunities for this manufacturing sector, in park locations with good access to regional highways and high and wide load access within Calgary.

Building Relationships with Industrial Stakeholders

Building relationships with economic development partners, industrial stakeholders and future customers continues to be a priority action area in the Industrial Land Strategy. While the focus in 2013 was on creating awareness around the new Strategy, the focus in 2014 was to work more collaboratively with these groups on issues and opportunities that impact industrial land development. A summary of these stakeholder groups and key emerging issues relating to the OLSH industrial program are included below.

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Economic Development Partners

Calgary Economic Development

OLSH continues to liaise regularly with Calgary Economic Development (CED) and has established regular meetings to share market knowledge and understand the needs of business looking to locate in Calgary. OLSH uses these meetings to update CED about its industrial projects and lot availability. Other on-going benefits of this relationship include:

- CED supports OLSH marketing and sales efforts by connecting OLSH to businesses looking to locate in Calgary.
- CED continues to work with OLSH to identify possible distribution businesses who are customers of the CP intermodal facility and could benefit from locating in OLSH's adjacent Dufferin North. With CED's support over the past two years, the Home Depot distribution centre became the first user to locate there, purchasing a 66 acre lot from The City in 2014. Home Depot is currently building two large distribution warehouses totalling one million square feet.
- OLSH worked closely with CED to support its priority to locate a major film studio in Calgary. OLSH provided an 8.5 acre serviced lot in the Great Plains Industrial Park. OLSH is continuing to liaise with them to understand synergies created by a studio, including spin-off businesses that may seek co-location opportunities in adjacent industrial parks.
- OLSH staff supported the CED booth at the 2014 Global Petroleum Show in Calgary. This opportunity allowed OLSH to create awareness of The City's industrial program, specific products available and establish new contacts in the sector and within CED.

Calgary Regional Partnership

OLSH supports the Calgary Regional Partnership's (CRP) Economic Prosperity initiatives that offer municipalities the opportunity to work together and with provincial agencies on issues that benefit the economic growth and diversification within the Calgary region.

- OLSH participates on the CRP Transportation and Logistics Working Group with its specific focus on supporting the Calgary region's continued development as an inland port and distribution hub. This relationship provides OLSH with valuable knowledge and connections to local expertise related to the goods movement industry, its business needs and operational challenges.
- CRP and CED are co-leading a project to work with Western Economic Diversification Canada to have the Calgary region officially designated as a Foreign Trade Zone (FTZ). The FTZ status allows eligible businesses to defer or be refunded duties and taxes they would otherwise have to pay on goods they import. By eliminating or deferring these costs, companies can increase cash flow, free up working capital and price more competitively. Being declared an FTZ creates opportunities for the region to market itself as only one of three in Canada, along with Winnipeg and Edmonton. For The City, it will allow OLSH to market its lands as part of the regional FTZ, directing prospective businesses to a one-stop service that will expedite the business's process to satisfy the administrative requirements at both the provincial and federal levels.
- OLSH staff were invited to support the CRP/Calgary Logistics Council booth at the 2014 Global Petroleum Show. The purpose of the booth was to raise awareness of the locational strengths of the Calgary region to manufacturing and logistics businesses who

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provide services to the oil and gas sector in Western Canada.

- OLSH was invited by CRP to support a Calgary booth at Cargo Logistics 2015 in Vancouver, the major transportation and logistics trade show in Canada. OLSH benefitted from meeting potential global businesses looking to locate in Calgary and making them aware of The City's industrial land program and upcoming land opportunities.

Industry Stakeholders

Another key action area identified in the Industrial Land Strategy centres around strengthening OLSH's relationship with the land development and real estate brokerage industry, as well as customers and users of Calgary's industrial areas.

Commercial Real Estate Development Association – Calgary (NAIOP) and Urban Development Institute (UDI)

NAIOP and UDI are key stakeholders in Calgary's industrial and office park market. In 2013, engagement was focussed on informing them about the newly approved Industrial Land Strategy, its purpose and principles, and how it would guide OLSH projects and operations going forward. In 2014, the conversation has moved more towards identifying common development challenges that are impacting the shared goal of ensuring an available supply of serviced industrial land within Calgary. The nature of this relationship is becoming more collaborative and allowing for open discussion about a range of issues that affect public and private land development in Calgary, including:

- the increasing cost to provide serviced industrial land in Calgary and the risks to its competitiveness in the region;
- increasing servicing level standards that are significantly impacting industrial development costs and timing of delivery;
- understanding the impact that the 2015 Acreage Assessment Review will have on industrial development;
- the need for The City to place higher priority on growth infrastructure that serves the needs of industrial and employment areas; and,
- general market awareness and business attraction opportunities for Calgary.

In 2014 OLSH joined NAIOP-Calgary to demonstrate its commitment to working together to resolve these challenges. Membership provides access to NAIOP's extensive on-line educational resources, industry bulletins, research and market opportunities, which further support increased market knowledge within OLSH.

Calgary Logistics Council and Van Horne Institute

Through participation on the CRP, OLSH has built a working relationship with the Calgary Logistics Council (CLC). The CLC champions the Calgary region as a first class North American logistics hub. Its members represent businesses across the transportation, warehousing, supply management and distribution sectors.

- In October 2014, OLSH, CLC and The City's Transportation Department invited members of the logistics industry to a discussion about how The City can ensure Calgary's transportation networks support the needs of businesses now and in the future (supporting non-residential growth). It also provided industry with opportunity to:

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- better understand The City departments, responsibilities and operations;
- raise issues faced by the trucking and goods movement industry; and,
- identify operational challenges faced by high and wide load operators.
- This session facilitated further meetings between CLC and Calgary Roads, who are working together to resolve specific high and wide load issues experienced by Calgary manufacturers moving large loads out of SE Calgary. OLSH will continue working with both groups to understand the operational requirements for moving oversized goods, to help inform the design and location of future industrial parks.
- Input provided by CLC has also helped to inform OLSH's review of the development objectives for the Dufferin North project. OLSH confirmed the park's focus for large intermodal users and distribution businesses to take advantage of its strategic proximity to both the CP Intermodal yard and regional highways.
- OLSH sponsored and had staff attend the Van Horne Institute's Calgary Region as a Transportation Hub conference in November 2014.

Stakeholder Engagement, Research and Communication

The key stakeholder groups identified above have been made aware of this update report and the opportunity to attend and address the Land and Asset Strategy Committee.

Strategic Alignment

OLSH's Industrial Land Strategy and implementation actions were informed by public plans and policies such as the Municipal Development Plan, the Long-Range Financial Plan; and the CED's Economic Strategy for Calgary. The industrial program's principle of "Achieving Corporate Objectives" speaks directly to promoting The City's role as an industrial land developer to deliver relevant corporate objectives that might otherwise be difficult to achieve.

Delivering the OLSH industrial program aligns directly with the recent Build Calgary initiative, in particular its focus on growing the non-residential tax base. OLSH resources and current projects deliver industrial and business park lots to the market, providing opportunities for new businesses to locate, invest in improvements and contribute to the local assessment.

Social, Environmental, Economic (External)

Social

The industrial land development program supports the delivery of Calgary's social objectives by creating safe, healthy and accessible industrial parks that are attractive to a cross-section of businesses, which in turn provide a range of employment opportunities for Calgarians. OLSH contributes five per cent (5%) of its gross revenue from industrial land sales to the affordable housing program, which supports the development of housing units for working Calgarians.

Environmental

The Strategy and OLSH industrial program supports The City's objective of reducing the impacts of land development activities by incorporating sustainable design solutions and environmental best practices within each industrial project.

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Economic

The industrial development program supports the growth and diversification of the local economy by providing serviced industrial lots that attract new and expanding businesses and keep Calgary as a destination of choice.

Financial Capacity

The industrial land development program is self-funded through the Real Estate Reserve. Proceeds received from land sales are used to support new projects. Program operating costs are recovered through a combination of three self-funded sources: capitalized expenditures, real estate sales commissions and the cost of sale.

Current and Future Operating Budget:

Implementing the actions of the Industrial Land Strategy, including improving market awareness and increasing partnering activities, is part of the current operations in the OLSH industrial development program.

Current and Future Capital Budget:

None.

Risk Assessment

There are no significant risks identified with delivery of this report.

Risks identified while implementing the Strategy over the next 10 years and in delivering specific industrial projects to the market will be reported and addressed through those specific projects.

REASON FOR RECOMMENDATIONS:

Administration recommends that Council receive this report for information. It provides an update on the progress being made in increasing market knowledge and awareness, and strengthening relationships with economic development partners and key industry stakeholders.

ATTACHMENTS

1. The 2013-22 Industrial Land Strategy- Actions Table
2. Map of OLSH Industrial Park Projects