

REPORT

City of Victoria Strategic Real Estate Review



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August 2015

File: 1328.0031.01

EXECUTIVE SUMMARY

Council's 2015-2018 Strategic Plan provides the initial framework for the realization of strategic real estate opportunities. In the Strategic Plan, one of the key objectives is to build the financial capacity of the organization including through the City's real estate holdings. Land and facilities assets exceed \$1.1 billion in value and establish a core driver for strategic planning that should realize the City's real estate potential. In order to leverage this driver and address other civic needs from a multiple bottom line perspective, administration established this Strategic Real Estate Review to include the following project objectives:

- Develop an inventory of the City's current real estate-related services;
- Review the City's current approach to the management of its real estate assets;
- Identify activities that will enhance the City's ability to provide real estate services to internal and external stakeholders;
- Confirm the City's aspirations to enhance the strategic use of its real estate assets; and,
- Develop a strategic framework for the future delivery of the City's real estate services.

The project approach included ongoing engagement with a project steering committee to provide direction and strategic input with representatives from the City Manager's Office, Engineering and Finance. Staff interviews covered the range of existing services and functions for Parks and Recreation, Development Services, Property Management and Facilities. Council's vision for real estate services is bolstered by the input of staff and observations from this study which suggests that a more dedicated property acquisitions/real estate management office is needed to deliver on leveraging land for civic and broader community needs in an effort to build financial capacity for the organization. Some of these observations include: a need for strategic acquisitions to meet City objectives; a strong interest in leveraging new revenues from City lands; support for an inventory of City lands for strategic purposes including land value capture; and, a special position (or positions) to lead strategic real estate services for the betterment of the organization and the community.

External interviews spanned a range of service delivery models including the experiences and approach of various local governments including Burnaby, Translink, Kelowna, Vancouver, Surrey and North Vancouver (City). Observed management models include organizational structures that:

- embed real estate services within existing engineering or planning departments;
- create a new department responsible for both real estate and facilities;
- create a new department solely responsible for real estate; or,
- bolster strategic real estate capabilities within the current structure or a similar structure, involving a small group of staff who lead strategic real estate initiatives and report to an existing Director or administrative leader.

Any management model should be designed based on the strategic framework and contextual needs of the organization including an emphasis on multiple bottom line perspectives. Victoria's strategic real estate service should deliver on a clear mandate, act with duty to guiding principles and demonstrate actual results towards key outcomes, as proposed:

1. Mandate for Strategic Real Estate Service:

- **Leverage real estate for broader civic purposes**

City services are by nature diverse, covering a broad socioeconomic spectrum of objectives. Strategic real estate services can be positioned to advance Council's objectives for community benefit such as social resources including lease and facility opportunities under a multiple bottom line approach.

- **Develop strategies for land acquisition and disposal**

A new real estate management office should develop and implement formal land acquisition strategies that tie back to departmental master plans for parks, infrastructure, facilities, and other related items.

- **Lead the City through all acquisitions, disposals, lease agreements, and land tenure initiatives**

A new real estate management office should provide the key point of contact to lead the organization through all acquisitions, disposals, lease agreements, and land tenure initiatives, whether driven by internal needs or external opportunities.

- **Manage property data as a foundation for all real estate activity**

A new real estate management office should develop and maintain a detailed property data records management system (i.e. land inventories) that can be accessed by all City departments.

2. Guiding principles for a Strategic Real Estate Service

- *Deliver the service such that earned value outweighs service costs.*
- *Link land requirements with long range plans of other departments and services*
- *Integrate real estate services into capital project design to reduce risk and further leverage land*
- *Pursue highest and best use of City lands while balancing civic priorities and operational requirements*
- *Operate in a clear policy framework*
- *Develop metrics for performance measurement*
- *Lead all real estate activity by professionals with extensive real estate and market experience*

3. Key outcomes for a Strategic Real Estate Service:

- *Taxpayer burden reduced by leveraging real estate assets*
- *Neighbourhood and economic growth catalyzed by City real estate services*
- *Real estate activity is based on a fully catalogued inventory*
- *City partnerships and agreements reflect market realities*
- *Real estate activities have enhanced social and civic objectives*

Based on the City's current management model, its stated organizational needs and aspirations, and allowing for an incremental approach to enhancing service delivery, it is recommended the City implement a flexible and small-scale service team, which reports to the Deputy City Manager to allow for direct access to all departments as needed. In this position, the service will build on the City's current real estate business unit, act as an arms-length internal service provider to other departments and external stakeholders, remain flexible to broader organizational needs without the undue influence of any other technical service (e.g. engineering or planning) and minimize organizational change until the extent of real estate opportunity and preliminary results are known. As a result, short-term recommendations for service delivery include:

- **Reaffirm Council's objectives for strategic real estate service.**
By way of direction stemming from presentation of the results of this study.
- **Establish the proposed management model.**
As summarized above and throughout the document or as directed by Council.
- **Set the budget for service delivery in year 1.**
The proposed budget to complete the hire (year 1) and launch the service including consulting support for land inventory as described herein, is \$350,000. Council direction on service approach or strategic framework will influence the actual approved amount.
- **Launch the service and recruit a strategic real estate professional with responsibility to lead strategic real estate activities.**
Complete one real estate professional hire to lead the strategic real estate service with the following responsibilities: develop a land inventory and strategy, accountable for actions that align with the guiding principles, deliver on the key outcomes, collaborate with other departments to develop acquisition strategy (tied to long range plans), identify upcoming land projects and work with other departments to review real estate implications and opportunities, remain guided by multiple bottom line perspectives in leading new opportunities, and respond to City administration and Council requirements over time.

CONTENTS

Executive Summary	i
1.0 Introduction	1
1.1 Study Purpose.....	1
1.2 Project Approach.....	1
2.0 Strategic Context	2
2.1 Policy Directions.....	2
2.2 Current Management Model	3
2.3 Summary of Land and Facilities.....	8
3.0 Analysis.....	10
3.1 Needs and Aspirations	10
3.2 Observations of the Current Model	10
3.3 External Models	12
4.0 Strategic Framework and Recommendations.....	15
4.1 Mandate, Guiding Principles and Outcomes.....	15
4.2 Recommendations for Initial Service Delivery	18

Appendix A Organizational Roles and Services

Appendix B Recent Strategic Real Estate Activity

1.0 INTRODUCTION

1.1 Study Purpose

In March 2015, the City of Victoria retained Urban Systems to explore options for enhancing the City's land, real estate and property management services. Project objectives were to:

- Develop an inventory of the City's current real estate-related services;
- Review the City's current approach to the management of its real estate assets;
- Identify activities that will enhance the City's ability to provide real estate services to internal and external stakeholders;
- Confirm the City's aspirations to enhance the strategic use of its real estate assets; and,
- Develop a strategic framework for the future delivery of the City's real estate services.

1.2 Project Approach

The project approach included ongoing engagement with a Project Steering Committee, comprised of:

- Jason Johnson, City Manager
- Jas Paul, Assistant Director, Underground Utilities and Facilities
- Susanne Thompson, Director of Finance
- Robert Woodland, Legislative and Regulatory Services.

Steering Committee meetings were held to explore issues and opportunities, and to cast a vision and high-level organizational approach for the City's future real estate services.

Informal interviews were held with a number of additional City staff to provide background on current real estate related functions and to explore issues and opportunities. Interviewees included:

- Julie MacDougall, Assistant Director, Parks and Recreation
- Alison Meyer, Assistant Director, Development Services
- Thomas Soulliere, Director, Parks and Recreation
- Neil Turner, Property Manager
- Chaz Whipp, Manager – Facilities

Finally, a number of external interviews were conducted to review alternative models for the delivery of real estate services. External interviewees included:

- Shirley Brightman, Senior Real Property Administrator, City of Burnaby
- Phil Christie, Former VP Real Estate, TransLink
- Doug Gilchrist, Division Director, Community Planning & Real Estate, City of Kelowna
- Harry Khella, Project Manager, Vancouver Services Review, City of Vancouver
- Nicholas Rawcliffe, Manager of Realty Services, City of Surrey
- Richard White, Former Deputy CAO, City of North Vancouver

2.0 STRATEGIC CONTEXT

2.1 Policy Directions

Council Strategic Plan

Council's 2015-2018 Strategic Plan provides the initial framework for the realization of strategic real estate opportunities. In the Strategic Plan, one of the key objectives is to build the financial capacity of the organization. As related to the City's real estate holdings, key immediate desired outcomes are:

- A business case for a property acquisitions/real estate management office; and,
- More revenue and strategic influence for the City with implementation of a Municipal Property Acquisition and Management Strategy.

At this time, the City is also completing a full long-term infrastructure and facilities assessment, which will assist in identifying the City's future capital needs, and set the stage for an overall real estate strategy (including potential acquisition and disposition opportunities).

Longer term (i.e. 2018) strategic plan outcomes include:

- Maximized and where possible (e.g. School Districts and City lands) consolidated City-owned assets, put to best and highest use including market rate commercial leases.
- Full catalogue and list of long-term investment costs/profits for infrastructure and facilities. Increased revenue from property.

Real Estate Related Policies

In general, the City of Victoria has developed policies to guide the management of its real estate assets as the need arises. Policies related to *Land Policy for Surplus City Highways* and *Land Acquisition Policy* provide administrative direction for Staff with respect to processes related to acquisition and disposition.

While useful in supporting the conditions under which land can be acquired or disposed of, these policies are generally designed to direct administrative procedures but are not intended to guide strategic real estate activity.

General Principles

The City has a number of informal, general principles that it follows with respect to the management of its real estate assets. Examples of these principles include:

- Fair market value disposition of any City land (leases, licences, sale), supported with an appraisal;
- Triple net commercial leases (i.e. the tenant is responsible for paying the building's property taxes, building insurance, and costs for common area maintenance);
- No assistance to business unless through a partnering agreement (e.g. as used for Save-On-Foods Memorial Centre, which is owned by the City and managed by RG Properties Ltd.);¹ and,
- Nominal consideration for community uses of City land (e.g. community gardens, pocket parks).

2.2 Current Management Model

Organization and Roles

Currently, the City dedicates modest resources towards the management of its real estate portfolio and identification of strategic real estate opportunities. The City's property management functions are undertaken by one staff person who ultimately reports to the Deputy City Manager. The City's Property Manager also implements required land acquisitions and disposals. Acquisition and disposal activity is undertaken based on Council priorities and/or departmental requirements, and there is no single person tasked with developing or implementing a strategy for acquisition and disposal activity. As a result, the current real estate management model is generally a reactive one involving staff in multiple departments. Table 1 summarizes the main roles of both Council and various staff throughout the City. Appendix A provides further detail on the current organization as well as service responsibilities.

¹ Section 25 of the *Community Charter* and sections 181 to 184 of the *Local Government Act* make it clear that a local government is forbidden from providing assistance to a business (i.e. selling land for less than fair market value) except under specific circumstances, generally related to heritage conservation or public-private partnerships.

Table 1 – Summary of Council and Staff Roles Related to Real Estate

Service Group	Key Roles
Council	<ul style="list-style-type: none"> Oversees City policies and finances Develops City Strategic Plan Approves Five Year Financial Plan Approves real estate transactions
City Manager	<ul style="list-style-type: none"> Primary liaison between City Council and staff Implements Council policy and direction
Citizen Engagement and Strategic Planning	<ul style="list-style-type: none"> Reports and monitors on progress towards City Strategic Plan objectives
Legislative and Regulatory Services	<ul style="list-style-type: none"> Coordinates acquisition, disposal and leasing of City property Negotiates land transactions Reports to Council on all land matters
Engineering and Public Works	<ul style="list-style-type: none"> Responsible for asset management, maintenance planning, maintenance, and capital projects for most civic buildings Provides project management services to other City departments Maps City facilities
Parks and Recreation	<ul style="list-style-type: none"> Maintains City's parks and open spaces, recreational facilities, and other related facilities (e.g. Ross Bay Cemetery) Plans for City's long-term parks and recreation needs
Victoria Conference Centre	<ul style="list-style-type: none"> Sells, manages, and services conferences, events and trade shows Responsible for asset management and maintenance of its facilities Leases out retail spaces associated with VCC and Crystal Garden
Sustainable Planning and Community Development	<ul style="list-style-type: none"> Prepares City's land use policies (e.g. neighbourhood plans) Reviews development applications and associated land requirements (e.g. public realm) Recommends housing policies
Finance	<ul style="list-style-type: none"> Prepares municipal capital and operating budgets Manages reserve funds, including Tax Sale Land Reserve and Parks and Greenways Acquisition Reserve
Legal Services	<ul style="list-style-type: none"> Provides legal advice Assists with implementation of real estate transactions

Recent Strategic Real Estate Activity

Strategic real estate activity primarily involves property acquisitions, disposals, and lease-outs. As indicated these functions are currently coordinated by the City's Property Manager. Strategic direction comes from a variety of departments based on their operational needs. A summary of recent activity is provided below (Appendix B includes a detailed list of recent activities).

- **Land Acquisition** – At this time, land acquisition activity is primarily directed by Council and undertaken in response to capital project requirements or opportunities as they arise (e.g. senior government disposition). The City's Property Management Division manages the acquisition process. In the past five years, the City had twelve acquisitions. Examples include:
 - the Crystal Garden (Conference Centre);
 - public works yard site consolidation;
 - waterfront and park lands, including Ship Point, Reeson Park, Belleville Green, Quadra Park;
 - right-of-way for the Johnson Street Bridge;
 - Traveller's Inn affordable housing sites;
 - strategic waterfront building at 812 Wharf Street; and,
 - a tax sale site (former dry cleaner location on Yates Street).

Additionally, the City is currently working on acquisition projects, such as a park extension and the acquisition of lands for the David Foster Way harbour-front pathway.

- **Disposition** – At this time, disposition activity is primarily directed by Council and undertaken in response to requests of existing tenants or adjacent landowners, or in response to other strategic initiatives (e.g. affordable housing). The City's Property Management Division manages the disposal process. In the past five years, the City had eight disposals. Examples include:
 - Point Hope Shipyards;
 - a road closure (lane off Field Street);
 - a City land holding outside of municipal boundaries (Pat Bay Highway site);
 - a Traveller's Inn affordable housing site (sold to BC Housing); and,
 - a site disposed of as part of the public works yard site consolidation.

Additionally, the City is currently working on a disposal project related to a site where an adjacent landowner has approached City about acquiring the land for a townhouse development.

- **Lease-Outs** – In total, the City's Property Management Division currently manages:
 - 24 active lease-outs of commercial units (e.g. 812 Wharf Street commercial units, VCC and Crystal Garden commercial units along Douglas Street, Centennial Square third party lease-outs), with annual rent totalling \$984,156;
 - 7 active commercial lease-outs of bare land (e.g. Victoria Float Plane Terminal), with annual rent totalling \$436,517;
 - 4 active other commercial lease-outs (e.g. access/fire exits), with annual rent totalling \$12,389; and,
 - A variety of agreements for nominal consideration, including agreements related to affordable housing, the Save-On-Foods Memorial Centre, community centres, school yards, and other similar types of uses.

For some lease-outs (e.g. Victoria Conference Centre retail units and 812 Wharf Street), the City engages the services of an external property management firm. Also, the City's Neighbourhood Coordinator has historically been involved in the lease agreements with community centres.

Facilities Planning and Maintenance

While this review is focused on strategic real estate activity, a related area is facilities planning and maintenance. In some cases, planned capital projects can drive a need for land acquisition to accommodate new facilities. In other cases, facilities may be located on sites with potentially available surplus lands that could be disposed of to assist in funding future capital projects. In these respects, there is a need to ensure integration between facilities planning and management of the City's real estate portfolio.

The current distribution of facility management responsibilities includes:

- Engineering & Public Works, Underground Utilities and Facilities Division (primary service provider)
 - Primary service provider, responsible for most civic facilities, including community centres, corporate offices, parkades, most parks facilities (e.g. public washrooms, Beacon Hill Park buildings, Beacon Hill Yard), the police station and three fire halls, public works facilities and other miscellaneous facilities such as the Johnson Street Bridge Control House.
- Victoria Conference Centre
 - Responsible for the Conference Centre and Crystal Garden.
- Parks and Recreation
 - Responsible for the Crystal Pool, Royal Athletic Park buildings, and the Save-On-Foods Memorial Centre (operated and maintained by RG Properties).²
 - Maintains park lands, the Ross Bay Cemetery, and various playing fields throughout the City.
- City's external property manager (overseen by the Deputy City Manager)
 - Responsible for the maintenance of lease-out buildings (e.g. 812 Wharf Street).³

² There are some unique divisions of responsibility between Facilities (Engineering & Public Works) and Parks and Recreation. For example, lifecycle planning for the Cameron Bandstand is undertaken by Parks and Recreation, while maintenance is undertaken by Facilities. And, lifecycle planning for Royal Athletic Park is undertaken by Facilities, while maintenance is undertaken by Parks and Recreation.

³ A portion of 812 Wharf Street is maintained by the City.

The City is currently undertaking a facilities assessment, which is expected to identify various future capital projects necessary to support City operations. Certain projects may require acquisition of real estate. In other cases, intensification of City facilities may open up possibilities for land disposition (e.g. for a portion of an underutilized site), which could assist in funding capital projects.

While a detailed review of facilities planning and maintenance functions is beyond the scope of this assignment, further analysis may be warranted to align facility management responsibilities.

2.3 Summary of Land and Facilities

The magnitude of the City's real estate assets is significant. As illustrated in Figure 1, the City of Victoria owns approximately 460 parcels of land.⁴ The City's property holdings represent about 16 percent of the City's overall land base (excluding road rights-of-way). If park sites are not included in this calculation, the City's other property holdings (e.g. for civic facilities) represent about 5 percent of the City's overall land base (excluding road rights-of-way).

Based on preliminary GIS analysis, the total assessed value of City-owned land and improvements is over \$890 million (2015 actual values). If park sites are not included in this calculation, the total assessed value of other land and improvements (e.g. for civic facilities) is estimated at over \$400 million.

The City of Victoria owns and maintains approximately 1.4 million square feet of facilities for civic uses.⁵ These facilities have an estimated replacement value of over \$300 million. Examples of these civic facilities include:

- Corporate offices;
- Community centres;
- Parkades;
- Parks facilities;
- Police station;
- Fire halls;
-
- Public works yard;
- Recreation facilities (e.g. Crystal Pool and Royal Athletic Park);
- Save-On-Foods Memorial Centre;
- Victoria Conference Centre; and,
- Crystal Garden.

Some of these facilities include portions that are leased out to third parties. For example:

- the main Victoria Conference Centre building includes twelve street level retail units on Douglas Street, which are leased out as part of the Victoria Conference Centre's self-financing business model;
- the Victoria Conference Centre recently acquired the Crystal Garden building, which includes eight retail units on Douglas Street;
- the Johnson Street parkade includes five retail units;
- the View Street parkade includes two retail units; and,
- the corporate offices at Centennial Square include two units leased out to third parties.

The City also owns a variety of other sites and facilities not identified above. Examples include:

- 812 Wharf Street – acquired by the City to complete its Inner Harbour waterfront holdings;
- Former Traveller's Inn – acquired by the City to facilitate the development of a supportive housing project);

⁴ This figure is an estimate that should be confirmed through a detailed inventory of City-owned lands.

⁵ This estimate of gross floor area will be confirmed upon completion of the current facilities assessment that is being undertaken by the City.

- McPherson Theatre – owned by the City and operated by the Royal & McPherson Theatres Society through the Capital Regional District;
- Victoria Library – owned by the City and operated by the Greater Victoria Public Library Board; and,
- Victoria Float Plane Terminal site at 950 Wharf Street – this site (a bareland lease to the Victoria Float Plane Terminal) is intended to assist the City in achieving longer-term objectives (e.g. David Foster Way Harbourfront Pathway) once the float plane terminal relocates onto an adjacent water lot.

In summary, the list of assets including land and buildings as well as the functional operation of the City creates a tenable position to establish a strategic real estate service. The needs and aspirations, which are built onto the functional and physical context of the organization, support a strategic framework for enhanced service delivery and leveraging of City assets.

3.0 ANALYSIS

3.1 Needs and Aspirations

In the near term, the City requires a strategic approach to real estate to realize important goals such as:

- the implementation of the Harbour Pathway Plan (David Foster Way); and,
- capital projects to refurbish/replace City-owned facilities (e.g. Fire Station No. 1, Crystal Pool, and other buildings reaching the end of their lifespan).

These examples are two important goals, but there are other relevant City aspirations, particularly around the provision of amenities in growing neighbourhoods. As the City engages in capital planning, the strategic use/disposition of real estate has significant potential to provide a funding vehicle for new projects.

Moving forward, there are various potential opportunities for the City to further leverage its real estate holdings. Examples include:

- Opportunities associated with future redevelopment of Centennial Square area, with parking to go underground and additional activities to support a vibrant core area;
- Opportunities to dispose of surplus City lands (e.g. road closures, excess land on underutilized facility/infrastructure sites such as Royal Athletic Park parking lot);
- Opportunities to combine public use of waterfront lands with commercial uses;
- Opportunities to use disposition of City real estate assets to fund capital projects (e.g. through intensification of City-owned lands that would combine both civic and private uses); and,
- Opportunities to redevelop Harbour Air terminal lands when a new terminal is reconstructed onto a foreshore lot.
- Opportunities to leverage land to contribute to social, environmental and economic objectives

An important objective of any strategic real estate service is to characterize existing opportunities but also to identify potential strategies to expand the list of possibilities for broader civic benefit.

3.2 Observations of the Current Model

Through the interview process, there were several key observations related to both the City's current approach to its real estate portfolio, and the potential for a more dedicated property acquisitions/real estate management office. These observations are highlighted below:

There is a need for strategic acquisitions to meet City objectives.

- Most of the recent real estate activities (sites for parks, conference centre expansion, public works yard consolidation, rights-of-way for a bridge, and affordable housing sites) directly relate back to projects that would typically be identified in master plans.

- As the City develops new projects (e.g. David Foster Way harbourfront pathway), a pro-active strategy is required to flag required sites, acquire land (e.g. fee simple or statutory rights-of-way), and explore land value capture opportunities.

There is interest in generating new revenues from City lands.

- As illustrated in the City's Strategic Plan, there is a desire to explore further opportunities to generate revenues from City lands:
 - The City's land holdings are significant, representing about 16 percent of Victoria's land base (excluding road rights-of-way). While many of these lands are parks, other sites may have significant revenue generation opportunities, such as lease-out components which increase revenues but also help to animate the street
 - In many cases, the City may have surplus lands, providing opportunities to capture value and generate revenues to fund other strategic acquisitions and capital projects.

Land value capture opportunities have generally not been explored to date.

- Increasingly, local governments have to find new and innovative approaches for financing new infrastructure and public amenities. In some cases, municipalities and other public agencies have found innovative methods to fund new capital projects through the development or redevelopment of their surplus lands.
- A strategic outlook is required, with staff resources dedicated specifically to identification of surplus lands, opportunities for redevelopment, and evaluation of the highest and best use to ensure value capture.

There is support for the development of an inventory of existing City lands including for strategic acquisitions.

- At this time, no single department maintains a comprehensive inventory of all City land holdings, actual use, encumbrances (e.g. easements), etc. which can create confusion and limit opportunities-thinking with any property. Also, ownership status of some sites (e.g. schools, parks) can be complicated. A comprehensive inventory of all City land holdings would provide a central database for information on all property-related matters.
- There is broad support for the development of an inventory of existing City land holdings. This inventory would be of considerable assistance in identifying potentially surplus land holdings, including portions of sites that may be redevelopable. The inventory could build on detailed asset management databases and link to VicMap.
- Many municipalities have systems in place to flag sites that may be required for future civic purposes which approach allows (a) real estate staff to maintain a watch list of relevant properties for potential acquisition.

Departmental staff require additional service resources for strategic acquisition and disposal activity.

- Currently, requests to sell or acquire land are generally dealt with on an ad hoc basis by departmental staff, who refer requests out to other departments and work together with the City's property manager to deal with the request. Departmental staff generally have numerous other responsibilities, and do not have the real estate expertise required to negotiate these requests.

- Additional staff resources would be required to lead the development of these strategies and provide a single point of contact with the public in relation to acquisition and disposal requests.

There is broad-based interest in a special position with a focus on strategic real estate services.

- Currently, the City's model is generally reactive, and no single staff person has the current mandate or time resources required to take on a more strategic role. Staff in multiple departments have expressed interest in having a point person available to lead strategic real estate services including land value capture, strategic land acquisitions and offering real estate concepts to support other departmental needs.
- Roles might include developing and implementing acquisition strategies that tie back to City master plans (e.g. parks, infrastructure, facilities), developing inventories of existing City land holdings and lands required for strategic acquisitions, identifying potentially surplus land holdings, and developing land value capture strategies to assist in funding future land acquisitions and capital projects.

An inter-departmental approach will always be required.

- To successfully engage in strategic real estate activity, an inter-departmental approach will always be required. It is critical that a real estate lead act as a service provider to various departments (such as Sustainable Planning and Community Development, Engineering and Public Works, and Parks) such that they can realize their strategic objectives.
- A successful approach will involve regularly bringing departments together to facilitate solutions that work for the organization as a whole, as opposed to just one single department.

Over time, there are opportunities for greater delegation on routine matters.

- Currently, all real estate transactions (including lease-outs) require City Council approval. Some communities have found there are opportunities for delegation to staff on routine matters, with a priority towards Council for direction on policy issues and more strategic real estate activities (e.g. acquisitions and disposals). As the amount of real estate activity increases in the City, Council may wish to explore opportunities for delegation to staff on routine matters based on an established policy framework including procedures and outcomes.

Staff aspirations provide valuable insights into the possible evolution and organization a strategic real estate service and allow for thoughtful evaluation of external models, such as with other local governments in BC.

3.3 External Models

Table 2 illustrates a number of potential models that are used by other local governments and public agencies to deliver strategic real estate services. As shown, there are a variety of potential models, including:

- embedding real estate services within existing engineering or planning departments (Models 1 and 2);
- creating a new department responsible for both real estate and facilities (Model 3);
- creating a new department solely responsible for real estate (Model 4); or,

- bolstering strategic real estate capabilities within the current structure or a similar structure, involving a small group of staff who lead strategic real estate initiatives and report to an existing Director (Model 5).

Given the involvement of various departments in strategic real estate activity at the City of Victoria, Models 1 and 2 are not recommended. If a real estate group is subsumed within Engineering and Public Works or Sustainable Planning and Community Development, it is conceivable that departmental priorities would become the real estate group's priorities, to the detriment of City needs in other areas.

Model 3 involves the creation of a new department, led by a Director who would be responsible for both real estate and facilities. This model is used by the City of Vancouver, and it offers the advantage of bringing together all groups involved in the lifecycle management of property – from acquisition to operations and maintenance to disposal. Investment planning and monitoring occurs over the lifecycle of the asset, and this model brings together the key groups involved in the management of the City's property. The type of organizational change required to implement this model would be significant, and it could potentially be considered as a longer term strategy for the City to pursue, following the initial implementation of strategic real estate activities.

Models 4 and 5 focus solely on the real estate function, and they involve the development of a small team (in addition to the existing property manager) to undertake strategic real estate activities. Examples of these activities include strategic planning, land acquisition and disposal, leasing, and land tenure initiatives (e.g. easements). In Model 4 this group is positioned as an individual department; however, due to its size, this approach may not be realistic. In Model 5 this group is positioned within an existing department (e.g. reports to the Deputy City Manager), with a bolstered staff team that acts as the lead for all real estate activity throughout the organization.

Table 2 – Summary of External Models

	Model 1: Engineering-Led	Model 2: Planning-Led	Model 3: Real Estate & Facilities Department	Model 4: Strategic Initiatives Role / Unique Department	Model 5: Strategic Initiatives Role / Dispersed Model
Overview	Embed real estate services within Engineering Dep't	Embed real estate services within Sustainable Planning and Community Development	Tie real estate services with facilities planning and operations functions in separate Department	Small team (2-3 people) to develop plan and provide point of contact for other City departments – individual department led by Director	Small team (2-3 people) to develop plan and provide point of contact for other City departments – positioned within existing Department
Examples	City of Surrey*	City of Kelowna	City of Vancouver	TransLink	City of Burnaby**
Potential Main Roles	<ul style="list-style-type: none"> • Strategic Planning • Land Acquisition and Disposal • Leasing • Land Tenure Initiatives (e.g. easements) • Asset Management • Facilities 	<ul style="list-style-type: none"> • Strategic Planning • Land Acquisition and Disposal • Leasing • Land Tenure Initiatives (e.g. easements) 	<ul style="list-style-type: none"> • Strategic Planning • Land Acquisition and Disposal • Leasing • Land Tenure Initiatives (e.g. easements) • Asset Management • Facilities 	<ul style="list-style-type: none"> • Strategic Planning • Land Acquisition and Disposal • Leasing • Land Tenure Initiatives (e.g. easements) 	<ul style="list-style-type: none"> • Strategic Planning • Land Acquisition and Disposal • Leasing • Land Tenure Initiatives (e.g. easements)
Key Considerations	<ul style="list-style-type: none"> • Offers synergies with Facilities Division • Model works best in municipalities with extensive greenfield development and engineering-related property needs 	<ul style="list-style-type: none"> • Ties in with municipal long-range planning functions • Model requires the most effort to maintain connections to Facilities and Public Works staff 	<ul style="list-style-type: none"> • Offers synergies with Facilities Division • Model positions group to service all City departments • Model requires the most organizational change. 	<ul style="list-style-type: none"> • Model positions group to service all City departments • Staff composition would be small, focused on identifying and implementing acquisition and disposal opportunities (could retain qualified experts as extension of team) 	<ul style="list-style-type: none"> • Model bolsters existing team to develop strategic real estate capability • Incremental approach • Staff composition would be small, focused on identifying acquisition and disposal opportunities (could retain qualified experts)

* In 2007, the City of Surrey also established the Surrey Development Corporation with a mandate to achieve City goals through development of surplus land holdings, acquisition of properties ripe for development, and acquisition of income-generating properties. The Surrey Development Corporation acts as a catalyst and facilitator to accelerate development that is beneficial to the City, and it partners with private sector partners on a variety of projects.

** In practice, the City of Burnaby model is more decentralized. Strategic direction is determined by the Planning Department. Property management services are provided by the Real Estate section in the Finance Department. The Real Estate section also provides support with acquisitions and disposals. Negotiations and conveyancing are undertaken by an in-house legal department.

4.0 STRATEGIC FRAMEWORK AND RECOMMENDATIONS

4.1 Mandate, Guiding Principles and Outcomes

As identified in the City's Strategic Plan, Victoria is moving towards the development of a property acquisitions/real estate management office, which would likely be based on one of the models identified in Section 3 of this report. To assist in establishing the framework for this office, the following mandate, guiding principles, and outcomes are proposed and discussed below.

Mandate

The mandate provides the overall direction to the acquisitions/real estate management office. The following mandate is proposed:

- **Leverage real estate for broader civic purposes**

Real estate is fundamentally required to carry out the provision of civic responsibilities such as the provision of parks, recreational facilities, infrastructure, protective services, and numerous others. A new real estate management office should leverage the City's real estate portfolio (e.g. use value capture strategies) as a means to raise revenue and assist the City in fulfilling its civic responsibilities and achieve its multiple bottom line objectives. Real estate can also be leveraged to realize land use planning objectives for City-owned lands (e.g. redevelopment of surplus parcels, revitalization of waterfront lands). Numerous local governments in BC have enhanced their land and facility inventory while simultaneously generating new revenues to offset the burden of other land or capital requirements. Further, City services are by nature, diverse, covering a broad socioeconomic spectrum of objectives. Strategic real estate services can be positioned to advance Council's objectives for community benefit such as social resources including lease and facility opportunities.

- **Develop strategies for land acquisition and disposal**

A new real estate management office should develop and implement formal land acquisition strategies that tie back to departmental master plans for parks, infrastructure, facilities, and other related items. Strategies for disposal are also required – in particular, value capture strategies should be pursued to leverage the City's surplus lands, including portions of underutilized sites. As City facilities redevelop, consideration should be given to intensifying the footprint of civic uses (e.g. removing surface parking or developing multi-storey facilities) and redeveloping adjacent City-owned lands.

- **Lead the City through all acquisitions, disposals, lease agreements, and land tenure initiatives**

A new real estate management office should provide the key point of contact to lead the organization through all acquisitions, disposals, lease agreements, and land tenure initiatives. The office should function as a service provider to all City departments and take a lead role in identifying and implementing opportunities for acquisitions, disposals, lease agreements, and land tenure initiatives. The office should link closely with all City departments and also provide a single point of contact for public enquiries regarding potential acquisitions and disposals.

- **Manage property data as a foundation for all real estate activity**

A new real estate management office should develop and maintain a property data records management system (i.e. land inventories) that can be accessed by all City departments. This system should provide detailed information on all City-owned properties, and it should also provide a means to flag properties that the City may wish to acquire in the future.

Guiding Principles

As the City engages in strategic real estate activity, the following guiding principles are proposed:

- **Deliver the service such that earned value outweighs service costs.**

A strategic approach to the City's real estate portfolio should assist in moving towards a successful financial model, whereby funds generated through the leveraging of real estate provide the City with ample reserve funds for future public land acquisition and significantly outweigh any administrative costs for providing the service. An evaluation of potentially surplus City lands and value capture opportunities is required as a first step to determine the potential magnitude of new revenue opportunities.

- **Link land requirements with long range plans**

A new real estate management office should summarize all public land requirements identified in long range policy planning documents, such as parks and recreation master plans, transportation and infrastructure plans, and facilities plans. This summary should be translated into a comprehensive plan for land acquisition over a long term (e.g. 5 to 20 year) horizon.

- **Integrate real estate services into capital project design**

Real estate service team member(s) should be involved in capital project design from the point that a 'marker is put to paper' at the conceptual study level. This approach: provides a leading indicator to real estate staff that a capital project is in the works; allows real estate services staff to provide risk management advice related to land acquisition; taps into the collective knowledge of real estate staff to identify municipal land base alternatives, or opportunities to collaborate with other departments; provides an opportunity to explore value capture strategies associated with the capital project; and, provides all team members with a clear sense of timelines associated with land acquisition at the project outset.

- **Pursue highest and best use of City lands while balancing civic priorities and operational requirements**

Land value capture strategies should be explored in relation to the City's current portfolio of land holding, and as new capital projects are planned. While pursuing the highest and best use of City properties, real estate staff should also balance civic priorities and operational needs to ensure that civic needs are addressed as a first priority prior to any disposition of surplus lands.

- **Operate in a clear policy framework**

City policies for land acquisition and disposal should be formalized so that all staff and the public have an understanding of Council's policy directions for all acquisition and disposal activity. Opportunities should be explored for delegation to staff on routine property matters.

- **Develop metrics for performance measurement**

Rather than simply measuring performance through the number of acquisitions, disposals or leases, other metrics should be considered and developed. Examples might include: achievement of Official Community Plan and Strategic Plan objectives; implementation of long-range master plans; values of land purchased and sold and resulting funds generated for reserve funds; land cost reductions achieved through real estate group involvement in capital project design processes and risk management activities; customer satisfaction with service (as measured through various input methods); and, funds generated through land acquisition and disposition activities versus funds required for real estate management operations.

- **Lead all real estate activity by professionals with extensive real estate and market experience**

A real estate management office should be in a position to lead the organization through all acquisitions, disposals, lease agreements, and land tenure initiatives. More importantly, professional staff should be able to develop acquisition and disposal strategies, identify land value capture opportunities, and have extensive market experience in areas such as developer pro forma analysis and negotiations. These types of skills will assist in ensuring a strategic approach to the provision of the City's real estate services.

Key Outcomes

With a new acquisitions/real estate management office, the City should have a view towards achieving the following key outcomes:

- **Taxpayer burden reduced by leveraging real estate assets**

As opposed to incurring conventional capital plan expenditures, the City should be enabled to leverage its real estate assets and realize land value capture opportunities, which will play a key role in funding capital projects.

- **Neighbourhood and economic growth catalyzed by City real estate services**

A proactive real estate strategy should help the City to realize neighbourhood and economic growth through the redevelopment of surplus lands and the implementation of key projects (e.g. David Foster Way harbour-front pathway).

- **Real estate activity is based on a fully catalogued inventory**

The City's real estate activities should be informed by a detailed and accessible inventory of both City-owned lands and lands that may need to be acquired in the future to realize long-range plans (e.g. parks, transportation, infrastructure, facilities).

- **City partnerships and agreements reflect market realities**

The City should achieve value for its real estate holdings. All dispositions and partnership agreements should realize fair market value.

- **Real estate activity should enhance social and civic objectives**

As the City engages in acquisitions and disposals, it should work to achieve social and civic objectives (typically expressed in the Official Community Plan) around topics such as neighbourhood revitalization, housing, parks, community facilities, etc.

4.2 Recommendations for Initial Service Delivery

- **Reaffirm Council's objectives for strategic real estate service.**

We recommend using the contents of this report for presentation to Council to affirm the direction of the strategic real estate service. Decisions by Council to proceed on the basis of the findings of this report positions subsequent recommendations for implementation by City administration.

- **Establish the proposed management model.**

In the near term it is recommended that the City of Victoria establish a formal Real Estate Management Office who reports to the City Manager's Office, in particular the Deputy City Manager. This approach will ensure that the Real Estate Management Office can continue to act as a service provider to all City departments, while having an enhanced role that involves development of strategic acquisition plans, land value capture strategies, direct involvement in departmental capital planning, and development of a property data record management system. As the service grows and the extent of the potential acquisition and disposal activity becomes clearer, the City should review its approach and consider the feasibility of creating a new department responsible for real estate services, facilities planning, and facilities maintenance.

- **Confirm the budget for the first year of service.**

Following confirmation of the preferred management model, we recommend staff and Council select a budget for the first year of service and commit to semi-annual reviews for service delivery effectiveness. Budget considerations for year 1 include:

- \$250,000 for staffing costs including benefits, salary, and launch costs (e.g. relocation, computer, etc.)
- \$100,000 for consulting services to support the hiring process, to review the substantial catalogue of lands and to establish near term strategic opportunities
- This budget is in addition to current expenditures for the *Property Management Business Unit* which currently reports to the City Manager's Office, in particular to the Deputy City Manager.

- **Establish staffing and responsibilities for the strategic real estate service.**

Following confirmation of the preferred management model, we recommend that the role(s) for service are defined for hiring purposes with a focus on recruiting a professional team leader (one) who is responsible for strategy development, accountable for procedures with respect to the guiding principles and is measured on their ability to deliver on the key outcomes. Responsibilities include:

- Evaluate potentially surplus lands and identify value capture opportunities
- Create the comprehensive City-lands inventory with a full characterization of the extent of short-term opportunity to leverage real estate opportunities for broader civic purposes
 - e.g. develop tools for property data records management
 - e.g. Flag lands for potential acquisitions
- Collaborate with other departments to develop acquisition strategy (tied to long range plans)
- Identify upcoming capital projects and work with other departments to review real estate implications and opportunities
- Develop tools and resources to liaise on real estate and land development needs (e.g. community amenity contributions)
- Supervise and coordinate with the City's property manager (lease-outs, implementation of acquisitions/disposals)

APPENDIX A

ORGANIZATIONAL ROLES AND SERVICES

Currently, the City's property management functions are undertaken by one staff person in Legislative and Regulatory Services, while oversight for civic facilities primarily rests with Engineering and Public Works, and to a lesser extent, Parks, Recreation and Culture, and the Victoria Conference Centre. There is no single group tasked with developing or implementing a strategy for property management and acquisition/disposal activity. As a result, the real estate management model is generally a dispersed and reactive one, with no single point person or group to identify strategic real estate opportunities. As related to City real estate, current Council and staff roles are summarized below, and illustrated in Table B1.

- **Council** – City Council acts as the executive board of the municipal corporation, developing and overseeing the City's policy and finances. Council develops the City's Strategic Plan and approves the annual Five Year Financial Plan. Council is also responsible for approving all real estate transactions, including acquisitions, disposals and leases. At this time there is no delegation to staff with respect to any real estate activity.
- **City Manager** – The City Manager is the primary liaison between City Council and staff. The City Manager provides strategic leadership to City staff, and is responsible for implementing Council policy and direction.
- **Citizen Engagement and Strategic Planning** – Citizen Engagement and Strategic Planning was created in mid-2014 to align various services including citizen engagement, strategic and operational planning, customer service, communications, and executive administration. With respect to real estate, Citizen Engagement and Strategic Planning has an important role in reporting and monitoring on progress towards the City's relevant Strategic Plan objectives, outlined further in Section 5 of this memo.
- **Legislative and Regulatory Services** – Legislative and Regulatory Services includes the Property Management Division. Staffed by one FTE, the Property Management Division coordinates the acquisition, disposal and leasing of City property. The Property Management Division obtains appraisals to support acquisitions, disposals, and lease renewals, has a negotiation role for any land transaction, and also reports to Council regarding all land matters. This business unit responds to corporate needs and demonstrates a more external oriented, business like service for the real estate needs of other City departments.
- **Engineering and Public Works** – Engineering and Public Works has three assistant directors for: 1) Public Works; 2) Transportation and Parking Services; and, 3) Underground Utilities and Facilities. The Underground Utilities and Facilities Division has the most direct role with respect to the City's real estate portfolio. This group is responsible for asset management, maintenance and capital projects for most civic buildings, including various parks buildings and structures, parkades, community centres, fire halls, the police station, the public works campus, and corporate offices. The Facilities group also provides project management services to other City departments as required. The Facilities group has twelve FTE, including:
 - Manager of Facilities;
 - three Project Administrators;
 - a Facilities Planner for tenant improvement planning;

- a Maintenance Supervisor; and,
- six maintenance workers.

Additionally, Engineering and Public Works includes additional business units that have a role with respect to the City's real estate portfolio. For example, the Land Development section processes subdivision applications, sidewalk café permits (with licensing fees) and other related permits. Engineering Support Services maps City facilities, provides a hub for asset management and develops the City's Tangible Capital Asset (TCA) inventory.

- **Parks, Recreation and Culture** – Parks, Recreation and Culture maintains the City's parks and open spaces, and operates the Ross Bay Cemetery, the Crystal Pool, Royal Athletic Park, and various sports fields and other recreational facilities (e.g. playgrounds, tennis courts). Parks, Recreation and Culture is also responsible for the Save-On-Foods Memorial Centre, which is operated by RG Properties.
- **Victoria Conference Centre** – The Victoria Conference Centre is responsible for selling, managing and servicing conferences, special events, and trade shows held at the Victoria Conference Centre, including the recently acquired Crystal Garden building. The Victoria Conference Centre is responsible for all asset management, maintenance and project management functions in relation to its facilities, and the City's Facilities Division (Engineering and Public Works) provides technical advice only. The Victoria Conference Centre has 2.5 FTE maintenance staff to undertake this asset management, maintenance, and project management work.

The Victoria Conference Centre works with the City's Property Management Division (Legislative and Regulatory Services) in relation to lease-outs of Douglas Street retail spaces associated with both the main conference centre building and the Crystal Garden building. External property management services for marketing and leasing out the retail spaces. The Victoria Conference Centre has also historically had its own external property management representative which deals with tenants on an on-going basis.

- **Sustainable Planning and Community Development** – Sustainable Planning and Community Development prepares the City's land use policies (e.g. Official Community Plan and neighbourhood plans) and is responsible for urban design, heritage programs and permits, planning applications (e.g. zoning and development permits), demographic and other planning information services, and permitting and inspection services. The Department also recommends housing policy.

In Community Planning there are about five/six planners plus the Assistant Director. In Development Services there are seven area planners, plus planning techs and additional support staff. Both of these groups have a degree of involvement in City real estate issues. For example, they are involved in developing and implementing long-range plans for civic places, they take dedications or statutory ROW for pathways at time of development, and they are also involved in parkland acquisition.

- **Finance** – The City's Finance Department prepares municipal capital and operating budgets, long-range plans, and manages the City's reserve funds. With respect to lands, key reserve funds include:
 - **Tax Sale Land Reserve**, which accounts for proceeds from any sales of City land and buildings, and assists in funding the City's building and land purchases and capital expenditures required to prepare City properties for sale. As of December 31, 2014, the balance in this fund was approximately \$7.2 million.
 - **Parks and Greenways Acquisition Reserve**, which is funded from 10% of the proceeds of any City land sale and used to provide a source of funds for purchasing Park Lands. As of December 31, 2014, the balance in this fund was approximately \$2.3 million.
- **Legal Services** – The City's Legal Services Department provides legal advice and assists with the implementation of real estate transactions.

Table A1: City of Victoria Departments/Groups with Real Estate-Related Functions

	Real Estate-Related Functions																			
Department/Group	Strategic Planning	Land Acquisition	Disposition	Appraisals	Lease-Outs	Property Management	Lease-Ins	Licencing	Conveyancing	Asset Management	Facilities Maintenance (including Corp., Eng., Parks)	Parks Maintenance (not including facilities)	Purchasing (Facilities)	Insurance	Legal Services	Negotiation	Financial Management (Capital and Operating)	Project Management (Capital Projects)	Affordable Housing	Liaison with Other Agencies
Council	•																•	•		
City Manager	•																•	•		•
Citizen Engagement and Strategic Planning	•																			
Legislative & Regulatory Services – Property Management Division		•	•	•	•	•	•	•	•							•				•
Engineering & Public Works – Facilities										•	•		•					•		
Engineering & Public Works – Land Development and Engineering Support Services		•						•	•	•										
Parks, Recreation and Culture										•	•	•								
Victoria Conference Centre						•	•			•	•						•	•		
Sustainable Planning and Community Development		•																	•	
Finance													•	•			•			
Legal Services															•	•				

APPENDIX B

RECENT STRATEGIC REAL ESTATE ACTIVITY

- **Land Acquisition** – Includes acquisition of land for City purposes. At this time, land acquisition activity is primarily directed by Council and undertaken in response to capital project requirements or opportunities as they arise (e.g. senior government disposition). The City's Property Management Division manages the acquisition process. In the past five years, the City had thirteen acquisitions, as outlined in Table C1.

Table B1 – Land Acquisitions in the Last Five Years

Site	Purpose	Description
2920 Bridge Street	Public Works	Property adjacent to public works yard
713 Douglas Street	Conference Centre	Crystal Garden Conference Centre building and lease-out space – part of land swap with Province
814 Wharf Street	Waterfront	Ship Point (along waterfront) – part of land swap with Province
1300 Wharf Street	Waterfront	Reeson Park (along waterfront) – part of land swap with Province
250 Belleville Street	Waterfront	Belleville Green (along waterfront) – part of land swap with Province
411 Belleville Street	Park	Quadra Park
1012/14 Yates Street	Tax Sale	A tax sale site (former dry cleaner location) that requires remediation
417 Garbally Road (portion)	Public Works	Property adjacent to public works yard
1610 Store Street (adjacent land)	Transportation	ROW for Johnson Street Bridge
710 Queen's Avenue	Housing	Old Traveller's Inn site for affordable housing – sold by City to BC Housing
120 Gorge Road East	Housing	Old Traveller's Inn site for supportive housing – sale by City pending
812 Wharf Street	Waterfront	Waterfront building that City purchased from Provincial Capital Commission – City had just acquired adjacent property
2300 Dowler Place	Air space parcel above City-owned lot	Air parcel acquired from Province as it is located above a City-owned lot

- **Disposition** – Includes disposition of surplus City land. At this time, disposition activity is primarily directed by Council and undertaken in response to requests of existing tenants or adjacent landowners, or in response to other strategic initiatives (e.g. affordable housing). The City's Property Management Division manages the disposal process. In the past five years, the City had eight disposals, as outlined in Table C2:

Table B2 – Land Disposals in the Last Five Years

Site	Purpose	Description
203, 211, 327 and 345 Harbour Road	Land Swap with Province	Point Hope Shipyard sites that were sold by the City to the Province as part of a land swap, and then sold to the existing tenant on the site
Lane off Field Street	Road Closure	Adjacent property owner approached City to sell lane
Lot 7 by Pat Bay Highway	Surplus Land	Site was outside of City and served no strategic purpose
710 Queen's Ave	Housing	Old Traveller's Inn site that was sold to BC Housing
417 Garbally Road (part)	Public works	Related to public works yard site consolidation