

World Trade Center Greater Sudbury

Presented to Council: September 15, 2020

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Summary

This report responds to the direction provided at the February 11, 2020 meeting of Finance & Administration Committee regarding a proposed development that would be associated with Council's Junction West Conference and Performance Centre project. Council directed staff, with support from a third party, to undertake additional research that could inform further deliberations.

This research has been completed in alignment with Council's direction; any additional work on this initiative would require further Council direction beyond that previously provided.

Background

Following the presentation and discussion, the Committee approved Resolution FA2020-06 directing staff to undertake additional due diligence regarding the initiative. The work was focused on a) reviewing the role of municipalities in supporting other World Trade Centers as well as b) preparing a Concept Development and Local Market Analysis with the assistance of CBRE in order to leverage work that firm had previously done on the Junction West project.

The CBRE report has been developed as an independent analysis as per Council direction; this work has been completed with the expertise of the consultants as well as with the input of the World Trade Center Greater Sudbury proponents themselves. The findings of the report are outlined below.

While the report produced by CBRE provides an initial overview of the concept of the WTCGS and potential synergy with the Junction West, this does not represent the depth that a full Feasibility Study would bring to bear. The Business Plan developed for Junction West in 2018 would need to be updated in order to reflect the integration of the World Trade Center Greater Sudbury concept; similarly, the WTCGS would require a detailed business plan/feasibility study that contemplates its location and operation as part of the larger Junction West facility.

Also included is a Supplemental report from the World Trade Center Greater Sudbury team with additional details on their proposal to ensure the information they have provided on the project is available for Council's understanding. As this information was developed following the production of CBRE's report, it was not reviewed by CBRE and is not reflected in its conclusions.

Municipal Roles in Other World Trade Center Developments

As part of the research into comparable WTC facilities, CBRE reviewed those operations in Winnipeg, MB, Saskatoon, SK, Halifax, NS, Delaware, ME, Buffalo/Niagara Falls ON/NY, and Savannah, GA. These were chosen as examples as they are similar to Greater Sudbury in terms of travel markets, economic base and demographics, and enabled CBRE to conduct a comparison of operating models, facility programs and performance indicators. The review includes the following insights:

- None of the other examples receive direct capital or operating funding from their municipal governments
- Most of them have business relationships with provincial/state and federal governments, and all of them rely at least in part on various forms of provincial/state and federal funding programs for operating costs
- Of the six examples, three lease their office space while the other three own their buildings
 - o Five out of six offer temporary office space;
 - o Four offer conference or exhibition space;
 - o One has an auditorium
 - o Two include adjacent hotels
 - o None of the comparable locations offer corporate apartments
- In the case of Winnipeg WTC, the municipality provides them with office space at a discount, and that organization also works closely with their City's Economic Development and Tourism offices within the same building
- The Halifax WTC works closely with that city's Chamber of Commerce, but other examples did not include formal relationships with their Chambers
- Saskatoon WTC was the only one to qualify for property tax incentives comprised of a five-year property tax abatement program, but this was not available once the final facility location was selected outside of the qualifying area in the downtown core
- All the Canadian comparable WTC organizations noted the federal Trade Accelerator Program (TAP) as a key resource and excellent service for their members. This program is available to companies fitting criteria related to exporting experience
- The Saskatoon WTC has also begun work with the Western Economic Development Authority, a regional agency, to support the promotion of the Supercluster (related to agricultural innovation)

With or without direct funding or relationships with their host municipalities, all of the comparable WTC organizations noted their work to bring investment opportunities and business support to their regions.

CBRE's Report

CBRE was originally retained by the City in 2018 to complete the Business Plan for the Greater Sudbury Convention and Performance Centre, now known as the Junction West project. Given this previous work, the company was in a unique position to conduct this initial, timely analysis of the World Trade Center Greater Sudbury initiative. As stated in the attached report (page 5), the objectives of the study were:

- To determine if there is a market and economic opportunity to develop a World Trade Center in Greater Sudbury, with consideration for the needs of the community and of the Junction West project; and
- To determine if its development will strengthen the business case for the Convention & Performance Centre/Junction West

In order to complete this work, CBRE completed a review of background documents and strategic plans, consulted with six comparable World Trade Center facilities in Canada and in US border communities as well as the Regional Director North America for WTC, conducted 30 consultation interviews with local and provincial stakeholders to discuss the concept, and completed an assessment of current economic climate, community demographics and tourism infrastructure projects in Greater Sudbury. The firm also prepared a market overview of office space in downtown Sudbury with a focus on “Class A” spaces as well as data on 2019 and 2020 performance for the local accommodation and corporate housing sectors.

CBRE also reviewed their previous work on the Junction West facility program and compared the information that of the proposed WTCGS to ascertain possible points of collaborations and implications of accommodating both projects as part of Junction West.

Caution Noted – Covid-19 Virus

It is worth noting that CBRE encourages caution when reviewing their projections given the high degree of uncertainty the COVID-19 context has created on many sectors, including business travel, hospitality and accommodations, commercial property and others. Market conditions can change quickly and projections will need more frequent review.

CBRE’s Observations

The final report includes the following observations and preliminary recommendations, summarized here:

- The World Trade Center Greater Sudbury has strong potential synergies with the Junction West Convention & Performance Centre facility for both physical shared spaces and sustainability of operations if the two facilities are consolidated
- Class A office space comprises 36% of downtown Sudbury’s office supply, with the newest building constructed in 1999 (over two decades ago). While the overall commercial market is currently soft, all A-class assets have remained competitive, while B- and C-class spaces remain vacant; all key Class-A locations are leased with very little vacancy due to the fact that they are largely leased to institutional agencies (such as HSN, federal agencies, and so on). Given this, there may be a need for more Class A office space in the downtown core, and new space could act as a catalyst to attract further development and investment in the downtown as well; however, a market study would be required to determine appropriate levels and lease rates for Class A space that the local market can support
- The WTCGS business plan includes commercial apartments as a key component in revenue generation – that is, the concept considers residential units that would be leased for long-term rentals (i.e. one year or more), targeting corporate business and securing pre-lease agreements prior to construction. Further study would be required in order to ascertain market support for corporate apartments and to differentiate this offering from that of a Junction West hotel development and its preferred clientele
- A downtown parking study is also required to determine the required number of parking stalls to support plans for both Junction East and Junction West together with the WTCGS development

- The consultants have suggested that the competitive advantages of the World Trade Center Greater Sudbury should be clearly articulated in terms of facilities and services available to members, particularly as pertains to in-bound and out-bound trade missions, to distinguish these offerings from other sector associations and agencies involved in international trade
- While the local Mining Supply & Services sector has established a strong global presence, more work is required to increase the market-readiness of other sectors for international trade opportunities and to strengthen the business case for the WTCGS
- Research on comparable WTC operations and stakeholder interviews indicates that the addition of a WTCGS would not drive significant increases in business to the Convention & Performance Centre facilities of the Junction West project.
 - o The 2018 Business Plan for the Greater Sudbury Convention & Performance Centre included projections for 14 to 16 conferences/conventions, two to four trade/consumer shows and 140 to 160 meeting attracting 39,000 to 50,000 delegates annually
 - o While Greater Sudbury may benefit over time from more incoming and outgoing trade missions, CBRE states that the data reviewed does not change their original projections of 14 to 16 conferences annually associated with Junction West, along with their projections for associated hotel room nights

Based on these findings as well as discussions with the City and the project proponents, CBRE recommends that a Business Plan would need to be developed specifically for a World Trade Center Greater Sudbury project located within the Junction West facility, including functional program, member benefits, capital plans as well as governance structure and operational plans.

This work would also be required in order to determine capital cost implications of a potential joint development incorporating the WTCGS into the Junction West facility. The City could then consider the most appropriate form of municipal support for the WTCGS, such as capital contributions, deferred property tax payments and so on. This support would be important to leveraging additional funding from senior levels of government and other partners.

Conclusion

This report responds to Council's direction for more information. CBRE noted several requirements for additional due diligence before concluding the municipal role in such a development would represent an appropriate level of alignment with Council's strategic priorities and manages risk to the taxpayer. It noted several possible benefits, subject to further due diligence that would be typically associated with a development of this scale and cost. CBRE identified several additional steps.

These next steps would be required to further develop the Business Plan for the World Trade Center Greater Sudbury as a proprietary process and in the interest of their business model.

- First, for the completion of market studies for two key components of the WTCGS Business Plan:

- Class A Office space: how much more/new premium office space is required for Downtown Sudbury, what is the market demand, and what are the most appropriate lease rates for such space? What are the prospects for office space in the current COVID context?
 - Corporate housing/multi-residential: what is the demand for apartments that can be pre-leased to businesses for leasing at least one year at a time? What is the demand for existing Greater Sudbury residents to fill these spaces as well? What are the most appropriate and competitive lease rates for these apartments?
- This work could likely be completed for around \$30,000 or less. This work is not currently included in City work plans or budgets.
 - Following the outcomes of this work, the World Trade Center Greater Sudbury could then develop a new Business Plan that takes into account the market opportunities for office rentals and corporate apartment leases, and also incorporates the WTCGS as a tenant within a larger Junction West facility. What does the new business plan need to include for the success of the WTCGS with a location within Junction West?
 - The answer to this question is integral for the WTCGS organization to determine its own viability and would need to be addressed before any decisions could follow regarding its possible integration into the Junction West facility
 - Pending the successful indications resulting from these two steps, the Concept Design for Junction West would need to be revised and updated to accommodate the inclusion of the World Trade Center Greater Sudbury as a tenant and component of the Junction West facility given current market realities and opportunities. This would include business plans and functional programs for the initiative.

These steps ensure that the business model and approach are feasible, and the conceptual functional program and preliminary design for Junction West would require revisions in order to integrate WTCGS components into the facility concept. Expenses for the original concept design work completed for the City were approximately \$110,000.

However, further Council direction would be required in order to continue the work associated with these steps, and staff time and additional financial resources would need to be sourced. This work is not currently included in the City's work plan or budget. In the absence of further direction, staff will continue to pursue the Junction West project as conceptually approved by Council. Updates on this project will continue to be provided on a regular basis.

The WTCGS proposal outlines a specific request for \$10 million as a municipal contribution to capital costs. The proposal also notes a potential revenue source for the municipality in the form of property taxes as a way to recover the cost of the capital contribution to the project, along with benefits from collaboration with the Junction West conference facilities. The proposal notes that by projecting an annual property tax payment of one million dollars, the City could recover its initial contribution by 2033, with subsequent property tax payment representing additional revenue for the municipality.

That said, each new development that takes place in the city also results in a potential increase in municipal tax revenue that brings new dollars into the economy, whether or not City funding is provided.

The contribution of the City is also cited as an important indication of support required to secure funding from senior levels of government.

The WTCGS submitted their original application to the World Trade Center Association on February 28, 2019 and received a positive response on April 1, 2019 indicating the WTCA support for Greater Sudbury as a viable site for its own World Trade Center.

References

1. Staff Report – World Trade Center Proposal, Finance & Administration, February 11, 2020: <https://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1507&itemid=18189&lang=en>