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Brookfield Residential Properties: Identifying and Engaging Stakeholders

Norman Althouse, Peggy Hedges, and Cheryl Brazell wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In early summer 2012, Trent Edwards, chief operating officer (COO) of Brookfield Residential Properties Inc. (Brookfield), sat in one of the company’s meeting rooms in Calgary, Alberta, Canada, with members of his executive team. They had identified a unique inner-city opportunity and signed an option to purchase a large parcel of land in the desirable neighbourhood of Scarboro in Calgary. This land would need to be rezoned for higher density residential development. Brookfield’s development team had prepared mock‑ups for three potential multi-family residential developments suitable for the site.

Edwards and his team recognized that each one of these alternatives would change the aesthetics of the existing community. At the same time, all three met the city of Calgary’s long-term growth strategy—the “densification” of established inner-city neighbourhoods. If Edwards and his team chose to pursue the opportunity, their most significant challenge would be to obtain all the approvals necessary to have the site’s zoning changed from exclusively single-family dwellings (R-C1) to a Direct Control designation, which would allow the multi-residential complex. To do this, he and his team needed to engage all stakeholders at almost every step of the project. The question was, how should Brookfield proceed to get buy-in from Scarboro and the surrounding communities?

Buoyed by Brookfield’s recent success with its first inner-city residential development in northeast Calgary, near the downtown core, Edwards and his team made their decision to proceed. They knew that the development approval process was lengthy and complex. It typically took nine to 12 months, and the longer time it took, the lower the financial return for Brookfield. Complicating this fact was that Scarboro was seen as a community that would strongly oppose further densification. The team believed if Brookfield was successful here, it could be successful anywhere in Calgary. However, the project needed to start immediately in order for Brookfield to give its shareholders the highest return—profit and internal rate of return—on the project.

The Company

Brookfield was a Calgary-based residential property developer with land holdings throughout North America. The company was created on March 31, 2011, by merging Brookfield Homes Corporation and the residential land and housing divisions of Brookfield Office Properties Inc. (formerly Carma Developers LP) into a single residential land and housing company. Although it was better known for building suburban communities over the past six decades, Brookfield made a bold move in early 2012. The company decided to take advantage of a land redevelopment opportunity in the inner-city neighbourhood of Bridgeland in Calgary’s northeast quadrant.

Bridgeland was ripe for redevelopment because it was nearing the end of its natural life cycle; people and businesses were leaving the area. The area had seen an increase in the number of infill and semi-detached homes built, but the most appealing and challenging opportunity was a former hospital site that had been cleared but not yet fully redeveloped. With the complete support of the community association, the ward councillor, and the city of Calgary, Brookfield successfully launched a duplex (semi-detached) development and, later, a townhouse project. Both were enthusiastically embraced by community residents, home buyers, and adjacent communities for the simple reason that more people living in the neighbourhood added to the vitality, vibrancy, and economics of the area. Schools that had been scheduled to be shut down or leased out could be left open, and the community facilities could be upgraded to current standards. Bridgeland, one of Calgary’s first communities, once again became a popular place to live.

The Bridgeland experience helped Brookfield learn the nuances of inner-city development, good and bad. It spawned changes to a number of the company’s internal processes in order to achieve positive outcomes. Edwards and his team were confident that the success in Bridgeland was a result of Brookfield’s unwritten goal to provide a “red-carpet treatment” to community associations. They thought that together with their new processes, this success would lead Brookfield to be the builder of choice in future projects.

Three of Brookfield’s business units were engaged in the company’s development projects. Edwards summarized their responsibilities as follows.

The infill group was responsible for identifying the sites and “de-risking” them for sale either to Brookfield’s internal builders or to a third party. The choice of the builder was driven by a clear understanding of the key goals of all the major stakeholders involved.

The homes unit built single-family and multi-family homes, largely in suburban areas. There were two divisions: one focused on affordable homes that were built in high volumes; the other, Albi Homes, specialized in high-end custom and luxury homes. Both divisions wanted to have products that would allow for the most efficient build time and produce the highest profits in the shortest period of time.

The marketing and communications group was responsible for watching the market, especially trends and changes in preferences, and anything else that could affect the selling of homes, lots, communities, and the overall Brookfield brand. This unit also maintained the company’s credibility with the city of Calgary, city councillors, and the communities that directly interacted with the company.

Edwards proudly acknowledged that all of Brookfield’s employees were dedicated to providing customers with good value and innovative homes:

They are guided by corporate values, passionate about what they do, and committed to doing business ethically and with integrity. They take delight in building the “coolest” project as possible that meets community and buyers’ needs and that produce environmental, economic and community benefits.

The Opportunity

The site, located at 1702–1714 17th Avenue SW, in the historic community of Scarboro, was comprised of four parcels of land (Lots 14, 15, 16, and 25) on approximately 0.2564 hectares (0.63 acres). It was bounded to the north by Scarboro Avenue SW, to the east by a small green space (Lot 16), to the south by 17th Avenue SW, and to the west by a laneway (see Exhibit 1).

Lots 14 and 25 formerly housed a ceremonial funeral chapel, the Chevra Kadisha, which was scheduled to be demolished after having been unoccupied for several years. The proposed multi-family housing structure would be situated on those two lots plus a portion of Lot 16. Adjacent to the other lots, the oddly pie-shaped Lot 15 faced Scarboro Avenue. To change the zoning caveat on this lot, Brookfield would need to have every resident of Scarboro agree and officially sign-off to release the caveat. The team felt that a unanimous vote would be unlikely. It was decided that this lot would be best suited for a single-family unit.

The “urban edge” of the community of Scarboro and the proposed redevelopment was 17th Avenue SW, a major vehicular thoroughfare. This thoroughfare, which separated the communities of Scarboro, Bankview, and Richmond/Knob Hill, had been an important east–west transportation route in Calgary since the early 1900s. Along the Bankview side of 17th Avenue (south of 17th Avenue and west of 14th Street SW) were a number of small-scale commercial developments. East of Scarboro, along 17th Avenue (east of 14th Street), were a number of buildings that could be defined as ground-floor restaurants, bars, and boutique retailers, with residences and offices above.

As with many inner-city communities in Calgary, much of the area was undergoing revitalization. While many of the businesses along this stretch of 17th Avenue had struggled through the years, “it continued to be considered one of the trendier main streets in Calgary.”[[1]](#footnote-1) The avenue had always attracted a younger demographic that wanted to live, work, and play in the inner city, particularly where there was easy access to cycling and walking pathways and other lifestyle amenities and opportunities. However, there was also a diverse demographic in the area. Land use in the communities surrounding 17th Avenue SW was as mixed as the residents inhabiting those communities (see Exhibit 2 and 3).

Community of Scarboro

Scarboro was a relatively wealthy residential neighbourhood in Calgary’s inner city, just a short walk to the downtown core and the city’s business centre. It was developed on land originally owned by the Canadian Pacific Railway, and in 1907, annexed to the city of Calgary. At that time, a restrictive caveat was placed on lots, still in effect, which limited uses that were in conflict with the residential nature of the subdivision. The community was developed on the principles of the “garden city movement,” which was popular in the early 1900s and used for designing Mount Royal in Montreal and Central Park in New York City. As a result, Scarboro’s design was a departure from Calgary’s established grid system. Instead, it featured wide, curving streets, deep front setbacks to preserve the visual streetscape, green spaces, and a noticeable lack of uniformity in house design.[[2]](#footnote-2) Subdivision plans, approved in 1910 and 1911, continued to define developments in Scarboro.

In the 2012 Calgary city census, Scarboro had a population of 880, a 1.1 per cent increase from its 2011 population of 870. The majority of Scarboro residents (62 per cent) were between the ages of 20 and 64, with 27 per cent of the residents under the age of 19.[[3]](#footnote-3)

With its small population and long history, the community of Scarboro had traditionally considered itself a tight-knit community. Many residents had lived there for decades, and a number of them had raised their families in their childhood homes. Some of the oldest houses had been replaced by larger ones, all of which were built adhering to the restrictive caveat. This presented a challenge for Brookfield since Scarboro was seen as a community that would likely oppose further densification. A success in Scarboro would be seen by Brookfield as confirmation that its processes could be duplicated in other inner-city neighbourhoods.

Plan It

Like many cities on the Canadian prairies, Calgary began as a simple wooden fort built by the Northwest Mounted Police in 1875. It was situated on land where the Bow and Elbow Rivers met, which would later become Calgary’s centre. Over the city’s 120 years, the arrival of the railroad, development of agricultural industries, discovery of natural gas and, later, oil fuelled a cycle of rapid growth, slowdown, and a return to growth.

With each growth spurt, Calgary consumed more greenfield space (land that had never been built on or developed) to accommodate the growing population. In 1981, for example, Calgary’s population was 600,000; in 2012, it was approximately 1.1 million. As a result, the city grew its footprint by 216 square kilometres between 1981 and 2012 (see Exhibit 4). While the average unit density of newer communities more than doubled, the number of people per square kilometre had not changed much since 1981 (approximately 2,500 people per square kilometre). This steady state was due primarily to the number of people per unit decreasing. A framework for measuring Calgary’s long-range urban sustainability plan was captured in the *imagineCalgary* 2007 planning report.[[4]](#footnote-4)

In 2009, Calgary city council passed into bylaw its long-range growth strategy document. The Calgary Municipal Development Plan (MDP),[[5]](#footnote-5) affectionately referred to as “Plan It” by developers and the media, was a lengthy document detailing the policies that would shape Calgary’s growth over the next 60 years. Key to the plan was the intensification, or densification, of the population, particularly in established inner‑city areas, to take advantage of existing infrastructure and Calgary’s public transportation network. The MDP also recognized Local Area Plans where they existed. If a community or neighbourhood had not developed its Local Area Plan, the MDP guided the development or redevelopment of the area. The city wanted to grow up, not just out; its goal, according to the MDP, was to have 50 per cent of new development and growth in existing communities. The Scarboro opportunity would see the units per acre increase in the community, which would be consistent with the MDP.

An important requirement of the MDP was that developers seek community input at several points along the development process. This mandatory engagement was built into the framework. The plan was designed to treat all communities the same, regardless of an individual community’s economic advantages or political connections. The plan was focused on the city as a whole and the benefits to all Calgarians, current and future.

Brookfield’s Proposal

To help make the decision to proceed with the purchase and redevelopment of the Scarboro site, Brookfield had performed an initial assessment and determined an economic value that assumed no escalation in the market, either from a revenue or cost perspective. “We are seeking a 15 to 20 per cent internal rate of return from a land perspective,” Edwards said. “The range was based on the inherent risks in the project. These risks included approval risk, community support risk, market risk, and environmental risk.”

“The hurdles for the project depend on these risks,” Edwards added. “For the housing risks, we are not looking at the internal rate of return, but are looking at gross margins. We target 15 to 20 per cent before overhead costs.”[[6]](#footnote-6)

Brookfield then settled on three scenarios to present to the community and the ward councillor.[[7]](#footnote-7) Edwards and his team were keenly aware that Scarboro would be concerned that the changes would negatively affect the community. Some of the concerns included the age of potential buyers, their family profiles, and their financial profiles. They also understood that increased traffic, parking, laneway access, setbacks, development height and colour, as well as the massing effect (the perception presented by the size, shape, and form of a building) would concern Scarboro residents.

**Plan A (the best case)**: The site would be zoned for three-story townhomes on Scarboro Avenue and a four‑story apartment complex on 17th Avenue. The land economics provided a 22 per cent return if the company was able to get the land use changed and have the caveat removed within 12 months of the commitment. The plan also assumed that they would get approval for maximum site coverage. Historically, Brookfield found that for every three months of delay, the return decreased by 1 per cent. The housing economics under this scenario provided a 20 per cent gross margin.

**Plan B (the least risky)**: Brookfield would build a four-story apartment complex along 17th Avenue with some three-story townhomes and a single-family house on Scarboro Avenue where the caveat existed. The land economics for this scenario provided an 18 per cent internal rate of return. Every three months of delay created a 1 per cent decrease in that return. This scenario would provide a 17 per cent gross margin.

**Plan C**: Brookfield suspected that this would be the scenario that the community would like to see the most: three-story brownstone townhouses across the entire site. The land economics would be closer to a 15 per cent internal rate of return with a housing margin of 18 per cent.

When Brookfield and the landowner first approached the community of Scarboro and its city council representative in August 2012, they presented Plan A and Plan B. Not unexpectedly, they encountered resistance to the multi-family project from a community that was exclusively single-family dwellings.

Exhibit 1: Location Maps



Source: City of Calgary Planning Commission, *Report to Council 2016 June 13: Land Use Amendment Scarboro (Ward 8)*, Bylaw 136D2016, CPC 2016-141, LOC2013-0094 (Calgary: City of Calgary), Appendix III. Permission to print provided by the City of Calgary.

Exhibit 2: Demographics of Communities Surrounding 17th Avenue SW

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Percentage of Population** | | | | |
| **Community** | **Population** | **0–4 Years** | **5–14 Years** | **15–19 Years** | **20–64 Years** | **65+ Years** |
|  |  |  |  |  |  |  |
| Calgary | 1,120,225 | 7 | 12 | 6 | 66 | 10 |
|  |  |  |  |  |  |  |
| Bankview | 5,221 | 4 | 3 | 1 | 87 | 4 |
| Beltline | 19,681 | 4 | 2 | 2 | 87 | 6 |
| Cliff Bungalow | 1,936 | 3 | 2 | 2 | 89 | 5 |
| Lower Mount Royal | 3,180 | 2 | 1 | 1 | 87 | 8 |
| Mission | 4,325 | 4 | 1 | 1 | 79 | 16 |
| Richmond | 4,229 | 8 | 8 | 3 | 73 | 8 |
| Scarboro | 880 | 4 | 16 | 7 | 62 | 11 |
| Scarboro/Sunalta | 410 | 9 | 11 | 3 | 60 | 15 |
| Sunalta | 3,314 | 5 | 4 | 2 | 86 | 3 |

Source: Created by authors based on data from the City of Calgary, Civic Census 2011 in *The City of Calgary Community Profiles,* accessed August 20, 2016, www.calgary.ca/CSPS/CNS/Documents/community\_social\_statistics/bankview.pdf.

Exhibit 3: Demographics of Communities Surrounding 17th Avenue SW

Based on Structure Type

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Percentage of Population by Selected Structure Type** | | | | |
| **Community** | **Population** | **Single Family** | **Duplex** | **Apartment** | **Townhouse** | **Converted Structure** |
|  |  |  |  |  |  |  |
| Calgary | 1,120,225 | 67 | 3 | 13 | 9 | 2 |
|  |  |  |  |  |  |  |
| Bankview | 5,221 | 20 | 3 | 63 | 7 | 5 |
| Beltline | 19,681 | 1 | 0 | 94 | 3 | 0 |
| Cliff Bungalow | 1,936 | 17 | 1 | 66 | 5 | 9 |
| Lower Mount Royal | 3,180 | 3 | 1 | 85 | 6 | 1 |
| Mission | 4,325 | 3 | 0 | 92 | 2 | 1 |
| Richmond | 4,229 | 52 | 26 | 10 | 6 | 5 |
| Scarboro | 880 | 99 | 0 | 0 | 0 | 0 |
| Scarboro/Sunalta | 410 | 99 | 0 | 0 | 0 | 0 |
| Sunalta | 3,314 | 16 | 0 | 73 | 4 | 6 |

Source: Created by authors based on data from City of Calgary, *2012 Civic Census Results,* accessed August 20, 2016, www.calgary.ca/CA/city-clerks/Documents/Election-and-information-services/Census2012/Final%202012%20Census

%20Results%20book.pdf.

Exhibit 4: Calgary’s Land Area

|  |  |
| --- | --- |
| **Year** | **Square Kilometres** |
| 1951 | 40 |
| 1961 | 104 |
| 1971 | 163 |
| 1981 | 261 |
| 1991 | 316 |
| 2001 | 400 |
| 2011 | 469 |
| 2012 | 477 |
| 2075 (projected) | 1,000 |

Source: Created by authors based on data from City of Calgary, *Planning for Growth and Change,* accessed August 20, 2016, <http://calgarycommunities.com/content/wp-content/uploads/2013/09/Growth-Change_reduce.pdf>; City of Calgary, *Calgary Snapshots 2015,* accessed August 20, 2016, www.calgary.ca/PDA/pd/Documents/geodemographics/calgary-snapshots.pdf.

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4. City of Calgary, *imagineCalgary Plan for Long Range Urban Sustainability,* September 2007, accessed September 5, 2016, www.calgary.ca/PDA/pd/Documents/planning\_policy\_information/long\_range\_urban\_sustainability\_plan.pdf. [↑](#footnote-ref-4)
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6. Video Case Study: Trent Edwards, COO, Brookfield Residential Properties, University of Calgary, The Haskayne School of Business, Vignette #1—The Site, 2015. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)