

AUDITOR GENERAL

Halifax Regional Municipality



Corporate Real Estate
Development and Sale of Industrial Lands
Land and Building Acquisition and Disposal
Audit

December 2022

December 9, 2022

The following audit of ***Corporate Real Estate, Development and Sale of Industrial Lands, Land Building Acquisition and Disposal***, completed under section 50(2) of the Halifax Regional Municipality Charter, is hereby submitted to the Audit and Finance Standing Committee of Regional Council.

Respectfully,

Original signed by

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Auditor General
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Corporate Real Estate Development and Sale of Industrial Lands Land and Building Acquisition and Disposal Audit

Management of HRM's Industrial Lands

Not Effectively Managed

Improvements needed to help ensure sufficient supply of industrial lands

HRM lacks sufficient long-term plans to meet expected future demand

- 2020 consultant study analyzed HRM's demand to 2039
- "Ensuring a sufficient supply of industrial lands" is an initiative in Regional Council's Strategic Priorities Plan 2021-25



Better coordination needed between Corporate Real Estate and Planning and Development

Some short and medium-term industrial park plans lack details and timelines

Effectively Managed

Burnside Phase 13 has short-term plan

Appropriately involved in development activities in new industrial lands

Land sales consistent with policy and completed within reasonable timelines



Improvements Needed to Management of Land and Building Acquisitions and Disposals

Acquisition and disposal tracking data has gaps and lacks important information

Real estate staff roles and responsibilities for land & building acquisitions & disposals clearly defined

Improvement needed in monitoring:

- Surplus disposals not actively marketed.
- Files not worked on are not monitored.



Service level agreement with Parks and Recreation outstanding since 2018, taking too long to finalize

Auditor General Halifax Regional Municipality

December 2022

Audit Results

Industrial Lands: Development and Sale

Long-term Plans Not Sufficient, Other Aspects Effectively Managed

Better coordination between Corporate Real Estate and Planning and Development is needed to meet Regional Council's strategic initiative of *"Ensuring a sufficient supply of industrial lands."* HRM lacks sufficient long-term plans on how to meet future demand for HRM's industrial lands. There are some short- and medium-term plans to expand three of HRM's business parks, but the plans lack detail and do not have estimated timelines for all key milestones. Other aspects of the development and sale of HRM's industrial lands are effectively managed.

Improvements needed to help ensure sufficient supply of industrial lands

"Ensuring a sufficient supply of industrial lands" is a strategic initiative in Regional Council's *Strategic Priorities Plan 2021-25, Prosperous Economy* section. Through Corporate Real Estate, HRM owns and develops much of the municipality's industrial lands, however, there are also privately-owned industrial lands that can contribute to meeting demand. An HRM consultant found the municipality only has an adequate supply of industrial lands suitable for development to meet its needs until 2024. HRM does not have sufficient long-term plans on how to meet expected future demand for its industrial lands. This could impact HRM's ability to meet Council's strategic priority as well as the municipality's economic development.

In 2020, an HRM consultant prepared the Municipality's industrial lands strategy and reviewed long-term industrial land needs. The consultant forecast the municipality's future demand for industrial lands to 2039 and found the municipality needs a minimum of 510 net acres of additional urban industrial lands suitable for development to meet this demand. As of November 2022, HRM's website has nine municipally-owned industrial land lots for sale, totalling 46 acres. Most of these lots already have interested purchasers.

Industrial lands are an important part of HRM's economy. The 2020 consultant strategy for HRM's industrial lands notes:

- *"Industrial employment lands are an integral part of Halifax's economic development potential and accommodate a significant share of the Municipality's businesses and employment;*
- *In order for Halifax to continue to be competitive and attractive to a broad range of industrial and commercial sectors, HRM needs to ensure it has a sufficient supply of market choice and serviced industrial employment lands."*

Although Corporate Real Estate is responsible for identifying HRM’s industrial lands needs and planning for new development, their responsibilities cannot be achieved without key tasks performed by the Planning and Development business unit. Planning and Development management told us HRM’s Regional Plan provides policies to support the maintenance and development of both HRM and privately-owned industrial lands. Planning

and Development management told us that while they are aware of their responsibilities, housing and other Regional Council strategic initiatives have been prioritized over industrial lands. Management also said they have had staffing challenges and requests from private landowners to allow for residential development on existing industrial-zoned lands. Planning and Development management told us a new group is being formed and their work will include industrial lands.

**Planning and Development
Industrial Land Key Tasks**

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- planning policies
- approving subdivision applications
- zoning and servicing intended land areas

Analyzing demand and determining land needs is a good first step towards ensuring a sufficient supply of industrial lands. Additionally, the 2020 consultant study had detailed recommendations for HRM’s industrial lands (discussed later in the report). However, to help ensure the Regional Council priority will be met, there should be long-term plans, with estimated timelines, on how to meet demand. Developing these plans will require coordination between Corporate Real Estate and Planning and Development to prioritize activities and establish and meet timelines.

Recommendation 1

HRM should develop long-term plans detailing how to meet expected demand for industrial lands, including estimates of when lands will be ready for sale. This should include implementing key recommendations from the 2020 consultant report on HRM’s industrial land strategy.

Management Response

Agree. Management agrees to implement detailed plans as part of its regular multiyear Business Planning Deliverables to meet expected demand. Implementation is subject to securing additional resources.

To meet future demand, Corporate Real Estate management told us three HRM business parks may be expanded: Burnside, Aerotech, and Ragged Lake. Corporate Real Estate is currently developing Burnside Business Park Phase 13 in three phases: 13-1, 13-2, and 13-3. Construction of 13-1 is estimated to be complete by September 2023. When we completed audit fieldwork, Corporate Real Estate did not have detailed timelines for key milestones for 13-2 and 13-3. For example, we expected plans with detailed steps showing how the project would proceed to completion and not just the year when each would be completed. Subsequently, management estimated key dates for both phases.

We found Corporate Real Estate management has some short-term and medium-term plans for expanding the Aerotech and Ragged Lake Business Parks. However, these plans do not include all work, or have estimated timelines for completion.

Before future development takes place, Aerotech Business Park needs to be rezoned by Regional Council.

- Planning and Development provided Corporate Real Estate with estimated timelines to complete rezoning work.
- Lack of documented plans, with timelines, beyond rezoning.

For future expansion, Ragged Lake Business Park needs three background studies on expansion viability. In June 2018, Regional Council directed HRM staff to develop terms of reference for these studies.

- One background study was completed June 2021.
- Corporate Real Estate has estimated timelines to complete one study.
- No plans on when one study will start.

Corporate Real Estate also expects to further expand Burnside Business Park through Phase 14. Management told us this work is in the preliminary stages; Planning and Development is needed to complete zoning for the intended land area. Other than noting estimated future capital requirements in the draft 2023-24 Capital Budget, Corporate Real Estate management has no detailed plans with estimated timelines for completion.

As coordination between Corporate Real Estate and Planning and Development is needed to perform expansion work, we expected both business units would have detailed plans, with estimated timelines, to help ensure demand can be met. This would help prioritize work and set expectations for both business units.

Recommendation 2

Property, Fleet and Environment and Planning and Development should work together to develop detailed plans, with estimated timelines, for completing all work required to expand Aerotech, Ragged Lake, and Phase 14 of Burnside Business Parks.

Management Response

Agree. Management agrees to implement plans and actions as part of its regular multiyear Business Planning Deliverables to expand Aerotech, Ragged Lake, and Phase 14 Burnside Industrial Park. Implementation is subject to securing additional resources.

The 2018-19, 2019-20 and 2020-21 business plans included two key deliverables related to expanding Aerotech and Ragged Lake Business Parks. Although these deliverables are ongoing, they were not included in the 2021-22 and 2022-23 business plans. While Corporate Real Estate management is tracking these deliverables, we expected significant ongoing deliverables would continue to form part of annual business plans. This would allow taxpayers and Regional Council to assess whether HRM is meeting its goal of ensuring a sufficient supply of industrial lands.

We found Corporate Real Estate implemented other key deliverables related to expanding Burnside business park and overall industrial lands operations from 2018-19 and 2019-20, including obtaining a consultant study on HRM’s industrial lands strategy, and various aspects of the Burnside Phase 13 expansion.

Recommendation 3

Property, Fleet and Environment should carry forward and complete key outstanding deliverables related to industrial parks in HRM’s annual business plans.

Management Response

Agree. Implementation as per approved Business Plan. Implementation is subject to securing additional resources.

The 2020 consultant study includes detailed recommendations for HRM’s industrial lands strategy. Based on our review and discussions with management, Corporate Real Estate should be involved in implementing five recommendations. Of these, Corporate Real Estate is solely responsible for implementing one recommendation related to marketing initiatives to promote

HRM industrial lands development. Planning and Development involvement is needed to implement the remaining four recommendations.

None of the five recommendations are complete, and most have minimal work done. A February 2022 information report to Regional Council prepared by both Corporate Real Estate and Planning and Development has summary information on actions required and approaches to implement. However, there are minimal details and no plans or timelines for implementation.

We expected the two business units to have detailed plans, with timelines, on implementing key recommendations. Three outstanding recommendations relate to having a sufficient supply of industrial lands.

- Strategically plan to develop business park expansion areas to accommodate medium-to longer-term industrial lands needs.
- Regularly monitor industrial lands development against demand.
- Ensure HRM has a minimum five-year supply of serviced industrial lands of various sizing and location.

Industrial land sales transactions consistent with key policy requirements

We looked at five industrial land sales to determine whether they were consistent with HRM policy. Although we found HRM advertised and sold the lots at or above the minimum price set by Regional Council, we cannot provide an opinion on whether these were market prices. HRM is the primary provider of industrial lands for the municipality, and there were limited local sources we could use for comparison. Management told us they determine lot pricing using their judgement and knowledge of the real estate market. This is a reasonable approach.

HRM's Industrial Lot Pricing

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As per an October 2021 HRM staff report: Regional Council approves minimum lot pricing for HRM's industrial lots.

It is important to note that revenue from land sales is not HRM's only goal for its industrial lands. The Municipality must also consider economic development impacts. The 2020 consultant report states building lots must be competitively priced to attract businesses, which in turn impacts employment growth.

HRM's standard purchase and sale agreement for industrial parks includes requirements for purchasers to begin construction within 12 months and complete within 24 months from the sale closing. The industrial lands sales transactions we reviewed complied with these requirements. We also found staff monitored to ensure these requirements were met.

For lots in Burnside Business Park, the purchaser's site development proposal must conform with HRM's Site Development and Buildings Standards. We found staff checked this requirement was met.

Management monitors industrial lands development and sales transactions

Corporate Real Estate management monitors HRM's new industrial lands development. We found management is appropriately involved in the design of Burnside Phase 13 and monitoring ongoing construction. Public Works staff are the project managers, but Corporate Real Estate management is involved in key areas, such as monitoring timelines and cost, and ensuring the design meets HRM's needs. We observed regular communication between Corporate Real Estate and Public Works.

Management told us they informally monitor industrial lands sales transactions through discussions with staff. They also send quarterly industrial lands sales projections to Finance and Asset Management.

For the five industrial lands sales sampled, we found:

- Management reviewed the sale approval report.
- Transaction timelines were reasonable compared to Real Estate's publicly-posted expectations.

Land and Building Acquisitions and Disposals: Improvements Needed

We found acquisition and disposal processes need improvement, particularly data and file management, monitoring properties, and marketing surplus properties. Corporate Real Estate's roles and responsibilities are clearly defined, but the service level agreement with a key business unit is taking too long to finalize.

We had a scope limitation for ongoing land and building acquisitions and disposals data because it was not possible to verify completeness. This is not unexpected for data of this nature. Our testing of acquisition and disposal files was limited to those with details tracked by Real Estate.

Property tracking needs improvement

Within Corporate Real Estate, acquisitions and disposals are performed by two groups based on property type.

A tracking sheet is maintained for regular property acquisitions and disposals. However, we found this tracking sheet lacks relevant information for effective file management. Although it includes fields for key property information, these fields were often not updated. Seventeen of 27 regular properties we reviewed had limited information. Many had missing information, outdated property status, incorrect dates, and wrong property classifications.

Management is developing a new tracking sheet. An effective property tracking system would help ensure management has the current status of each property and would assist with managing staff workload.

We found Corporate Real Estate tracks strategic property acquisitions and disposals data in project management software. All three acquisition samples we tested had relevant details in the software.

Definitions of Property Types

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Strategic Properties - Major projects guided by Council Priorities or strategic initiatives. Involves multiple properties like the Bayer's Road project.

Regular Properties - Any other acquisition or disposal expected to be processed within 6 months.

Audit Sample

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We reviewed a total of 30 land and building acquisition and disposals tracked by Corporate Real Estate:

- 10 regular properties for disposal
- 7 regular properties for acquisition
- 3 strategic properties for acquisition
- 10 regular properties "on hold" due to no active interest

Recommendation 4

Property, Fleet and Environment should finalize the new property tracking sheet. The updated sheet should be maintained to include relevant file information.

Management Response

Agree. Implementation is in progress, estimated completion March 31, 2023.

Key real estate staff roles and responsibilities clearly defined; some monitoring required

Acquisitions and disposals staff roles and responsibilities are clearly defined and documented. For active files, management told us they monitor through periodic discussions with staff and weekly meetings. This approach is reasonable for active files. However, we found files that are not actively worked on are not monitored. Additionally, surplus disposals are not actively marketed or included on HRM's website as available for sale.

We looked at eight surplus properties and two properties identified to be declared surplus and noted instances in which monitoring is required.

- For one of the two disposals yet to be declared surplus, Corporate Real Estate initiated the disposal process when we inquired about the status during our audit. There was no activity for the previous 21 months. We expected the process would have begun much earlier.
- There was no communication between Corporate Real Estate and client business units on three acquisitions and three disposals which were paused for various reasons. For these properties, we expected Corporate Real Estate would periodically follow up with the business units to determine whether the issues had been resolved.

Recommendation 5

Property, Fleet and Environment should have a process to periodically review properties which are not actively worked on and follow up with HRM business units regarding properties on hold.

Management Response

Agree. Management agrees to implement regular client follow up on properties under review.

If management addresses the property data issues, there should be adequate information to monitor all properties.

Client roles and responsibilities documented in some cases

Corporate Real Estate manages land and building acquisitions and disposals for HRM business units. Corporate Real Estate and certain business units told us they understand their roles and responsibilities in the acquisition and disposal process. We found some responsibilities are defined in policies. However, work is needed to clearly outline roles and responsibilities between Corporate Real Estate, and Parks and Recreation.

To clearly define the roles and responsibilities and scope of work between Corporate Real Estate, and Parks and Recreation, both business units began developing a service level agreement in 2018. As of October 2022, the agreement had not been signed. There have been outstanding issues regarding each business unit's responsibilities. Corporate Real Estate management told us the agreement is almost complete, but it remains outstanding four years after it was initiated.

Recommendation 6

Property, Fleet and Environment, and Parks and Recreation should finalize and sign the service level agreement between the two business units.

Management Response

Agree. Management agrees to execute SLA and formally implement.

Service targets established but need to be reviewed

Real estate established timelines for processing its acquisition and disposal properties. These timelines were not met, however, management told us the timelines may not be reasonable in certain circumstances.

In 2021, Real Estate set a target period of 24-months for strategic property acquisitions and disposals. Previously the target was 6 months unless a different timeline is specified in a project charter. The target period for regular properties remains 6 months.

We assessed the processing time for ten disposals and ten acquisitions.

- The eight surplus properties for disposal exceeded the six-month target but there were reasonable explanations in all cases. For example, Planning and Development requirements, road widening projects, legal issues, or a HRM business unit expressed interest in the property after it was declared surplus.
- The remaining two disposals are undergoing the surplus property declaration process.
- Nine acquisitions exceeded the target period. There were reasonable explanations in most instances, such as environmental concerns or planning and development issues. The remaining acquisition was no longer required by HRM.

In most instances, the other business units we spoke to told us they were aware of Corporate Real Estate's timelines, including when service standards might not be met.

Acquisitions and Disposals Processing Timeline

No of Files	Type	Status	Duration (Approximated Months)
4	Disposal	Completed	8 - 35
4	Disposal	Active*	16 - 83
2	Acquisition (regular)	Completed	11 - 14
4	Acquisition (regular)	Active*	31 - 110
1	Acquisition (strategic)	Completed	27
2	Acquisition (strategic)	Active*	27 - 33
Total = 17			

*Properties where disposal or acquisition process are yet to be finalized as of July 2022; Regional Council or Business units is still interested in the acquisition or a disposal with an active buyer.

Management told us the timelines vary depending on complexity and type of projects. Management also said they are considering working with other business units, including Legal, to ensure only properties with no outstanding issues are declared surplus.

Recommendation 7

Property, Fleet and Environment should assess the reasonableness of established timelines for acquisitions and disposals, and determine if timelines should only apply to marketable properties.

Management Response

Agree. Management agrees to implement as part of regular SLA reviews.

Background

Corporate Real Estate is a division of the Property, Fleet and Environment business unit. The division's responsibilities include managing HRM's land and building acquisitions and disposals, and the development and sale of HRM's industrial lands.

Two groups within Corporate Real Estate perform acquisitions and disposals: one group works on strategic properties and the other works on regular properties. HRM's 2022-23 Business Plan notes the value of HRM's land and building acquisitions and disposals for 2020-21 was \$52 million and was projected to be \$15 million in 2021-22. Per HRM's accounting system, surplus properties were valued at \$5.5 million as at March 31, 2022 (this excludes right of way properties).

HRM owns six business parks; management is working to expand three: Aerotech, Burnside, and Ragged Lake. HRM sold 29 acres of industrial lands for \$8.2 million in 2020-21 and was projected to sell 85 acres for \$25 million in 2021-22 (Source: HRM 2022-23 Business Plan).

HRM provides industrial lands for economic development. Corporate Real Estate is responsible to identify land needs, plan, and fund new development and construction through the industrial lands expansion reserve.

About the Audit

We completed a performance audit at HRM Corporate Real Estate. The purpose of the audit was to determine whether Corporate Real Estate effectively manages land and building acquisitions and disposals, and the development and sale of HRM's industrial lands. Our role is to express an independent audit opinion of this area. We audited the process to declare properties surplus in 2017.

The objectives of the audit were to:

- assess whether Corporate Real Estate effectively manages HRM's land and building acquisition and disposal processes; and
- determine whether Corporate Real Estate effectively manages the development and sale of industrial lands.

We encountered a scope limitation for ongoing land and building acquisitions and disposals data. Our testing was limited to those with details tracked by Real Estate. It was not possible to determine completeness of Real Estate's ongoing acquisition data and disposals yet to be declared surplus. This scope limitation did not prevent us from expressing an audit opinion on our objectives and criteria.

We developed the criteria for this audit. These were discussed with, and accepted as appropriate by, Corporate Real Estate management.

1. Staff and client roles and responsibilities should be clearly defined, documented, and communicated.
2. Service standards should be established and communicated.
3. Land and building acquisition and disposal processes should be consistent with the established service standards.
4. Management should monitor the acquisition and disposal processes.
5. Plans to meet the demand for industrial lands should be developed and implemented.
6. Processes for sales of industrial lands should be consistent with relevant policies and consider value-for-money.
7. Management should monitor processes for the development and sale of industrial lands.

Our audit period was April 1, 2018, to March 31, 2022. Information from outside the audit period was considered as necessary.

Our audit approach included: interviews with management and staff in Corporate Real Estate; interviews with management of client business units; review of internal policies and procedures; review of real property acquisition and disposal files, and other relevant documentation on a sample basis.

This audit was conducted in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 Direct Engagements published by the Chartered Professional Accountants of Canada.

We apply CPA Canada's Canadian Standard on Quality Control 1. Our staff comply with the independence and ethical requirements of the Chartered Professional Accountants of Nova Scotia Code of Conduct.

Appendix 1 – Recommendations and Management Responses

Recommendation 1

HRM should develop long-term plans detailing how to meet expected demand for industrial lands, including estimates of when lands will be ready for sale. This should include implementing key recommendations from the 2020 consultant report on HRM’s industrial land strategy.

Management Response

Agree. Management agrees to implement detailed plans as part of its regular multiyear Business Planning Deliverables to meet expected demand. Implementation is subject to securing additional resources.

Recommendation 2

Property, Fleet and Environment and Planning and Development should work together to develop detailed plans, with estimated timelines, for completing all work required to expand Aerotech, Ragged Lake, and Phase 14 of Burnside Business Parks.

Management Response

Agree. Management agrees to implement plans and actions as part of its regular multiyear Business Planning Deliverables to expand Aerotech, Ragged Lake, and Phase 14 Burnside Industrial Park. Implementation is subject to securing additional resources.

Recommendation 3

Property, Fleet and Environment should carry forward and complete key outstanding deliverables related to industrial parks in HRM’s annual business plans.

Management Response

Agree. Implementation as per approved Business Plan. Implementation is subject to securing additional resources.

Recommendation 4

Property, Fleet and Environment should finalize the new property tracking sheet. The updated sheet should be maintained to include relevant file information.

Management Response

Agree. Implementation is in progress, estimated completion March 31, 2023.

Recommendation 5

Property, Fleet and Environment should have a process to periodically review properties which are not actively worked on and follow up with HRM business units regarding properties on hold.

Management Response

Agree. Management agrees to implement regular client follow up on properties under review.

Recommendation 6

Property, Fleet and Environment, and Parks and Recreation should finalize and sign the service level agreement between the two business units.

Management Response

Agree. Management agrees to execute SLA and formally implement.

Recommendation 7

Property, Fleet and Environment should assess the reasonableness of established timelines for acquisitions and disposals, and determine if timelines should only apply to marketable properties.

Management Response

Agree. Management agrees to implement as part of regular SLA reviews.

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