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TO: Mayor and Members
    General Issues Committee

WARD(S) AFFECTED: WARD 2

COMMITTEE DATE: October 11, 2011

SUBJECT/REPORT NO:
Hamilton Downtown Multi-Residential Property Investment Program – 68 George Street
HDMRPIP11/01 (PED11161) (Ward 2)

SUBMITTED BY:
Tim McCabe
General Manager
Planning and Economic Development
Department

PREPARED BY:
Hazel Milsome 905-546-2424 x 2755

SIGNATURE:

RECOMMENDATION:

a) That a conditional loan commitment totalling $4,769,657 for 7090153 Canada Inc., the registered owner of the property at 68 George Street, be authorized and approved in accordance with the terms and conditions of the Hamilton Downtown Multi-Residential Property Investment Program;

b) That the Mayor and City Clerk be authorized and directed to execute a loan agreement together with any ancillary documentation required, to effect recommendation (a), above, in a form satisfactory to the City Solicitor;

c) That the General Manager of the Planning and Economic Development Department be authorized to approve and execute any loan amending agreements, together with any ancillary amending documentation, if required, provided that the terms and conditions of the Hamilton Downtown Multi-Residential Property Investment Program, as approved by City Council, are maintained.
EXECUTIVE SUMMARY

The Hamilton Downtown Multi-Residential Property Investment Program (HDMRPIP) application for the redevelopment of 68 George Street (the “Property”) was submitted by 7090153 Canada Inc., the registered owner of the Property. The Property is a former parking lot on which the applicant is developing a six-storey Staybridge Suites Hotel containing 127 rooms, 3,650 square feet of retail space with 71 underground parking spaces and 10 above-ground parking spaces.

The HDMRPIP offers a zero percent interest loan for projects that result in predominantly residential development including the creation of new multiple dwellings on vacant land. The maximum loan amount is 25% of the cost to construct budget prepared by an architect/engineer. When the City’s loan is $1 million or over, the budget is to be reviewed and approved by a quantity surveyor.

The proposed Staybridge Suites Hotel consists of 127 rooms each containing culinary and sanitary facilities, therefore meeting the definition of a dwelling unit as per Zoning By-law 02-500. The construction cost for the residential component of the Staybridge Suites Hotel as confirmed by a quantity surveyor is $19,078,627. Therefore, the maximum loan for this project is $4,769,656.75.

Alternatives for Consideration – See Page 6.

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: Funding is provided under the terms of the HDMRPIP approved by City Council at its meeting held March 11, 2009, and attached as Appendix “A” to Report PED11161.

City Council, at its meeting held March 1, 2006, authorized an increase in loan commitments under the HDMRPIP to $26 million provided that the total loan monies lent under the program did not exceed $20 million at one time. To date, $13,593,970 has been advanced in loans in total. As of June 30, 2011, $9,216,486 has been repaid, $1,101,207 has been written-off and, $3,276,277 is outstanding in loans that are in various stages of repayment.

The cost to fund the HDMRPIP is the interest lost to the City which is funded through the Urban Renewal Section’s operating budget contained in account number 52901-815010.

Staffing: Applications and loan payments under the HDMRPIP are processed by the Urban Renewal Section and Taxation Division. There are no additional staffing requirements.
Legal: Section 28 of the Planning Act permits a municipality, in accordance with a Community Improvement Plan to make loans and grants which would otherwise be prohibited under Section 106(2) of the Municipal Act, to registered/assessed owners and tenants of lands and buildings. A Community Improvement Plan can only be adopted and come into effect within a designated Community Improvement Project Area. Changes to a Community Improvement Plan or Community Improvement Project Area require formal amendments as dictated by the Planning Act.

Prior to the advance of funding from the City, the applicant will be required to execute a loan agreement and provide security for the loan by way of a second mortgage registered against the Property. The applicant is a corporation incorporated pursuant to the laws of Canada and its shares are owned wholly by another corporation. Accordingly, a guarantee will be required by the parent corporation of the applicant as well as a personal guarantee by the shareholder for the parent corporation. The loan is not advanced until the project is 60% complete. All documents and required searches will be developed and undertaken in consultation with Legal Services.

As construction projects move forward, it is sometimes necessary to amend previously approved loan agreements and any ancillary documentation, therefore staff recommends that the General Manager of Planning and Economic Development be authorized to amend loan agreements and any ancillary documentation, provided that the terms and conditions of the HDMRPIP are maintained.

**HISTORICAL BACKGROUND** (Chronology of events)

The HDMRPIP (formerly titled the Hamilton Downtown Residential Loan Program) was approved by City Council at its meeting held September 25, 2002. Since that time, a number of program refinements have been approved by Council. The HDMRPIP applies to properties within the Downtown Hamilton Community Improvement Project Area. The program is intended to provide zero interest loans for residential development and uses accessory to the residential development such as parking. Terms of the program offer a zero interest loan for 25% of the cost to construct budget. The loan is advanced in three stages: upon completion of 60% of construction; 80% of construction; and, substantial completion of the project. Repayment of the loan commences one year after final advance of the loan exclusive of any holdbacks. 10% of the loan amount is repayable in monthly payments each year for four years. The balance outstanding is paid in a balloon payment at the end of the five years.

The HDMRPIP was developed as a catalyst for stimulating residential development within Downtown Hamilton. Projects that are funded under the program assist in achieving an increased downtown density that brings more people and more activity into the downtown and an increased demand for shops, restaurants and nightlife.
POLICY IMPLICATIONS

Report PED11161 relates to the processing of an application under the HDMRPIP which is contained within the Downtown and Community Renewal Community Improvement Plan.

Conditional Site Plan approval for 68 George Street was issued on June 7, 2011. The proponent is working towards addressing the conditions.

The development is consistent with Zoning By-law 05-200, the Provincial Policy Statement and Growth Plan (Places to Grow) and conforms with the City of Hamilton Official Plan.

The use supports the Hess Village Specialty Commercial Area designation outlined in the Downtown Hamilton Secondary Plan, which envisions George Street as a landscaped street with a mix of grade-oriented restaurant and commercial uses. The upper floors along George Street have been set back to enable the façade to complement the existing built form further to the west in Hess Village.

RELEVANT CONSULTATION

Staff from the Finance and Administration Division, Corporate Services Department and the Legal Services Division, City Manager’s Office, were consulted and the advice received is incorporated into Report PED11161.

ANALYSIS / RATIONALE FOR RECOMMENDATION

Due diligence involved in assessing whether an applicant meets the terms and conditions of the HDMRPIP includes an evaluation committee comprising staff from Urban Renewal, Development Planning, Building Engineering and Zoning, Zoning By-law Reform, Community Planning and Design, Financial Planning and Policy, and, Taxation. The committee met on August 17, 2011 for the purpose of reviewing the details of the development of the Staybridge Suites Hotel from a planning and building perspective as well as to determine the applicant’s capacity for loan repayment.

Supporting documentation to the application included an appraisal of the completed project prepared by an accredited appraiser, a cost-to-construct budget reviewed and approved by a quantity surveyor, details of construction financing and, documentation to support the applicant’s capacity for loan repayment.

The Staybridge Suites Hotel will be six storeys in height, with mezzanine space and one level of underground parking. The cost to construct the project is estimated at
$19,534,877. The cost to construct the residential component is $19,078,627. The non-residential space consists of 3,650 square feet for future retail use along the George Street frontage. Amenities in the hotel for the exclusive use by the hotel users include an indoor swimming pool, fitness centre, laundry facilities a business centre and a buffet area.

68 George Street - Pre-development

68 George Street – Proposed-Development

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68 George Street pre-development and proposed-development are shown in the photographs above. Appendix 'B' to Report PED11161 identifies the location of the property within the Downtown Hamilton Community Improvement Project Area.

**ALTERNATIVES FOR CONSIDERATION:**
(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Non-acceptance of the recommendations contained in Report PED11161, or reducing the amount of the loan, would undermine the principles of the HDMRPIP and downtown renewal efforts in general. These alternatives are not recommended.

**Financial:** A loan in the amount of $4,769,657 would not be advanced.

**Staffing:** Not applicable

**Legal:** Not applicable

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)


**Growing Our Economy**

- Investment in Hamilton is enhanced and supported. Property owners invest in their properties leading to property assessment increases.

**Environmental Stewardship**

- Financial incentive programs support residential intensification and the reuse of existing building stock and infrastructure.

**Healthy Community**

- Partnerships are promoted.

**APPENDICES / SCHEDULES**

Appendix “A” to Report PED11161 - Terms and Conditions of the HDMRPIP

Appendix “B” to Report PED11161 - Location Map

HM/dkm
HAMILTON DOWNTOWN MULTI RESIDENTIAL PROPERTY INVESTMENT PROGRAM

PROGRAM DESCRIPTION
The Hamilton Downtown Multi Residential Property Investment Program (the “Program”) was developed as a catalyst for stimulating residential development within Downtown Hamilton as defined by the Downtown Hamilton Community Improvement Project Area. The Program is intended to provide financial assistance for projects that result in predominantly residential development including converting existing commercial space into multiple dwelling units; renovations to existing multiple dwelling units; the creation of a new multiple dwelling on vacant land; together with uses accessory to the residential development. A multiple dwelling must contain at least three (3) dwelling units.

Acting as a lender, the City provides financial support for the Program and ensures that development arising from the Program within the Downtown is consistent with the policies, principles and design themes contained within the Downtown Hamilton Secondary Plan, relevant Urban Design Guidelines, the Zoning By-law as well as any other City Council approved policy/regulation.

TERMS OF THE PROGRAM
1. The maximum Loan term is five (5) years and six (6) months (subject to prior termination on default) from the date of the final advance exclusive of holdback. No extension or renewal shall be granted.

2. The Loan interest rate will be at 0% interest for the first five (5) years. For the last six (6) months of the Loan, interest shall be payable on the principal outstanding at the then prevailing rate established by Council for interest on tax arrears, such interest to be calculated and payable monthly, not in advance.

3. The Loan will be secured by a second mortgage upon the lands to be developed (the “Property”) upon first advance of funds.

4. Interest on arrears will be 15% per annum or such tax arrears interest rate as may be established by Council from time to time.

5. Principal is repayable in annual amounts of ten percent (10%), in 12 equal monthly payments, of the original loan amount. Monthly principal payments will continue during the last six (6) months of the repayment...
term with interest calculated and payable monthly, not in advance. Payments will commence one year following the final advance, exclusive of any required holdback. The balance outstanding will be paid by a balloon payment at the end of the five (5) year and six (6) month term. Monthly principal payments will continue during the last six (6) months of the repayment term with interest calculated and payable monthly, not in advance, if not paid earlier.

6. The loan will mature at the end of the five (5) year and six (6) month term at which time the principal balance outstanding will be paid in full plus any outstanding interest.

7. The loan may be prepaid at any time without notice, bonus or penalty.

8. The maximum loan amount is 25% of the Cost to Construct Budget prepared by an architect/engineer and addressed to the City of Hamilton and dated within 6 months of the date of application. For loans $1 million or above, a letter addressed to the City from a third-party quantity surveyor approving the Cost to Construct Budget must accompany the application. For loans under $1 million the appraisal submitted at time of application is to be addressed to the City of Hamilton and include replacement cost. All of the aforementioned documents are at the expense of the applicant.

9. Approval of the loan application is at the absolute discretion of the City and subject to the availability of funds.

10. The City will periodically review the terms and the duration of the Program and make appropriate revisions as per the direction of City Council.

11. The City may request such security as may be required to secure a commercial loan, including the following: title insurance in lieu of a survey if appropriate; loan agreement; and/or personal property security; and/or personal guarantee’s; and/or lien on the property to be improved; and/or collateral mortgage/charge registered on the property to be improved; and/or letter of credit in lieu of a second mortgage charge on the property (subject to City’s minimum equity requirements); and/or such other security which may be appropriate or available in the circumstance. In the instance where a personal guarantee is required a personal net-worth statement may also be required.

12. Redevelopment/development will commence no longer than 2 years following City Council’s approval of the loan commitment. The 2 year period may be extended by City Council at its absolute discretion.

13. The City’s funding will be advanced in 3 stages, upon completion of 60%, 80% and substantial completion of the project. Upon proof satisfactory to the City that the proposed development is 60% complete based upon the cost of construction and that equity and/or financing required to that stage of completion has been injected into the development then the approved City funds will be made available and released proportionately based upon the approved source of funds (equity/financing/City funds).
The calculation of the proportion to be advanced will reflect that the first 60% of funding is from non-City sources. Advances will be made in conjunction with first mortgage financing advances or after proof of equity injections.

14. Owner applicants shall have no less than 25% equity based upon the appraised value of the property upon completion. The appraisal must be addressed to the City of Hamilton, dated within 6 months of the date of the application, include replacement cost, be prepared by an accredited member of the Appraisal Institute of Canada (AIC) and, must accompany the application. The cost of the appraisal is at the total expense of the owner.

15. An application fee of $260.00 must accompany the application. An administration fee of $500.00 per unit for developments under 50 units; $400.00 per unit for developments between 50 and 100 units and $300.00 per unit for projects over 100 units is charged to the borrower and is eligible to be paid out of the loan proceeds. The administration fees will be paid out of the first loan advance that flows from the City of Hamilton. All fees will be authorized through a user-fee by-law passed by City Council. The rate of the fees may be changed from time to time as approved by City Council.

16. All taxes as billed must be paid current and in good standing throughout the development process.

17. Eligible existing buildings/vacant properties must be located in the Downtown Hamilton Community Improvement Project Area. Vacant lands include properties developed as parking lots.

18. Site Concept Plan drawings in a form acceptable to the City must accompany the application.

19. Advances are made by the City, upon proof by a third-party quantity surveyor for loans $1 million or above confirming the value of the work completed. Loans under $1 million require an architect/engineer to confirm the value of the work completed.

20. All costs associated with the conversion or renovations are to be borne by the applicant including construction, design, application and administration fees, appraisals, professional services, inspections, legal and registration fees. The City retains the right to assess the reasonableness of costs and which costs are eligible under the terms of the Program.

21. In the event of the sale, conveyance, transfer or entering into of any agreement of sale or transfer of the title of the Property then at the option of the City all monies secured by the mortgage to the City shall forthwith become due and payable. The City shall have absolute discretion in requiring repayment of the loan secured by the mortgage.

22. Change of Corporate Control

Where the Owner is a corporation the Owner covenants and agrees that in the event that:
Appendix ‘A’ to Report PED11161

a) the Owner fails to supply the City, in a form satisfactory to the City such information relating to the ownership of its shares as the City may from time to time require: or

b) without the written consent of the City first had and obtained:

i) the Owner issues or redeems any of its shares or transfers any of its shares;

ii) there is a sale or sales of the shares of the Owner which result in the transfer of the legal or beneficial interest of any of the shares of the Owner; or

iii) the Owner amalgamates, merges or consolidates with any other corporation

and the result of any of the foregoing is a change in the effective control of the majority of the voting shares of the Owner, or the requested information is not provided, then all monies secured by the mortgage together with accrued interest thereon shall forthwith become due and payable at the option of the City and the City’s powers of sale hereby given and all other remedies for enforcement shall be exercisable.

23. Upon sale of individual condominium units, the City will be repaid upon closing 25% of the sale price of the unit until the total loan amount has been paid in full.

24. The proposed development must conform to the City of Hamilton Official Plan, the Downtown Hamilton Secondary Plan, relevant Urban Design Guidelines and the Zoning By-law, as well as any other City Council approved policy/regulation.

25. The City of Hamilton will require specific insurance terms to be met to protect the City’s interest.

26. Deadlines for the submission and approval of building permits and construction start dates are established following a report to Council for approved applications.

27. Whether or not an Applicant satisfies the requirements of the Program, the City may reject any application received from an applicant where, in the opinion of Council, the commercial relationship between the City and the Applicant has been impaired by, but not limited to, the applicant being involved in litigation with the City. Applicants are individuals; corporate entities and individuals behind the corporation (Officers/Directors/Shareholders).
Appendix 'B' to Report PED11161

Location Map

File Name/Number: 68_GeorgeSt
Date: August 29, 2011
Appendix "A" Scale: N.T.S.
Planner/Technician: HM/KA

Subject Property

68 George Street

Ward 2 Key Map N.T.S.