CITY OF HAMILTON

PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
Downtown Renewal Division

Report to: Chairman and Members
Planning and Economic Development Committee
Submitted by: Lee Ann Coveyduck
General Manager

Date: September 2, 2005
File: EZ05/01
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SUBJECT: Enterprise Zone Municipal Realty Tax Incentive Grant Program – Application EZ05/01, 112 King Street East (PED05111) (Ward 2)

RECOMMENDATION:

That Application EZ05/01 for the proposed restoration, conversion and adaptive re-use of 80,000 square feet to residential condominium units and 160,000 square feet to a five star hotel and office space in the building known as the Royal Connaught, be approved as an eligible project under the “Enterprise Zone Municipal Realty Tax Incentive Grant Program”.

Lee Ann Coveyduck
General Manager
Planning and Economic Development Department

EXECUTIVE SUMMARY:

An application has been made under the “Enterprise Zone Municipal Realty Tax Incentive Grant Program” for a property located at 112 King Street East (see Appendix “A” to Report PED05111).

Under the EZ Program, a nine year grant is available that does not exceed the increase in municipal realty taxes as a direct result of the development/redevelopment of the land and/or building. The grant does not exceed 100 percent of the municipal realty tax increase during the first five years, 80 percent in year six, 60 percent in year seven, 40 percent in year eight and 20 percent in year nine.
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Further, developers of residential condominium units have the ability to pass the tax grant on to first condominium purchasers. If the developer chooses to exercise this option the tax grant program is reduced from nine (9) years to five (5) years at 100%.

The applicant, Grand Connaught Development Group Inc., is proposing to convert and restore the former 12 storey hotel and office building at 112 King Street East into 80,000 square feet of residential condominium units and 160,000 square feet to a five star hotel and efficiency suites with the ground floor to condominium commercial and retail space. The proposed development meets the criteria and requirements of the EZ Program and is consistent with the designations and policy direction of Downtown Hamilton Secondary Plan.

Through a Request for Applications in the spring of 2005, the Grand Connaught Development Group Inc. has also applied under the terms of the Hamilton Downtown Residential Loan Program for a loan of $1.6 million for the residential condominium component.

This is a very positive signal for downtown troubled properties that the economic viability of new private sector residential and commercial development in Downtown Hamilton has been enhanced through the City’s past and current programming initiatives.

BACKGROUND:

On August 22, 2001, Council approved an amendment to the Downtown Hamilton Community Improvement Plan which introduced the “Enterprise Zone – Municipal Realty Tax Incentive Grant Program” (“EZ Program”). Since that time, a number of program refinements have been approved by Council. The EZ Program applies to properties within the Downtown Hamilton Community Improvement Project Area. Under the terms of the EZ Program, a nine-year grant is available that does not exceed the increase in municipal realty taxes as a direct result of the development/redevelopment of the land and/or building. The grant does not exceed 100 percent of the municipal realty tax increase during the first five (5) years, 80% in year six (6), 60% in year seven (7), 40% in year eight (8) and 20% in year nine (9).

One of the program enhancements that was approved since the original program was introduced is the ability of a developer of residential condominium units to pass the tax grant on to first-time residential condominium purchasers only. If the developer chooses to exercise this option the tax grant program is reduced from nine (9) years to five (5) years at 100%. Such assignment is subject to an additional administration fee of $308 per unit or such fee approved by City Council. Said fee will be deducted from the first grant payment to the residential condominium purchaser.

As applications have been received under the EZ Program since 2002, the Downtown Renewal Division has sought Council’s initial approval of the proposed developments. Once the projects have been completed and reassessment by the Municipal Property Assessment Corporation (MPAC) has occurred, staff submits a
final report relating to the proposal recommending a program of tax grants as contemplated under the terms of the EZ Program.

Application EZ05/01 for the property at 112 King Street East is for the conversion and adaptive re-use of the former Royal Connaught Hotel to 80,000 square feet of residential condominium units and 160,000 square feet to a five star hotel and efficiency suites with the ground floor remaining as commercial and retail space. The building is listed in Hamilton’s inventory of Buildings of Architectural and/or Historical Interest, and is also on "LACAC’s list of Landmark Buildings in the Downtown Core. The construction cost is in excess of $30,000,000 and has been supported by construction cost estimates. The subject property is within the Enterprise Zone boundary outlined in the Downtown Hamilton Community Improvement Plan.

The Grand Connaught Development Group Inc. has also applied under the terms of the Hamilton Downtown Residential Loan Program. The Hamilton Downtown Residential Loan Program provides for a $20 per square foot of habitable floor space interest free loan for a term of five (5) years. The details of the Residential Loan application will be subject to a subsequent report to City Council.

The proposed development is consistent with the designation, intent and policy direction of the Downtown Hamilton Secondary Plan.

**ANALYSIS OF ALTERNATIVES**

The Enterprise Zone Municipal Realty Tax Incentive Grant Program enhances the financial viability of the commercial, 5-star hotel and residential condominium development at 112 King Street East. In the event that the project was not to be considered for the program, the development would likely not proceed.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

**Financing** - Report PED05111 recommends that 112 King Street East be approved as an eligible project under the Enterprise Zone Municipal Realty Tax Incentive Grant Program. The recommendation also authorizes staff to continue processing this application, and as such, there are no current financial implications. Final approval by City Council will be the subject of a further staff report.

**Staffing** - Administration of this application under the terms of the program can be accommodated by staff of the Downtown Renewal Division and the Corporate Services Department.

**Legal** – Upon Council approval of the staff recommendation and reassessment of the property by the Municipal Property Assessment Corporation (MPAC), a Letter of
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Understanding between the City and the applicant will be negotiated and executed in a form satisfactory to the Director of Downtown Renewal and Corporate Counsel. Appendix "B" to Report PED05111 outlines the issues to be addressed within the Letter of Understanding.

POLICIES AFFECTING PROPOSAL:

Report PED05111 relates to the processing of an application under the Enterprise Zone Municipal Realty Tax Incentive Grant Program which is contained within the City's Provincialy-approved Downtown Hamilton Community Improvement Plan.

CONSULTATION WITH RELEVANT DEPARTMENTS/AGENCIES:

Comments from the Taxation as well as the Legal Services and Corporate Counsel Divisions of the Corporate Services Department and the Heritage and Urban Design Section of the Development and Real Estate Division of the Planning and Economic Development Department have been incorporated within Report PED05111. The recommendation within this report is a form satisfactory to Corporate Counsel.

CITY STRATEGIC COMMITMENT:

Report PED05111 relates to an application received under the Enterprise Zone Municipal Realty Tax Incentive Grant Program which promotes the rehabilitation and redevelopment opportunities in Downtown Hamilton in tandem with the policies and priorities of the Downtown Hamilton Secondary Plan. The program makes financial assistance available for the sustainable use of existing services and infrastructure. This program is intended to make the Downtown an economically healthier and more vibrant people-oriented location. This initiative is consistent with Council's strategy of growing the local economy and investing in neighbourhoods.

JEG:GM ʃm. m. ʃ
Attachs. (2)
A Letter of Understanding between the City and the applicant regarding the application will address the following:

- Application is in respect of proposed development at 112 King Street East.
- Applicant is the Grand Connaught Development Group Inc., the registered owner of the property.
- Eligible improvement work is the conversion and adaptive re-use of the former Royal Connaught Hotel to 80,000 square feet of residential condominium units and 160,000 square feet to a five star hotel and efficiency suites with the ground floor to condominium commercial and retail space at an estimated cost of $30,000,000.
- Application is based on current assessment, as of the date the application was received complete.
- For the residential units registered and sold as condominiums, the grant will reduce to a five (5) year 100% municipal tax grant assignable/payable to the first-time residential condominium purchaser only. Such assignment is subject to an additional administration fee of $308 per unit or such fee approved by City Council. Said fee will be deducted from the first grant payment to the residential condominium purchaser.
- Property taxes must be paid current, to receive final approval by City Council.
- Grant to be calculated based upon the recorded assessed value as above.
- Grant comprises the municipal portion of the tax increase attributable to the assessment increase resulting from the project, in accordance with and subject to the provisions of the Enterprise Zone Municipal Tax Incentive Grant Program. All other provisions of the program shall also be referenced within the Letter of Understanding.
- Applicant to acknowledge that although the project may be recognized by Council as an acceptable, eligible project, the award and the final amount of a grant (if any) is solely within Council’s discretion (except award may not exceed maximum amount determined within program parameters) and no grant is available unless and to the extent the assessment and municipal taxes increase, as required by the program.
- Any other matters deemed appropriate by the City of Hamilton.