



CITY OF HAMILTON

PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT Economic Development Division

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: WARD 2
COMMITTEE DATE: July 9, 2012	
SUBJECT/REPORT NO: Hamilton Downtown Multi-Residential Property Investment Program – 40 Bay Street South HDMRPIP12/02 (PED12113) (Ward 2)	
SUBMITTED BY: Tim McCabe General Manager Planning and Economic Development Department	PREPARED BY: Hazel Milsome 905-546-2424 Ext. 2755
SIGNATURE:	

RECOMMENDATIONS:

- a) That a conditional loan commitment totalling \$8,896,486 for Hamilton 132 Main Street Inc., (Darko Vranich) the registered owner of the property at 40 Bay Street South, 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 40 Bay Street South (the “Property”) was submitted by Hamilton 132 Main Street Inc. (Darko Vranich), the registered owner of the property. The applicant is proposing to develop a Homewood Suites Hotel on the former HMP car dealership property that is presently vacant. The Homewood Suites Hotel will be 15 storeys in height, have 182 suites, 1,823 square feet of commercial space and 110 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 terms of the Program dictate that the maximum loan term is five years and six months from the date of the final advance, exclusive of holdback. As per the terms of the Program, when the City’s loan is \$5 million or more, City Council, at its sole discretion, has the option at the time of initially approving a loan commitment, of extending the maximum loan term to 15 years, charging interest after the first five years, at the five-year borrowing rate for the City (as established by the City’s Underwriter) plus 1% to cover administration costs (interest charged to be re-established every five years).

The applicant requested consideration of a loan in the amount of \$8,869,486 representing 25% of the cost to construct budget for the residential portion of the development. The applicant also requested consideration of a 15 year loan term as it would not only make a substantial impact on the viability of the project at 40 Bay Street South, it would also contribute enormously to the financial stability of the applicant’s overall efforts in the Downtown. The applicant also proposes to develop two condominium towers on the property municipally known as 150 Main Street West. Notwithstanding the applicant’s request for a 15 year loan term, senior staff from Corporate Services and Planning and Economic Development, are recommending a five year loan term which will result in monies being available sooner for recycling into new loans for other Downtown projects. Staff also considered capping the loan at \$5 million, however agreed that changing the rules after receiving an application would undermine the integrity of the Program. The applicant has agreed to a five year loan term.

Further information on existing and anticipated loans under the Program will be forwarded in a separate report to Committee and Council in August. Staff will be recommending future applications under the HDMRPIP be capped at \$5 million. The August report will also have recommendations related to a concern for concentration of

loan allocations to hotel uses at one time as well as total allocations to one developer over multiple projects.

The proposed Homewood Suites Hotel consists of 182 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 Homewood Suites Hotel, as confirmed by a quantity surveyor, is \$35,477,944. Therefore, under the terms of the Program, the project qualifies for the maximum loan amount of \$8,869,486.

Alternatives for Consideration – See Page 8.

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 PED12113.

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. As of June 22, 2012, \$6,247,886 is outstanding in loans that are in various stages of repayment or redevelopment, and \$3,563,966 is committed but has not been advanced, to date. Therefore, based on a maximum of \$20 million in loans being out at one time, there is the potential of an additional \$10,188,148 in future loans being approved by City Council and advanced. Additionally, based on a limit of \$26 million in loan commitments, there is the potential of \$16,188,148 in loan commitments being approved by City Council. *Therefore the approval of Report PED12113 will result in the potential of \$1,318,662 in future loans being approved by City Council and advanced and, \$7,318,662 in loan commitments being approved by City Council.*

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. The estimated cost to fund a \$5 million loan based on 2.5% interest over a five year loan term is \$552,160.38.

Total development costs are estimated at \$35,740,000 and it is projected that the proposed redevelopment will increase the current value assessment (CVA) of the property from its current \$760,000 to approximately \$13,000,000. This will increase total annual property taxes generated by the property. The municipal share of the annual property tax increase (municipal tax increment) will be approximately \$291,873.32.

As per the terms of the HDMRPIP, the applicant paid an application fee of \$265 at the time of application and, an administration cost of \$300 per unit will be charged to the applicant at the first advance of the loan (at 60% completion). Therefore the applicant will pay a total of \$54,865 in administration fees.

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, at which time 60% of the loan amount will be advanced. Additional advances will be made at 80% and 100%. 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 latest amendment giving City Council the ability to extend the maximum loan term to 15 years, charging interest after the first five years, at the five year borrowing rate for the City (as established by the City's Underwriter) plus 1% to cover administration costs (interest charged to be re-established every five years). The loan term could be extended only

when a significant “heritage” property is being conserved, or when the City’s loan is \$5,000,000 a more.

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 to a maximum of 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. Each year for four years, 10% of the loan amount is repayable in monthly payments. 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 PED12113 relates to the processing of an application under the HDMRPIP which is contained within the Downtown and Community Renewal Community Improvement Plan.

The site is located within the D3 Zone (Zoning By-law 05-200). The applicant has received Conditional Site Plan approval and is working towards addressing the conditions in order to obtain a Building Permit. A Building Permit for the foundation has been issued.

The development is consistent with the Provincial Policy Statement and conforms to the Places to Grow Plan. Jobs created by the development (approximately 60 people will be employed by the Homewood Suites Hotel and an additional 15-20 people will be employed by the restaurant and retail space), will assist in achieving the density target of 250 residents and jobs per hectare in the Downtown Urban Growth Centre.

RELEVANT CONSULTATION

Staff from the Finance and Administration Division, Corporate Services Department and the Legal Services Division, City Manager’s Office was consulted, and the advice received is incorporated into Report PED12113.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

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 and Financial Planning and Policy. The committee met on May 29, 2012, June 14, 2012 and June 19, 2012 for the purpose of reviewing the details of the development of the Homewood 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 which included: results from a credit check; details of cash flow through construction budget; project cash flow for five years for the parent corporation; financial statements for the applicant (Hamilton 132 Main Street Inc.) and the parent corporation (Vrancor Hotels Group Inc.); details on the first mortgage; a personal net-worth statement of the shareholder of the parent company; a combined funding plan for 40 Bay Street South; as well as two other projects proposed by the developer in the Downtown Core. Staff also received copies of appraisals of major properties that compose the net-worth-statement and obtained financial statements of related corporations. Upon review of the documentation staff is satisfied that the applicant has the financial capacity and business track record to complete the project and repay the loan.

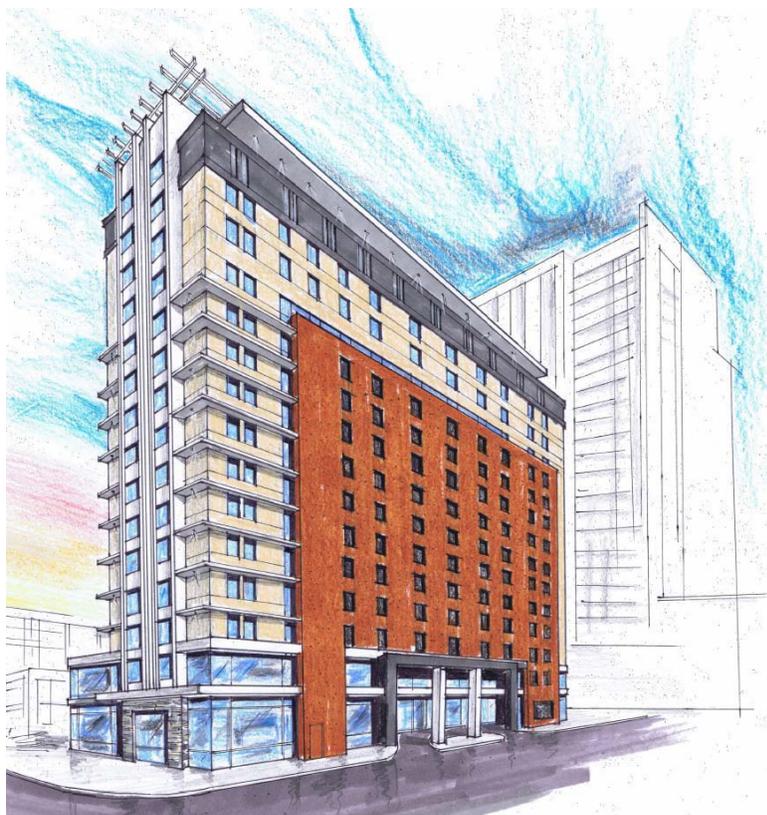
Staff also undertook due diligence with respect to undertaking a search to determine if the applicant or share-holder of the corporation is in litigation with the City of Hamilton; if property taxes were paid current and, whether there were any Building Code, Fire Code or Property Standard violations outstanding on the property. There were no issues with the aforementioned.

Development costs are estimated at \$35,740,000 and it is projected that the proposed redevelopment will increase the current value assessment (CVA) of the property from its current \$760,000 to approximately \$13,000,000. This will increase total annual property taxes generated by the property. The municipal share of the annual property tax increase (municipal tax increment) will be approximately \$291,873.32.

The applicant has also applied for a grant under the Hamilton Downtown Property Improvement Grant Program for the development of the Homewood Suites Hotel. Report PED12134, recommending approval of the loan application, is being submitted concurrently to Committee and Council for consideration.

The Homewood Suites Hotel will be fifteen storeys in height, with one level of underground parking and additional surface parking. The cost to construct the project is estimated at \$35,740,000. The cost to construct the residential component is \$35,477,944. The non-residential space consists of 1,823 square feet for future commercial use. Amenities in the hotel for the exclusive use by the hotel users include a swimming pool and fitness centre.

The development is consistent with the Provincial Policy Statement and conforms to the Places to Grow Plan. Jobs created by the development (approximately 60 people will be employed by the Homewood Suites Hotel by Hilton and an additional 15-20 people will be employed by the restaurant and retail space), will assist in achieving the density target of 250 residents and jobs per hectare in the Downtown Urban Growth Centre.



40 Bay Street South – Post-Development

40 Bay Street South post-development is shown in the photograph above. Appendix “B” to Report PED121113 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 PED12113. This decision has the potential to terminate or delay the development of the Homewood Suites Hotel as well as other development projects proposed by the applicant for condominium towers in the Downtown Core. This alternative is not recommended.

Financial:

A loan totalling \$8,869,486 would not be advanced.

Staffing: Not applicable

Legal: Not applicable

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

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 PED12113 - Terms of the HDMRPIP
Appendix “B” to Report PED12113 - Location Map

HM/dw:dkm