

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: March 20, 2013	
SUBJECT/REPORT NO: Hamilton Downtown Multi-Residential Property Investment Program (HDMRPIP) - 150 Main Street West (PED13047) (Ward 2)	
SUBMITTED BY: Tim McCabe General Manager Planning and Economic Development Department	PREPARED BY: Hazel Milsome (905) 546-2424 Ext. 2755
SIGNATURE:	

RECOMMENDATION

- (a) That a conditional loan commitment totalling \$5,000,000 for 150 Main West Holdings Inc. (Darko Vranich), the registered owner of the property at 150 Main Street West, be authorized and approved with the proviso that no more than \$18,000,000 is outstanding at one-time for all of the loans approved for Darko Vranich under the Hamilton Downtown Multi-Residential Property Investment Program (HDMRPIP) in accordance with the Program’s terms and conditions;
- (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-

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Residential Property Investment Program (HDMRPIP), as approved by City Council, are maintained.

EXECUTIVE SUMMARY

The Hamilton Downtown Multi-Residential Property Investment Program (HDMRPIP) application for the redevelopment of 150 Main Street West was submitted by 150 Main West Holdings Inc. (Darko Vranich), the registered owner of the property. The applicant proposes to develop 142 condominium units with commercial space at the first and second levels of the existing seven (7) storey former Revenue Canada building together with a five (5) storey addition. The lower level will be excavated to supply a six (6) storey combined underground and above ground parking garage.

The HDMRPIP offers a 0% interest loan for projects that result in predominantly residential development including converting existing commercial space into multiple dwelling units, renovations to existing multiple dwelling units and the creation of new multiple dwellings on vacant land. The maximum loan amount is 25% of the cost to construct budget to a maximum of \$5,000,000 per development. The maximum loan amount advanced under the Program to a single developer or related group is not to exceed \$18,000,000 at one time. City Council previously approved loan commitments to Darko Vranich under the HDMRPIP for 68 George Street and 40 Bay Street South that total \$13,639,143. Therefore, in accordance with the terms and conditions of the program, a balance of \$4,360,857 can be committed at this time. However, Darko Vranich will commence repayment for the loan advanced for 68 George Street in August 2013, therefore staff is recommending a total loan amount of \$5,000,000 be approved with the proviso that no more than \$18,000,000 is outstanding at one time for Darko Vranich.

The property at 150 Main Street West is a condominium project. Therefore, upon the 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.

Alternatives for Consideration – See Page 7

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

Financial: 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.

City Council, at its meeting held November 28, 2012, authorized an increase to the maximum loan amount that could be advanced at one time under the HDMRPIP from \$20,000,000 to \$35,000,000 (PED12220/FCS12090); maximized the loan amount per

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development to \$5,000,000 (*with City Council having the sole discretion to increase the maximum loan amount at the time of initially approving a loan*); limited the loan amount to a single developer or related group to \$18,000,000 at one time (*this is the term that affects the loan amount recommended for approval to Darko Vranich for 150 Main Street West*); and, limited the amount advanced for the development of all-suite hotels to \$18,000,000 at one time. At the same meeting, City Council also approved an additional \$200,000 for interest costs of the Program. Estimated interest costs for 150 Main Street West for 2013 is \$65,000 based on the construction schedule submitted by the applicant and when the loan would be advanced (first advance at 60% construction completion).

As of December 31, 2012, \$11,984,827 was outstanding in loans that are in various stages of repayment or redevelopment and \$4,746,333 is committed but has not been advanced, to date. Therefore, based on a maximum of \$35,000,000 in loans being out at one time, there is the potential of an additional \$18,268,840 in future loans being approved by City Council and advanced. Therefore, the approval of Report PED13047 will result in the potential of \$13,907,983 in future loans being approved by City Council and advanced.

Total development costs are estimated at \$48,630,000 and it is projected that the proposed redevelopment will increase the current value assessment (CVA) of the property from its current \$1,601,000 to approximately \$43,300,000. 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 \$510,446.03.

As per the terms of the HDMRPIP, the applicant paid an application fee of \$270 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 \$42,870 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.

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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 loan will also be secured by Vrancor Hotels Group Inc., as well as a personal guarantee by Darko Vranich. 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 are explained under the Financial Implications Section of Report PED13047.

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 (3) stages: upon completion of 60% of construction; 80% of construction; and, substantial completion of the project. Repayment of the loan commences one (1) year after final advance of the loan exclusive of any holdbacks. The property at 150 Main Street West is a condominium project; therefore upon the sale of individual condominium units, the City will be repaid 25% of the sale price of the unit upon closing, until the total loan amount has been paid in full.

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/LEGISLATED REQUIREMENTS

Report PED13047 relates to the processing of an application under the HDMRPIP which is contained within the Downtown and Community Renewal Community Improvement Plan.

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The proposed development received conditional site plan approval on October 25, 2012. A multiple dwelling, restaurant and retail are all permitted uses in the “D3 Downtown Mixed Use Zone” of Zoning By-law 05-200 applicable to the entire property.

The Downtown Hamilton Secondary Plan designates the south half of the property along Main Street as “Mixed Use” and the north half of the property along George Street as “Specialty Commercial”. These designations accommodate the mix of residential and commercial uses proposed by the development, with at-grade oriented restaurant and commercial uses envisioned along George Street. The adaptive reuse of the former Federal office building is also encouraged by the Secondary Plan.

Minor variances have been granted by the Committee of Adjustment to increase the permitted building height to 12 storeys, to permit access to 150 Main Street West from the adjacent lands at 40 Bay Street South (for consolidated parking structure access with Hilton Homewood Suites), and to revise the maximum permitted building setbacks from Main Street West, Caroline Street South and George Street. The approved variances are not inconsistent with the general intent and purpose of the Downtown Hamilton Secondary Plan and Zoning By-law 05-200.

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 PED13047.

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 comprised of staff from Urban Renewal, Development Planning, Community Planning and Design and Financial Planning and Policy. The Committee met on January 14, 2012 and February 4, 2012 for the purpose of reviewing the details of the development of the property at 150 Main Street West 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. 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.

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Staff also undertook due diligence with respect to undertaking a search to determine if the applicant or shareholder 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 \$48,630,000 and it is projected that the proposed redevelopment will increase the current value assessment (CVA) of the property from its current \$1,601,000 to approximately \$43,300,000. 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 \$510,446.03.

The applicant has also applied for a grant under the Hamilton Downtown Property Improvement Grant Program for the development of the property at 150 Main Street West. Report PED13048, recommending approval of the loan application, is being submitted concurrently to Committee and Council for consideration.

The development is consistent with the Provincial Policy Statement and conforms to the Places to Grow Plan. Residents living in the condominiums will assist in achieving the density target of 250 residents and jobs per hectare in the Downtown Urban Growth Centre.

Appendix "B" to Report PED13047 identifies the location of the property within the Downtown Hamilton Community Improvement Project Area.



Elevation of 150 Main Street West from Caroline/Main Street (also showing future second tower)



Elevation of 150 Main Street West from George/Caroline Street (also showing future second tower and Homewood Suites Hotel)

Appendix “B” to Report PED13047 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)

Decline the Loan

Declining a loan could terminate or delay the project. This alternative is not recommended.

Approve a Reduced Amount

Council may decide to approve a reduced loan amount. This would compromise the intent of the HDMRPIP, as well as undermine downtown renewal efforts in general. This alternative is not recommended.

Financial: A loan totalling approximately \$5,000,000 (*subject to no more than \$18,000,000 in total being advanced to Darko Vranich at one-time*) over a five (5) year period would not be issued.

Staffing: Not applicable.

Legal: Not applicable.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

- 1.1 Continue to grow the non-residential tax base.
- 1.3 Promote economic opportunities with a focus on Hamilton's downtown core, all downtown areas and waterfronts.
- 1.5 Support the development and implementation of neighbourhood and City wide strategies that will improve the health and well-being of residents.
- 1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Service

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

- 2.3 Enhance customer service satisfaction.

APPENDICES / SCHEDULES

Appendix "A" to Report PED13047 - Location Map

HM/dkm