

DATE OF MEETING December 21, 2020

AUTHORED BY BILL CORSAN, DIRECTOR, COMMUNITY DEVELOPMENT

SUBJECT 100 GORDON STREET – REVISED AGREEMENTS

OVERVIEW

Purpose of Report

To provide Council with an update on construction activity at 100 Gordon Street and to obtain approval to remove the Option to Purchase, update the Revitalization Tax Exemption Agreement and revise the parking agreement.

Recommendation

That Council direct Staff to:

1. Remove the Option to Purchase registered in favour of the City of Nanaimo from 100 Gordon Street;
2. Update the Revitalization Tax Exemption Agreement for 100 Gordon Street with PEG Companies; and
3. Enter into a parking agreement with PEG Companies – Courtyard by Marriott Hotel to rent reserved parking stalls for use by hotel guests within the City-owned parkade located within the Conference Center Parkade at 101 Gordon Street.

BACKGROUND

100 Gordon Street was a City-owned property in downtown Nanaimo located directly across the street from the Vancouver Island Conference Centre. Bringing a compatible hotel to this property has been the plan since development of the conference centre began.

The City of Nanaimo issued a Request for Offers for 100 Gordon Street (the “Property”). Proponents were asked to provide background information on their proposed project, timing, and the price they were willing to pay for the Property. Offers were required to be submitted by 2017-JAN-27. Six proposals were received by the deadline.

The original development proposal by PEG Companies (PEG) included a four-star, Courtyard by Marriott, six-storey hotel with 118 rooms. The hotel includes an indoor pool, fitness area, meeting room, and indoor/outdoor restaurant (the “Hotel”). During their due diligence period, PEG amended their proposal and increased the number of rooms from 118 to 172, and from six storeys to nine storeys.

At the 2017-JUN-19 Council meeting, ‘Approval in Principle’ was granted by Council for the disposition of the Property to PEG, and on 2017-DEC-07, the Property was transferred for \$750,000. The original start of construction for the Hotel was slated in the fall of 2019, with an opening in early 2022.

Snuneymuxw First Nation has partnered with PEG, taking an equity position in the Hotel project.

On 2020-JAN-29, a formal ground-breaking on the site occurred. Shortly after the ground breaking, the COVID-19 pandemic commenced in March 2020. The construction industry had to adjust their practices and procedures, which had an impact on the Hotel construction timeline.

Construction is now well underway with the general site works and concrete foundations near completion. In January 2021, the steel structure of the first four floors will be assembled on site.

Staff have set up a web camera on the roof of the Port Theatre to allow the public to monitor construction progress for the Hotel project.

DISCUSSION

As part of the original transfer agreement, PEG signed an Option to Purchase in favour of the City requiring PEG to commence construction in a timely manner. The transfer agreement also included the City issuing a 10-year tax exemption agreement to PEG and the use of 30 spaces in the Convention Centre Parkade (101 Gordon Street) for hotel guests.

Due to the project delays, PEG has requested the three agreements be updated and amended. Each amendment is described in detail below.

Removal of Option to Purchase

As part of the Expression of Interest, proponents were required to commit to commencing construction in a timely manner. An Option to Purchase Agreement required the developer to spend \$1,000,000 in physical ground works by 2019-DEC-07. Should that date not be met, the City has the option to repurchase the property for \$750,000.

Staff have received supporting documentation showing that PEG has surpassed the \$1,000,000 threshold required under the Option to Purchase.

Council is now in a position to discharge the Option to Purchase. If approved by Council, Staff will instruct the City's solicitor to remove the Option to Purchase from the Property's title.

Update to the Revitalization Tax Exemption Agreement

The Expression of Interest identified the City's Hotel Revitalization Tax Exemption Program (RTE Program) as an incentive to potential developers. The objectives of the RTE program are to:

- encourage new hotel and motel investment in the city of Nanaimo;
- promote a higher standard of overnight accommodations and enrich the visitor's experience while staying in the city of Nanaimo; and
- generally reinforce the City's commitment to the long-term development of the tourism industry.

On 2017-DEC-08, Council approval was received granting PEG a 10-year Revitalization Tax Exemption Agreement ("RTE Agreement") for the Hotel under the "Revitalization Tax Exemption Bylaw 2011 No. 7143".

PEG will not be able to meet the original deadline for the official opening date and occupancy permit date of 2020-DEC-31. An update to the RTE Agreement, Attachment B, is being sought by PEG to amend the following key terms:

- The Project must be officially opened and available for use as a 172-room hotel, and for no other use, by no later than 2022-OCT-31.
- Terms of Tax Exemption: Provided the requirements of the RTE Agreement are met, the tax exemption shall be for 10 years as of the date of the occupancy permit granted, but no later than 2022-OCT-31.

Council's approval for a 10-year tax exemption is valued at \$257,408 per annum for the Project.

Should Staff receive Council approval, Staff will prepare an update to the RTE Agreement.

Parkade Use Agreement

As part of the original Hotel Agreement, the City approved the use of the City-owned parkade, located within the Conference Centre Parkade at 101 Gordon Street, for hotel guests. PEG has asked that the agreement be amended to ensure the term is consistent with the term of financing.

Key Terms of Agreement:

- Number of reserved parking stalls: 30
- Term: 20 years commencing on the date the occupancy permit granted for 100 Gordon Street.
- Rent: \$9.00 per day (\$197,100 per annum to be billed in the amount of \$16,425 monthly plus GST). This rate may be changed from time to time by Council in accordance with the current Parking Bylaw rates for the City.
- Additional Rent: If additional parking is required, the Licensee may purchase prepaid tickets from the City for the use of its hotel guests at the current rate of \$9.00 per day.
- The hotel guests may park in the unreserved and available stalls at any of the City's parking garages: Harbourfront Centre Parkade, Gordon Street Parkade, and Vancouver Island Conference Centre Parkade.

The terms of this agreement are consistent with the terms granted to the Coast Bastion Hotel for reserved parking stalls within the Harbour Front and Conference Center Parkade.

Should Staff receive Council approval, Staff will have the attached Parkade Use Agreement, Attachment C, signed once the occupancy permit is issued.

OPTIONS

1. That Council direct Staff to:

1. remove the Option to Purchase registered in favour of the City of Nanaimo from 100 Gordon Street;
2. update the Revitalization Tax Exemption Agreement for 100 Gordon Street with PEG Companies; and
3. Enter into a parking agreement with PEG Companies – Courtyard by Marriott Hotel to rent reserved parking stalls for use by hotel guests within the City-owned parkade located within the Conference Center Parkade at 101 Gordon Street.

- Advantages: PEG has met it's obligations under the terms of the Option to Purchase and has provided supporting documentation showing that PEG has surpassed the \$1,000,000 threshold required under the Option to Purchase. Council is now in the position to remove the Option to Purchase. Providing an update to the dates within the RTE Agreement displays Council's commitment to the RTE program and the Hotel project. Entering into the parking agreement will be consistent with the terms established within the transfer agreement and Council's previous decisions.
- Disadvantages: None identified.
- Financial Implications: The Hotel is estimated to cost \$34 million to construct. The exemption from the municipal tax portion is estimated at \$257,408 per annum. There would be no impact to property tax revenues overall as the tax rate for the remaining properties in the assessment class would increase to absorb the exemption amount. By entering into the parking agreement with PEG, the City will start receiving \$197,100 per year in parking rent once the occupancy permit is granted.

2. That Council deny the:

1. removal of the Option to Purchase registered in favour of the City of Nanaimo from 100 Gordon Street;
2. update of the Revitalization Tax Exemption Agreement for 100 Gordon Street with PEG Companies; and
3. parking agreement with PEG Companies – Courtyard by Marriott Hotel to rent reserved parking stalls for use by hotel guests within the City-owned parkade located within the Conference Center Parkade at 101 Gordon Street.

- Advantages: None identified.
- Disadvantages: PEG has provided supporting documentation showing that PEG has surpassed the \$1,000,000 threshold required under the Option to Purchase. Not removing the Option to Purchase and not entering in a parking agreement with PEG would be inconsistent with Council's previous decisions and the terms established within the transfer agreement. Not providing an update to the dates within the RTE Agreement is inconsistent with Council's commitment to the RTE Program.
- Financial Implications: If Council approval to the parking agreement and an update to the RTE Agreement is not received, the City will not receive \$197,100 per year in parking rent. There would be no impact to property tax revenues, as tax rates for the assessment class would be adjusted to collect from all properties.]

SUMMARY POINTS

- 100 Gordon Street was a City-owned property in downtown Nanaimo located directly across the street from the Vancouver Island Conference Centre. Bringing a compatible hotel to this property has been a part of planning since development of the conference centre began.
- The City of Nanaimo issued a Request for Offers for 100 Gordon Street. Six proposals were received by the deadline of 2017-JAN-27.
- The development proposal by PEG Companies (PEG) included a four-star, Courtyard by Marriott, nine-storey hotel with 172 rooms. The hotel includes an indoor pool, fitness area, meeting room, and indoor/outdoor restaurant. On 2017-DEC-07, the Property was transferred to PEG for \$750,000.
- Snuneymuxw First Nation partnered with PEG on the Hotel project.
- On 2020-JAN-29, a formal ground-breaking on the site occurred. Shortly after the ground breaking, the COVID-19 pandemic commenced in March 2020. The construction industry had to adjust their practices and procedures, which had an impact on the Hotel timeline.
- Construction is now well underway with the general site works and concrete foundations near completion. In January 2021, the steel structure of the first four floors will be assembled on site.
- As part of the original transfer agreement, PEG signed an Option to Purchase in favour of the City requiring PEG to commence construction in a timely manner. The transfer agreement also included the City issuing a 10-year tax exemption agreement to PEG and the use of 30 spaces in the Conference Centre Parkade (101 Gordon Street) for hotel guests.
- Due to the project delays, PEG has requested the three agreements be updated and amended.
- Staff have received supporting documentation showing that PEG has surpassed the \$1,000,000 threshold required under the Option to Purchase.
- Council is now in a position to discharge the Option to Purchase. If approved by Council, Staff will instruct the City's solicitor to remove the Option to Purchase from the Property's title, update the dates within the Revitalization Tax Agreement, and have the attached Parkade Use Agreement signed once the occupancy permit is issued.

ATTACHMENTS:

ATTACHMENT A: Link to 100 Gordon Street Project Page
ATTACHMENT B: Update to Revitalization Tax Exemption Agreement
ATTACHMENT C: Parkade Use Agreement

Submitted by:

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