Minute No. 394
Report - Standing Policy Committee on Downtown Development - March 20, 2006

Item No. 1 **Union Bank Tower - 504 Main Street - Proposed Development Agreement Extension**
File FI-2.3(34)

COUNCIL DECISION:

Council concurred in the recommendation of the Standing Policy Committee on Downtown Development and adopted the following:

1. That the existing Offer to Purchase and Redevelop Lands agreement for the Union Bank Tower, the Union Bank Tower Annex, and the former Leland Hotel Lands dated December 2000, be amended to;

   A. Extend the term of the agreement by two (2) years at no cost to 4207106 Manitoba Ltd.; and to,

   B. Provide for the following new conditions:

      i. That the proponents will commission a new architectural study at their own cost of $75,000 plus taxes.
      ii. That the building façade restoration work will commence by July 31, 2006.
      iii. That the proponents will have a Building permit issued and construction commenced on the redevelopment of the Union Tower by April 30, 2007.
      iv. That all costs from this point forward be assumed by 4207106 Manitoba Ltd. and that the City will not be responsible for the reimbursement of any of these costs in the event that the property reverts back to the City following May 31, 2008.

2. That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council; and,

3. That the Proper Officers of the City do all things necessary to implement the intent of the foregoing.

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DECISION MAKING HISTORY:

Moved by Councillor Magnifico,

That the recommendation of the Standing Policy Committee on Downtown Development be adopted.

Carried

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On March 22, 2006, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Downtown Development and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On March 20, 2006, the Standing Policy Committee on Downtown Development concurred in the administrative recommendation, as amended, namely:

- That Recommendation No. 1. B. ii., be deleted in its entirety and the remaining items be renumbered.

  "That the proponents will have signed an Agreement with Parks Canada for a Federal Grant for façade restoration by June 30, 2006."

and submitted the matter to the Executive Policy Committee and Council.

On July 18, 2005, the Standing Policy Committee on Downtown Development received the administrative report, dated June 29, 2005, as information and directed that negotiations to relocate the Planning, Property and Development Department to the Union Bank Tower at 504 Main Street, not be proceeded with.

Re: UNION BANK TOWER- 504 MAIN STREET
PROPOSED DEVELOPMENT AGREEMENT EXTENSION

For submission to: The Standing Policy Committee on Downtown Development

Original report signed by: Director of Planning, Property and Development

Report date: March 7, 2006

Recommendation(s):

That City Council approve:

1. That the existing Offer to Purchase and Redevelop Lands agreement for the Union Bank Tower, the Union Bank Tower Annex, and the former Leland Hotel Lands dated December 2000 be amended to;
    a. extend the term of the agreement by two (2) years at no cost to 4207106 Manitoba Ltd.; and to,
    b. provide for the following new conditions:
        i. That the proponents will commission a new architectural study at their own cost of $75,000 plus taxes.
        ii. That the proponents will have signed an Agreement with Parks Canada for a Federal Grant for façade restoration by June 30, 2006.
        iii. That the building façade restoration work will commence by July 31, 2006.
        iv. That the proponents will have a Building permit issued and construction commenced on the redevelopment of the Union Tower by April 30, 2007.
        v. That all costs from this point forward be assumed by 4207106 Manitoba Ltd. and that the City will not be responsible for the reimbursement of any of these costs in the event that the property reverts back to the City following May 31, 2008.
2. That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council; and,
3. That the Proper Officers of the City do all things necessary to effect the intent of the foregoing.

REPORT SUMMARY

Key Issues:

- The Union Bank Tower is one of the most significant heritage properties in Western Canada.

- The owners, 4207106 Manitoba Ltd., have requested a two-year extension to their existing Offer to Purchase and Redevelop Lands agreement with the City of Winnipeg.
- The Offer to Purchase and Redevelop Lands agreement currently requires that; should the Purchaser fail to substantially redevelop, renovate and construct a minimum of 10,000 square feet of leased and occupied space within the Union Bank Tower and Annex Buildings within a period of 4 years from the date of closing, the Purchaser shall forthwith upon the City's request which may be made solely in the City's discretion, transfer and convey the land and buildings back to the City.
- As per the terms of the existing agreement, the Director of the Planning, Property, and Development Department had granted a one-year extension to the current owners. The owners have paid the City $46,400 as consideration of such extension.
- The owners have advised that they will not be able to achieve the terms of the agreement before May 31, 2006, at which time the City would be entitled to request the transfer and conveyance of the property back to the City.
- The owners have, and continue to work aggressively towards the successful redevelopment of the Union Bank Tower, The Union Bank Tower Annex, as well as the former Leland Hotel site.
- The site does present some significant challenges for its redevelopment including, the small building floor plate and site footprint, the size of the building, the lack of easily available parking, and the cost of heritage building restoration.
- The owners have applied, and their proposal has been accepted in principle by Parks Canada for a $1.3 M grant through the Commercial Heritage Property Incentive Fund towards heritage restoration of the exterior façade.
- The owners have committed to expend a further $75,000 on architectural work in order to secure the Federal grant by the end of June 2006.
- The owners plan to begin significant façade restoration in the summer of 2006.
- The owners have been aggressively marketing the property and are currently working with two prospective tenants that are interested in leasing space.
- The owners are also pursuing two significant projects for the complete redevelopment of the site.
- The Administration recommend the two-year extension based upon the capability of the ownership group, their demonstrated efforts to redevelop the property to date, as well as the knowledge that the project has significant policy implications in terms of heritage restoration and downtown revitalization. Furthermore, having the property revert back to the City would likely delay critical restoration of the heritage façade and continue to frustrate potential redevelopment solutions.

Implications of the Recommendation(s):

General implications:

	None
	For the organization overall and/or for other departments
X	**For the community and/or organizations external to the City of Winnipeg**
	Involves a multi-year contract

Comment(s):

Other potential developers have expressed some interest in the property if and when it becomes available but it is highly unlikely that a viable redevelopment proposal could be considered without significant public incentives.

Policy implications:

X	**No**
	Yes

Comment(s):

Environmental implications:

X	**No**
	Yes

Comment(s):

Human resources implications:

X	**No**
	Yes

Comment(s):

Financial implications:

X	**Within approved current and/or capital budget**
	Current and/or capital budget adjustment required

Comment(s):

REASON FOR THE REPORT:

As per the terms of the existing agreement, following May 31, 2006, the owners of the Union Bank Tower will be required to transfer and convey the buildings and the land back to the City should they not be able to satisfy the terms of the Offer to Purchase and Redevelop Lands agreement dated May 31, 2001.

This Report recommends a two-year extension of that agreement to the current owners. Any extension to the existing Offer to Purchase and Redevelop Lands agreement requires the approval of City Council.

HISTORY:

On June 9, 1995, the City acquired the Union Bank Tower Building (504 Main) and the Union Bank Annex (500 Main Street) through the Tax Sale process.

On July 18, 1995, the City of Winnipeg, recognizing the major significance of these buildings, listed the Union Bank Tower as a Grade I structure on the Building Conservation list, and the Union Bank Annex as a Grade II Structure.

In February of 1997, the City issued an Invitation for Offers for the property; No. 97-020.

On September 22, 1997, the Government of Canada recognized both the Exchange District and the Union Bank Building as National Historic Sites.

In March 1998, Council directed the Planning, Property & Development Dept. (PP&D) to immediately reassess the total space requirements for the City of Winnipeg as an organization, including space availability and rates within the campus area.

On April 21, 1998, the City authorized a team of consultants to proceed with the Strategic Facilities Master Plan to resolve several key issues relative to projects currently under consideration as well as consolidation strategies for restructured departments.

On September 29, 1998, Council adopted the Strategic Facilities Master Plan that included consolidation of the PP&D Dept. to Fort Garry Place.

On October 20, 1999, Council accepted the Offer to Purchase and Redevelop Lands agreement from the current owners, 4207106 Manitoba Ltd.

In December 2000, the CAO accepted the final terms and conditions of the Offer to Purchase and Redevelop Lands agreement.

In May 23, 2001, Council approved an Encroachment Fee Waiver and May 31, 2001 as the date of closing, possession, and adjustment.

On September 13, 2001, the owner made application for a Heritage Conservation Tax Credit (HCTC). The owners had proposed a $24M project (with $15M in eligible heritage expenditures) for the redevelopment of the Union Bank Tower, the Union Bank Annex, as well as the former Leland Hotel site.

On October 24, 2001 Council approved a $2M HCTC for the Project.

On March 15, 2004, following extensive review, an Expression of Interest was issued for the possible relocation of the PP&D Dept. Closing date was May 14, 2004. A total of 9 submissions were received.

By letter dated May 3, 2005, the Director of PP&D advised that pursuant to Clause 8 of the Purchase and Redevelop Lands agreement, that he was prepared to grant the Purchaser a one-year extension of the redevelopment period (until May 28, 2006), subject to a payment to the City in the amount of $46,400 as consideration of such extension.

On July 18, 2005, the Standing Policy Committee on Downtown Development received a Report entitled; *Relocation of the Planning, Property, and Development Department*. The Committee did not concur in the administrative recommendation, received the report as information, and directed that negotiations to relocate the Planning, Property, and Development Department to the Union Bank Tower at 504 Main Street not be proceeded with.

By letter to the Mayor dated February 7, 2006 (attached), 4207106 Manitoba Ltd. requested a two-year extension to the Offer to Purchase and Redevelop Lands agreement. Following discussions with city staff, on March 1, 2006, 4207106 Manitoba Ltd. sent another letter to the Mayor (attached) providing some updated performance dates for the proposed redevelopment of the Union Tower lands.

DISCUSSION:

The Union Tower Bank Building at 504 Main Street is one of the most important heritage buildings in western Canada. In May of 2001, the current owners, 4207106 Manitoba Ltd, purchased the property from the City for $232,000. By agreement the owner also had to repair the roof at an estimated cost of $122,000.

Despite significant efforts to lease and redevelop the property, it remains vacant and significant heritage restoration work has yet to begin. The owners have requested a further two-year extension to their existing Offer to Purchase and Redevelop Lands agreement. Although by the end of May 2006, the current owners will have had five (5) years to achieve the terms of the agreement, they have requested the additional time in order to secure Federal Heritage Grant funding, to accomplish significant heritage façade restoration, to secure tenants, and to redevelop the property.

The Offer to Purchase and Redevelop Lands agreement cannot be extended without Council approval. Clause 8 of the agreement commits the Purchaser to expend funds sufficient to redevelop, renovate, and construct a minimum of 10,000 square feet of leased and occupied space within the Union Bank Tower and Annex Buildings located on the Union Bank Tower lands within a period of 4 years[1] from the date of closing.

Should the Purchaser fail to substantially redevelop, renovate and construct a minimum of 10,000 square feet of leased and occupied space within the Union Bank Tower and Annex Buildings within a period of 4 years (by agreement 5 years) from the date of closing, the Purchaser shall forthwith upon the City's request which may be made solely in the City's discretion, transfer and convey the land and buildings back to the City.

Clause 8 (c) (i) and (ii) of the Agreement requires that if the Purchaser cannot substantially complete the redevelopment work within the 4 year period, the Director (being the Planning, Property, and Development Department) may grant at his sole and unfettered discretion the Purchaser an extension, not to exceed one year, subject to a payment for the extension as noted in Clause 8 (c) (ii).

Clause 8 (c) (ii) – a sum equal to twenty (20%) percent of the full purchase price ($232,000) in the event the redevelopment and lease of a maximum of 10,000 square feet of space within the Union Bank Tower and Annex Buildings, located on the Union Bank Tower lands, has not been commenced at any time during the redevelopment period.

In 2005, the owners paid $46,400 as consideration of such extension.

Assuming Non-Performance; what happens on May 31, 2006?
Clause 8 (a) would take effect as follows:

- The Purchaser shall transfer and convey all of the development lands and buildings located thereon clear of any and all encumbrances.
- The City shall repay without interest the full purchase price together with the final cost of the roof works, less the sum of the following adjustments:
    - Outstanding mortgage, taxes, levies, local improvements
    - An amount equal to 10% of the purchase price and the final cost of the roof representing liquidated damages
    - An amount incurred by the City in restoring the development lands and buildings
    - An amount equal to any commission that the City may have paid on the sale.
    - An amount equal to the GST
    - An amount equal to the land transfer tax if applicable.

[1] Per the terms of the agreement, the Director of the PP&D Dept. granted a one-year extension giving 4207106 Manitoba Ltd. ownership until May 31, 2006.

The purchase price paid by 4207106 Manitoba Ltd. was $232,000. By agreement, the owner repaired the roof at an estimated cost of $122,000. 4207106 Manitoba Ltd. also pay $6,690 in municipal taxes plus $450 in BIZ levies annually

The Administration acknowledges the efforts of the owners to date in attempting to have the property successfully redeveloped. The site does present some significant challenges for its redevelopment including, the small building floor plate and site footprint, the size of the building, the lack of easily available parking, and the significant cost of heritage building restoration. The redevelopment project as originally proposed in 2001 was estimated at $24 M with an estimated $15 M in eligible heritage costs. It is likely that construction costs have escalated significantly since that estimate.

The owners have applied, and their proposal has been accepted in principle by Parks Canada for a $1.3 M grant through the Commercial Heritage Property Incentive Fund towards heritage restoration of the exterior façade. Furthermore, the owners have been aggressively marketing the property and are currently working with two prospective tenants that are interested in leasing space. The owners are also pursuing two significant projects for the complete redevelopment of the site.

The Administration recommend the two-year extension based upon the capability of the ownership group, their demonstrated efforts to redevelop the property to-date, as well as the knowledge that the project has significant policy implications in terms of heritage restoration and downtown revitalization. Furthermore, having the property revert back to the City would likely delay critical restoration of the heritage façade and continue to frustrate potential redevelopment solutions.

Per their letter dated February 7, 2006, and pursuant to additional discussions held with the ownership group, in order to be granted a further two-year extension of the agreement, 4207106 Manitoba Ltd. will commit to the following:

1. A new architectural study at a cost of $75,000 plus taxes.
2. A signed Agreement with Parks Canada for the Federal Grant by June 30, 2006
3. Building façade restoration work commencement by July 31, 2006
4. Building permit issued and construction commenced by April 30, 2007

The Administration recommend that no fee to be charged in consideration of such extension. However, in consideration of such extension, 4207106 Manitoba Ltd. will be responsible for all costs from this point forward and the City will not be responsible for the reimbursement of any of these costs in the event that the property reverts back to the City following May 31, 2008. The Administration also recommend that the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council.

Financial Impact Statement **Date:** March 6, 2006

COMMENTS:

The recommendations in this report concern the extension of the existing Offer to Purchase and Redevelop Lands agreement for the Union Bank Tower, Annex, and former Leland Hotel lands. There are no financial implications associated with the recommendations.

"Original signed by"
Mike McGinn, CA
Manager of Finance

IN PREPARING THIS REPORT, THERE WAS CONSULTATION WITH AND CONCURRENCE BY: LEGAL SERVICES DIVISION

THIS REPORT SUBMITTED BY:

Planning, Property and Development Department
Division: Office of the Director
Prepared by: Jim Paterson