

Subject: Application by HAC OTTAWA AIRPORT, LP for an Ottawa International Airport Community Improvement Plan grant for 1085 Airport Parkway Private

File Number: ACS2023-PRE-EDP-0013

**Report to Finance and Corporate Services Committee on 4 April 2023
and Council 12 April 2023**

Submitted on March 20, 2023 by David Wise, Director, Economic Development and Long Range Planning, Planning, Real Estate and Economic Development Department

Contact Person: Chris Cope, Economic Development Officer, Economic Development and Long Range Planning, Planning

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Ward: Citywide

Objet : Demande de subvention déposée par HAC OTTAWA AIRPORT, LP pour le 1085, privé Airport Parkway dans le cadre du Plan d'améliorations communautaires pour l'Aéroport international d'Ottawa.

Dossier : ACS2023-PRE-EDP-0013

Rapport au Comité des finances et des services organisationnels

le 4 avril 2023

et au Conseil le 12 avril 2023

Soumis le 20 mars, 2023 par David Wise, Directeur, Développement économique et planification à long terme, Services de la planification, des biens immobiliers et du développement économique

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Quartier : À l'échelle de la ville

REPORT RECOMMENDATION(S)

That the Finance and Corporate Services Committee recommend City Council:

- 1. Approve the grant application submitted by HAC OTTAWA AIRPORT, LP ("Germain Hotels"), in respect to 1085 Airport Parkway Private, in accordance with the Ottawa International Airport Community Improvement Plan, not to exceed \$13,077,683 over a maximum period of 25 years, subject to the establishment of, and in accordance with, the terms and conditions of a Community Improvement Plan Agreement; and**
- 2. Delegate authority to the General Manager, Planning, Real Estate and Economic Development, to finalize and execute an Ottawa International Airport Community Improvement Plan Agreement with HAC OTTAWA AIRPORT, LP, establishing the terms and conditions governing the payment of a grant for the development of 1085 Airport Parkway Private, to the satisfaction of the General Manager, Planning, Real Estate and Economic Development Department, the City Solicitor, and the Chief Financial Officer.**

RECOMMANDATION(S) DU RAPPORT

Que le Comité des finances et des services organisationnels recommande ce qui suit au Conseil municipal :

- 1. Approuver la demande de subvention n'excédant pas 13,077,683 millions de dollars sur une période maximale de 25 ans déposée par HAC OTTAWA AIRPORT, LP (« Germain Hôtels ») pour le 1085, privé Airport Parkway, conformément au Plan d'améliorations communautaires pour l'Aéroport international d'Ottawa, sous réserve de la conclusion d'une entente de subvention PAC, et conformément à ses modalités;**
- 2. Déléguer au directeur général de Planification, Immobilier et Développement économique le pouvoir de conclure avec HAC OTTAWA AIRPORT, LP une entente de subvention dans le cadre du Plan d'améliorations communautaires pour l'Aéroport international d'Ottawa qui établira les modalités de paiement de la subvention pour l'aménagement du 1085, privé Airport Parkway à la satisfaction du directeur général de Planification, Immobilier et Développement économique, de l'avocat général et du chef des finances.**

EXECUTIVE SUMMARY

This report recommends approval of a grant application by HAC OTTAWA AIRPORT, LP (“Germain Hotels”) under the Ottawa International Airport Community Improvement Plan (YOW CIP) not to exceed \$13,077,683 over a maximum period of 25 years. The application is in respect to Germain Hotel’s proposed development of a 180-room Alt Hotel to include a restaurant, meeting rooms and covered pedway connecting the hotel to the airport terminal via the parkade.

Assumption and Analysis

The pandemic had a considerable impact on the Ottawa International Airport (Airport) with a significant decline in passenger air travel resulting in substantial operating losses and a \$4,000,000 reduction (-71 per cent) in Payments in Lieu of Taxes (PILT) to the City between 2020 and 2021. The pandemic also resulted in the suspension or cancellation of development projects that would have brought new aviation related businesses to Ottawa, increased employment, and supported economic growth.

On July 6, 2022, Council enacted the YOW CIP program ([link to minutes](#)) to provide financial incentives in the form of a grant to companies who develop or redevelop properties located within the YOW CIP Project Area. The YOW CIP program supports the Airport’s post-pandemic rebound and city-wide economic growth and job creation.

The YOW CIP provides grants for Council approved projects. Grants are calculated based on a portion of the increase in the property’s contribution to municipal property taxes resulting from the value created through new development or redevelopment. Grants are payable only after annual property taxes have been paid in full each year and all terms and conditions specified in the registered legal agreement between the City and the applicant have been met.

On February 2, 2023, the City received final supporting documentation for an application to the YOW CIP from HAC OTTAWA AIRPORT, LP (“Germain Hotels”).

The subject project was contemplated prior to the pandemic. At that time, development costs were projected to be \$42,000,000. By the summer of 2020, the project was abandoned due to a challenging business climate resulting from pandemic impacts on air travel and visitation to Ottawa, mandated business closures, and supply chain issues affecting costs. In the fall of 2021, anticipating an eventual resolution to the pandemic and resumption of normal business activity, Germain Hotels re-examined the project. Updated construction estimates revealed that project costs had risen to \$55,000,000 over the past two years, an increase of 30 per cent. Germain Hotels determined that

given the pace of pandemic recovery and escalating construction costs, the project was no longer viable.

Following Council's enactment of the YOW CIP in July 2022, the Airport provided Germain Hotels with information about the new program to try and resuscitate the Alt Hotel project. In late 2022, Germain Hotels decided to proceed with the project, but only if they could secure the financial incentive available through the YOW CIP program. A YOW CIP grant would represent a material change to the project's financial forecast and feasibility and was a deciding factor, in addition to positive trends in the Ottawa visitor economy and air travel generally, to move the project forward.

Key Project Considerations

1. Consultant's projected property assessment following project completion is \$19,845,000.
2. Property tax increase (Municipal portion) from zero (\$0.00) to \$393,796 in year 1 (2025).
*PILT payment to the City is not affected as the PILT calculation is based on airport passenger volumes.
3. Total estimated property tax increase (Municipal portion) over 25-year grant period \$17,436,910.
4. YOW CIP grant to Germain Hotels is \$295,347 in year 1 and \$13,077,683 over 25 years; City retains \$4,359,228 in new property taxes over the same period.
5. Estimated value of locally supplied materials is \$30,000,000.
6. Project permits and fees payable to the City estimated at \$3,720,000.
7. 50 new full-time jobs once the new Alt Hotel is open.
8. New rental revenue from Alt Hotel to the Ottawa Airport Authority supports enhanced passenger experience and inducements for new direct air service routes.

RÉSUMÉ

Dans le présent rapport, il est recommandé d'approuver une demande de subvention n'excédant pas 13,1 millions de dollars sur une période maximale de 25 ans, déposée par HAC OTTAWA AIRPORT, LP (« Germain Hôtels ») dans le cadre du Plan d'améliorations communautaires pour l'Aéroport international d'Ottawa. La demande concerne le projet de Germain Hôtels pour la construction d'un hôtel Alt de 180 chambres, comprenant un restaurant, des salles de réunion et un passage piétonnier recouvert reliant l'hôtel et l'aérogare par le stationnement étagé de l'aéroport.

Hypothèse et analyse

La pandémie a eu d'énormes répercussions pour l'Administration aéroportuaire d'Ottawa (Aéroport) qui a connu une chute importante du transport aérien de passagers entraînant des pertes d'exploitation substantielles et, de 2020 à 2021, une diminution de 4 millions de dollars (-71 %) des paiements versés en remplacement d'impôts (PVRI) à la Ville. La pandémie a également eu pour effet la suspension ou l'annulation de projets d'aménagement à l'Aéroport qui auraient attiré à Ottawa de nouvelles entreprises œuvrant dans le domaine de l'aviation, accru l'emploi et soutenu la croissance économique.

Le 6 juillet 2022, le Conseil adoptait le programme PAC de YOW ([lien au procès-verbal](#)) afin d'accorder sous forme de subvention des incitatifs financiers aux entreprises pour qu'elles aménagent ou réaménagent des sites situés dans la zone du PAC de YOW. Le programme PAC de YOW appuie la reprise postpandémique de l'Aéroport de même que la croissance économique et la création d'emplois dans l'ensemble de la ville.

Le programme PAC de YOW accorde des subventions pour des projets approuvés par le Conseil. Les subventions sont calculées en fonction d'une partie de l'augmentation des impôts fonciers versés à la ville découlant de la valeur créée par le nouvel aménagement ou le réaménagement. Les subventions sont versées uniquement après le paiement en entier des impôts fonciers annuels et lorsque toutes les conditions générales et modalités précisées dans l'entente légale enregistrée intervenue entre la Ville et le demandeur sont respectées.

Le 2 février 2023, la Ville a reçu les derniers documents à l'appui entourant la demande de subvention au programme PAC de YOW de HAC OTTAWA AIRPORT, LP (Germain Hôtels).

Le projet en question avait été envisagé avant la pandémie. À ce moment, les coûts d'aménagement devaient être de 42 millions de dollars. À l'été 2020, le projet a été

abandonné en raison du contexte économique difficile résultant de l'impact de la pandémie sur le transport aérien et le tourisme à Ottawa, des fermetures obligatoires de commerces et de l'effet des problèmes de chaînes d'approvisionnement sur les coûts. À l'automne 2021, s'attendant à la fin éventuelle de la pandémie et à la reprise des activités commerciales normales, Germain Hôtels a à nouveau considéré le projet. Il s'est avéré, après une évaluation actualisée de la construction, qu'au cours des deux dernières années, les coûts du projet avaient augmenté à 55 millions de dollars, une hausse de 30 pour cent. Vu le rythme de la reprise postpandémique et la hausse des coûts de construction, Germain Hôtels a conclu que le projet n'était plus viable.

Suivant le lancement du programme PAC de YOW par le Conseil en juillet 2022, l'Aéroport a transmis l'information sur le nouveau programme à Germain Hôtels pour qu'on tente de ressusciter le projet d'hôtel Alt. À la fin de 2022, Germain Hôtels a décidé d'aller de l'avant avec le projet, à condition d'obtenir l'incitatif financier offert dans le cadre du programme PAC de YOW. Une subvention PAC de YOW aurait pour effet de modifier substantiellement les perspectives financières du projet et sa viabilité et, outre les tendances positives en général dans l'économie du tourisme et du transport aérien, elle constituerait un facteur déterminant pour faire avancer le projet.

Principaux facteurs à considérer

1. Selon l'expert-conseil, l'évaluation foncière de la propriété, une fois le projet achevé, serait de 19,8 millions de dollars.
2. La hausse des impôts fonciers (partie municipale) passe de zéro (0,00 \$) à 393 796 \$ dans la première année (2025)

*Les paiements versés en remplacement d'impôts (PVRI) à la Ville ne sont pas touchés, car le calcul des PVRI est fondé sur les volumes de voyageurs aériens.

3. La hausse totale prévue des impôts fonciers pour la propriété (partie municipale) sur la période de 25 ans de la subvention est de 17,5 millions de dollars.
4. La subvention du programme PAC de YOW à Germain Hôtels s'établit à 295 347 \$ la première année et à 13,1 M\$ sur 25 ans. La Ville perçoit 4,4 M\$ de nouveaux impôts fonciers au cours de la même période.
5. La valeur estimée du matériel fourni localement est de 30 M\$.
6. Les permis requis pour le projet et les droits versés Ville sont évalués à 3,7 M\$.
7. La création de cinquante nouveaux emplois à temps plein lorsque le nouvel hôtel Alt ouvrira ses portes.

8. Les nouvelles recettes de l'Aéroport provenant de la location de l'hôtel Alt appuient l'amélioration de l'expérience des passagers et les avantages incitatifs pour de nouvelles dessertes aériennes directes.

BACKGROUND

A Community Improvement Plan (CIP) is an economic development tool, permitted under the *Planning Act*, which allows a municipality to provide financial incentives directly to property owners to stimulate new development, redevelopment, or other property upgrades.

The Community Improvement Plan policies in Section 11 of the new Official Plan, adopted by Council in October 2021, establish a rationale for preparing a Community Improvement Plan and set out the criteria to be considered when designating a Community Improvement Plan Project Area. The Official Plan establishes priority areas for community improvement and sets out a range of actions that Council may undertake to implement Community Improvement Plans.

The Official Plan acknowledges the Airport's significance as a vital economic generator and contributor to city-wide economic growth and prosperity by designating it, in Section 6.6.3.1, as a "Special Economic District."

On July 6, 2022, Council designated an area within the Special Economic District as the Ottawa International Airport Community Improvement Plan (YOW CIP) Project Area.

The purpose of this report is to bring a YOW CIP program application from HAC OTTAWA AIRPORT, LP ("Germain Hotels"), before the Finance and Corporate Services Committee and Council for consideration and approval.

DISCUSSION

The pandemic had a considerable impact on the Ottawa International Airport (Airport) with a significant decline in passenger air travel resulting in substantial operating losses and a \$4,000,000 reduction (-71 per cent) in Payments in Lieu of Taxes (PILT) to the City between 2020 and 2021. The pandemic also resulted in the suspension or cancellation of development projects that would have brought new aviation related businesses to Ottawa, increased employment, and supported economic growth.

Under the YOW CIP program grant application submitted by Germain Hotels, the completed Alt Hotel project would result in an increase of approximately \$17,436,910 in the Municipal portion of property taxes over 25 years. Subject to approval, grants to

Germain Hotels during this period, following the payment of annual property taxes, would total \$13,077,683, with \$4,359,228 in new property taxes accruing to the City over the 25-year period.

Prior to the pandemic, and based on favourable air travel and business indicators, Germain Hotels planned to invest in a 180-room Alt Hotel at the Ottawa International Airport. At that time, development costs were projected to be \$42,000,000. The project was not without risk given rising construction costs, but Germain Hotels was confident that anticipated airport passenger volume growth, positive visitor economy indicators, and desirable terminal connectivity would mitigate that risk. However, by summer 2020 it was clear that the pandemic and resulting impacts would last far longer than anticipated and plans to proceed with the project were abandoned.

In the fall of 2021, Germain Hotels revisited the project. Updated construction estimates revealed that project costs had risen to \$55,000,000, an increase of 30 per cent. Despite the strategic location and desire to invest in an Ottawa International Airport hotel property, Germain Hotels determined that given the pace of pandemic recovery and escalating costs, the project was no longer viable.

Following Council's enactment of the YOW CIP in July 2022, the Airport provided Germain Hotels with information about the new program to try and resuscitate the Alt Hotel project. In late 2022, Germain Hotels decided to proceed with the project, but only if they could secure the financial incentive available through the YOW CIP program. A YOW CIP grant would represent a material change to the project's financial forecast and feasibility and was the deciding factor, in addition to positive trends in the Ottawa visitor economy and air travel generally, to obtain the necessary internal corporate support to move the project forward.

The economic impact of the proposed Alt Hotel development is estimated at approximately \$55,000,000 in direct construction costs in addition to significant indirect and induced economic benefits to the local economy. The value of locally supplied materials is estimated at \$30,000,000 and City project permits and fees are estimated at \$3,700,000. Following completion, the hotel will require a minimum of 50 new full-time employees.

The new Alt Hotel will provide a business center, meeting space and a restaurant in addition to new accommodations directly connected to the airport terminal. The project will be constructed on approximately 0.08 hectares of land leased from the Ottawa Airport Authority. New rental revenue will support enhanced passenger experience and inducements for new direct air service routes.

Project Description

The subject property is located at 1085 Airport Parkway Private and has a lot area of approximately 813 square meters / 0.08 hectares, under lease from the Ottawa Airport Authority. The proposed uses are permitted under the existing T1A - Air Transportation Facility zone.

The proposed eight-storey development will be approximately 7,472.86 square meters of Gross Floor Area and will consist of a 180-room hotel, restaurant, approximately 3,500 square feet of meeting space, lobby workstation, fitness room, market pantry, and a covered pedway connecting the hotel directly to the airport terminal building via the parkade.

The rendering of the proposed Alt Hotel in Document 4 provides a view of the planned project.

The new hotel will be the first lodging facility with a direct connection to the airport terminal building. The project will be the third property developed by Germain Hotels in Ottawa.

Calculating the YOW CIP Program Grant

On February 2, 2023, the City received final supporting documentation for an application to the YOW CIP program from HAC OTTAWA AIRPORT, LP (“Germain Hotels”). City staff reviewed the final application and deemed it complete.

The requirements for applications submitted to the City under the YOW CIP program are described in Document 1.

As part of the YOW CIP program application, the applicant was required to submit an independent tax study by a qualified consultant, which provided an estimate of the property assessment increase anticipated upon project completion to determine eligibility as well as the costs eligible for a grant under the program and the anticipated property tax increase to fund the grant.

The YOW CIP program specifies that the total grant be capped at the lesser of 100 per cent of the total eligible costs or \$25,000,000. A breakdown of the eligible costs is shown in Document 2.

The applicant provided an Economic Feasibility Study and Full Narrative Appraisal Report prepared by MM&R Valuation Services DBA HVS Consulting & Valuation. The

amounts shown in Document 3 “Grant Calculation – Proposed Subject Property” are extracted from that report.

The anticipated maximum YOW CIP program grant for this project is \$13,077,683 over a maximum period of 25 years.

FINANCIAL IMPLICATIONS

The maximum grant under the Ottawa International Airport Community Improvement Grant Program is \$13,077,683 over a maximum period of 25 years. The grant will be directly tied to the amount of development completed on the property and the corresponding increase in property tax contribution to the City. Budget authority requirements will be brought forward through the annual budget process.

LEGAL IMPLICATIONS

There are no legal impediments to the adoption of the recommendations in this report. This program is enabled by the Planning Act, section 28.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a city-wide report.

ADVISORY COMMITTEE(S) COMMENTS

N/A

CONSULTATION

There was no public consultation for this report.

ACCESSIBILITY IMPACTS

There are no accessibility impacts for this report.

ASSET MANAGEMENT IMPLICATIONS

Servicing capacity requirements to be confirmed at time of site plan.

ECONOMIC IMPLICATIONS

The economic impact of the proposed development is estimated at approximately \$55,000,000 in direct construction costs in addition to significant indirect and induced economic benefits to the local economy. The value of locally supplied materials is

estimated at \$30,000,000. Following completion, the hotel will require a minimum of 50 new full-time employees.

Hotel accommodation and meeting room space connected to the airport terminal offers enhanced passenger accessibility and experience and supports the local corporate community that requires convenient access for meetings with out-of-town colleagues, consultants, and clients. Private investment at the Airport supports the development of the area as a Special Economic District and employment hub and facilitates new growth opportunities. New land lease revenue to the Ottawa Airport Authority can be reinvested in airport operations, passenger experience, and new air service development. New air service development has been identified by economic development stakeholders as critical to advancing the city's economic priorities and capitalizing on Ottawa's competitive advantages as a G7 capital and knowledge-based and technology hub.

Following project completion, approximately \$19,845,000 in new commercial assessment is projected to be added to the City's property tax assessment roll in year 1 (2025). Germain Hotel's independent taxation consultant estimates approximately 393,796 in new property taxes (Municipal portion) expected in year 1 (2025). By the time the grant period ends in 25 years, the cumulative property tax increase will be approximately \$17,436,910. After payment of the YOW CIP grant totalling \$13,077,683, the City will benefit from \$4,359,228 in new property taxes. At the end of the 25-year grant period, the City will receive over \$1,000,000 annually in property taxes (Municipal portion) from this property going forward.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications associated with this report.

RURAL IMPLICATIONS

As a city-wide asset, increased commercial activity and employment at the Ottawa International Airport will benefit rural as well as urban and suburban residents and businesses.

SUPPORTING DOCUMENTATION

Document 1 Requirements for Ottawa International Airport Community Improvement Plan Program Application Submissions

Document 2 Eligible Project Costs

Document 3 Grant Calculation – Proposed Ottawa International Airport Alt Hotel

Document 4 Rendering of Proposed Ottawa International Airport Alt Hotel

DISPOSITION

Legal Services, Innovative Client Services Department to prepare the Community Improvement Plan Grant Agreement.

Planning, Real Estate and Economic Development Department and Finance Department, Revenue Branch to develop a general administrative approach to implement the YOW CIP Financial Incentive Program for this application.

Planning, Real Estate and Economic Development Department to notify the applicant and the Ottawa Airport Authority of Council's decision.

Document 1 - Requirements for Ottawa International Airport Community Improvement Plan (YOW CIP) Program Application Submissions

To qualify, applicants must satisfy the following conditions:

- a) Prior to making an application for financial incentives, a pre-consultation with Planning Services and Economic Development Services staff is required;
- b) Submit a complete YOW CIP program application to Economic Development Services describing (in detail) the development or redevelopment project; and
- c) Include, as part of a YOW CIP application, an independent tax study by a qualified consultant, having an AACI designation (Accredited Appraiser Canadian Institute) or an AIMA (Associate) or MIMA (Accredited) designation from the Institute of Municipal Assessors, which provides an estimate of the property assessment increment anticipated upon project completion.

Document 2 – Eligible Project Costs

Grants received through the Ottawa International Airport Community Improvement Plan cannot exceed the total cost of the project. Eligible items in the calculation of total project costs are listed below.

The estimated cost of development of property and buildings is based on the value of construction undertaken pursuant to the issuance of a Building Permit and constructed in accordance with the Ontario Building Code and applicable zoning requirements and conforming to any applicable design guidelines or Site Plan Control requirements applying to the property.

Estimated Project Costs:

Demolishing buildings	N/A
Cost of Environmental Site Assessment (ESA);	N/A
Cost of environmental remediation	N/A
Constructing new building(s), additions to buildings, upgrading building facade in front or external side yards	\$55,000,000
Constructing / upgrading on-site infrastructure including water services, sanitary sewers, burying hydro service and stormwater management facilities	N/A
Constructing / upgrading off-site infrastructure including roads, water services, sanitary sewers, stormwater management facilities, electrical and gas utilities	N/A
Constructing / upgrading on-site features including hard and soft landscaping, parking areas, walkways, decorative lighting, and signage	N/A
Building permit fees for any of the preceding work	\$3,720,000
Cost of LEED certification:	N/A
Total Project Cost Estimate	\$58,720,000

Document 3 - Grant Calculation

Grant Calculation – Proposed Ottawa International Airport Alt Hotel					
Year	Total Positioned Assessment	Municipal Property Tax Rate	Increase in Municipal Taxes from 0	YOW CIP Grant at 75%	City Portion at 25%
2021	\$18,000,000	1.76777	0	0	0
2022	18,000,000	1.86079	0	0	0
2023	18,000,000	1.90730	0	0	0
2024	18,900,000	1.94545	0	0	0
2025	19,845,000	1.98436	393,796	295,347	98,449
2026	20,837,250	2.02405	421,756	316,317	105,439
2027	21,879,113	2.06453	451,700	338,775	112,925
2028	22,316,695	2.10582	469,949	352,462	117,487
2029	22,763,029	2.14793	488,935	366,701	122,234
2030	23,218,289	2.19089	508,688	381,516	127,172
2031	23,682,655	2.23471	529,239	396,929	132,310
2032	24,156,308	2.27941	550,620	412,965	137,655
2033	24,639,434	2.32499	572,865	429,649	143,216
2034	25,132,223	2.37149	596,009	447,007	149,002
2035	25,634,867	2.41892	620,088	465,066	155,022
2036	26,147,565	2.46730	645,139	483,855	161,285
2037	26,670,516	2.51665	671,203	503,402	167,801
2038	27,203,926	2.56698	698,320	523,740	174,580
2039	27,748,005	2.61832	726,532	544,899	181,633
2040	28,302,965	2.67069	755,884	566,913	188,971
2041	28,869,024	2.72410	786,421	589,816	196,605
2042	29,446,405	2.77858	818,193	613,645	204,548
2043	30,035,333	2.83415	851,248	638,436	212,812
2044	30,636,040	2.89084	885,638	664,229	221,410
2045	31,248,760	2.94865	921,418	691,063	230,354
2046	31,873,736	3.00763	958,643	718,982	239,661
2047	32,511,210	3.06778	997,372	748,029	249,343
2048	33,161,434	3.12914	1,037,666	778,250	259,417
2049	33,824,663	3.19172	1,079,588	809,691	269,897
Total			\$17,436,910	\$13,077,683	\$4,359,228

Document 4 – Rendering of Proposed Ottawa International Airport Alt Hotel

