

**Subject: Ottawa Hospital's Request for Release of a Reversionary Covenant at  
1967 Riverside Drive**

**File Number: ACS2023-PRE-CRO-0013**

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

**Submitted on June 21, 2023 by Peter Radke, Director, Corporate Real Estate  
Office, Planning, Real Estate and Economic Development Department**

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**Ward: Alta Vista (18)**

**Objet : Demande de décharge de l'engagement de réversion de L'Hôpital  
d'Ottawa pour le 1967, promenade Riverside**

**Dossier : ACS2023-PRE-CRO-0013**

**Rapport au Comité des finances et des services organisationnels**

**le 4 juillet 2023**

**et au Conseil le 12 juillet 2023**

**Soumis le 21 juin 2023 par Peter Radke, Directeur, Bureau des biens immobiliers  
municipal, Direction générale de la planification, des biens immobiliers et du  
développement économique**

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**Quartier : Alta Vista (18)**

## **REPORT RECOMMENDATION(S)**

**That the Finance and Corporate Services Committee recommend Council:**

- 1. Direct staff to not exercise the City's reversionary covenant to reacquire the Lands as shown in Document 1, being part of 1967 Riverside Drive;**
- 2. Approve the removal of the reversionary covenant from title to the Lands shown in Document 1;**
- 3. Direct staff to hold the estimated \$12.9 million uplift in value of the covenant in a separate account until such time as the commercial contractual negotiations are finalized and Council considers a final direction regarding the Municipal local share contribution requested for the new Ottawa Hospital Civic Campus; and**
- 4. Delegate authority to the General Manager, Finance and Corporate Services Department to enter into, conclude, execute, amend and implement, on behalf of the City, an Agreement to remove the reversionary covenant as described in this report.**

## **RECOMMANDATION(S) DU RAPPORT**

**Que le Comité des finances et des services organisationnels recommande au Conseil :**

- 1. de demander au personnel de ne pas exercer l'engagement de réversion de la Ville en vue de réacquérir les terrains comme indiqué dans le document 1, faisant partie du 1967, promenade Riverside;**
- 2. d'approuver la suppression de l'engagement de réversion du titre des terrains indiqués dans le document 1;**
- 3. de demander au personnel de placer dans un compte séparé le montant évalué à 12,9 millions de dollars représentant l'augmentation de la valeur de la propriété jusqu'à ce que les négociations commerciales contractuelles soient finalisées et que le Conseil élabore une dernière directive concernant la contribution municipale à la part locale pour le nouveau campus de L'Hôpital d'Ottawa.**
- 4. Déléguer au directeur général de Finances et Services organisationnels le pouvoir de négocier, de conclure, de signer, de modifier et de mettre**

**en œuvre, au nom de la Ville, l'entente visant à supprimer l'engagement de réversion comme il est décrit dans le présent rapport.**

## **BACKGROUND**

The Riverside Hospital was founded pursuant to the City of Ottawa Act, 1960-61 and was constructed on 19.17 acres (7.76 hectares) of municipally owned land at 1967 Riverside Drive. The establishment of "municipal" hospitals was consistent with an era in which municipalities were major sponsors of hospitals in the province. Over the years municipalities became less involved in hospital ownership and operation. The formation of The Ottawa Hospital (TOH) in April 1998 essentially completed the process away from healthcare for the City of Ottawa. As part of the new Ottawa Hospital corporate structure, it was determined that it was in the best interest of both parties that TOH have ownership (title) of 1967 Riverside Drive.

On June 7, 2000, Council for the pre-amalgamation City of Ottawa approved a report from the Policy, Priorities and Budgeting Committee (ACS2000-CS-OCS-0005) that included a recommendation the City declare surplus the lands at 1967 Riverside Drive and convey to TOH for \$1.00. The conveyance of 1967 Riverside was completed post amalgamation on December 21, 2005.

As part of the transfer of title, the City retained various easements for municipal infrastructure. In addition, it was recognized that in the future the lands may cease to be used for hospital purposes. To protect the City's future interest in the subject lands, the transfer included a Reversionary Covenant registered on title in favour of the City.

The intent of the registered covenant was to ensure that, should the lands cease to be primarily used for non-profit hospital or health care purposes, the lands would revert back to the City for nominal consideration. The covenant states:

*"The Owner covenants and agrees that should the lands described herein cease to be used for health care purposes or any purposes directly or indirectly related to health care purposes by the Owner or some other not-for-profit owner, the Owner or the owner at the time shall grant and reconvey the said lands to the City of Ottawa.*

*The express intent of this covenant is that the same shall run with the lands and will benefit all the lands owned by the City of Ottawa. The Owner also covenants that in any future transfer of the lands described herein it will include these same covenants."*

## **DISCUSSION**

In October 2021, TOH met with Planning Services staff on a confidential basis to discuss the potential to develop a portion of the 1967 Riverside Drive property with long-term care beds and retirement home units. In April 2022, TOH, together with Schlegel Villages Inc. as their authorized agent, commenced a formal Site Plan application to create Schlegel Villages Seniors Continuum of Care Complex. The application proposes to develop a privately operated seniors retirement community that will include an eight (8) storey, 256 bed Long Term Care Home, and an adjoining fifteen (15) storey Retirement Residence with 270 suites. The design is to have each facility act as an anchor being connected with amenity space and consumer service areas referenced as a Town Square. The Long-Term Care Home, Retirement Residence and Town Square buildings are to be owned and operated by a for-profit corporation operating similar complexes throughout Ontario. The business plan has TOH leasing land to this corporation on a long-term basis to enable this entity to finance its project.

The Long-Term Care Home, Retirement Residence and the ancillary uses are permitted within the property's I2 - Major Institutional Use zoning. The proposed complex will sit on the north section of 1967 Riverside Drive west of Smyth Road. This portion of the hospital site has not been legally described with a Registered Plan and remains as part of the larger parcel. Based on the Site Plan application, the Lands are estimated at 5.23 acres (2.057 hectares) and are shown in Document 1 prepared by the City's Surveys and Mapping Branch. In the Site Plan application process the City noted that the development, though having a health care focus, did not meet the intent of the Reversionary Covenant as the developer and operator (Schlegel Villages Inc.) is a private for-profit corporation.

With commercial contractual negotiations ongoing between Schlegel Villages Inc. and TOH, concurrence from the City to not act on the covenant and to agree to remove the covenant is now required for TOH to finalize those negotiations. TOH has submitted a request to the City to permit a for-profit use of 5.23 acres of hospital land at 1967 Riverside Drive by Schlegel Villages Inc. and not exercise the reversionary rights and claim possession. Staff considered the request to carve out 5.23 acres from the 19.7 acres hospital site for private (for profit) development as an acknowledgment this area is surplus to the non-profit operation of the Ottawa Hospital. In this circumstance, the City would be within its rights to re-acquire this portion of the site. To determine if the City had a corporate need for the 5.23 acres of the hospital site, CREO staff completed an internal circulation May 17, 2023, to all departments for comment. If a requirement was identified, staff would assess if the City requirement would have priority over the proposed TOH concept plan. However, no City interest was identified through the

circulation process.

The development being proposed aligns with the community health care objectives of TOH. TOH supports the project as it would increase the number of licensed long-term care beds in the community and create a “healthcare hub” at a hospital node providing a continuum of healthcare focused on the elderly. The project is considered as an important step in providing extended care options to improve the quality of life for seniors. Planning Services staff note that significant costs have been incurred in the planning process, the development proposal is near Site Plan approval, and the project could commence construction in the near term. Given the financial resources invested to date by TOH and its partner, the project’s functional programming focusing on senior’s care, and the operational synergies being adjacent to TOH on Riverside Drive, City staff consider the “healthcare hub” concept an appropriate use for the Lands.

Enforcing the Reversionary Covenant will require TOH to convey the lands back to the City and effectively terminate the development proposal. The covenant is not intended to limit additional health care services or to create opportunities for City uses but to ensure that the Lands remains for non-profit health care purposes. However, should any portion of the subject lands cease being used for a nonprofit purpose, the City should be the beneficiary of the appreciation in monetary value of the land. Acquiring the Lands from TOH by way of the covenant and then disposing of the surplus site to a third party for the proposed development of a health care hub is not practical. The monetary benefit can be captured without exercising the reversionary covenant. Therefore, as noted in Recommendation 1, City staff are recommending not to exercise the reversionary covenant to reacquire the Lands described in Document 1.

TOH revealed that as part of the development plan with Schlegel Villages Inc. the Lands will be leased at market value for a term of 75 years. As owner of the Lands, the TOH will receive the lease income and at the end of the lease term the Lands will be returned to TOH. For TOH to lease the subject lands to an entity for profit activities, the Reversionary Covenant would need to be removed from title. The land value appreciation (uplift) created through the deletion of the covenant would be to the City’s credit. In effect, the lifting of the City’s Reversionary Covenant is a disposal of a future property interest. The compensation for the deletion of the covenant from title should be paid to the City as the “owner” of the covenant.

The City sought to independently verify a fair market value of the Land exclusive of any business agreement or lease encumbrance. CREO completed an internal valuation and engaged an external appraiser to determine an arm’s length market value of the Lands

under a commercial mixed use development scheme. The appraisals were completed to align with the requirements set in the City's Policy for the Disposal of Real Property (2018) to assist staff in the negotiation process.

Based on the market value appraisals prepared for the City, the site is valued at \$12.9 million. This amount is equal to the value uplift generated by removing the covenant from title for commercial uses. Therefore, as noted in Recommendation 2, staff are recommending the removal of the reversionary covenant from title to the Lands shown in Document 1, subject to receiving \$12.9 million from TOH.

The amount owed to the City of \$12.9 million for the removal of the covenant represents the market value uplift (land value) under a for-profit mixed-use development scenario across 5.23 acres at 1967 Riverside Drive. At this time, TOH is seeking concurrence from the City that removal of the covenant can occur so that TOH can then enter the final steps of negotiations and finalization of agreements with the developer/operator of the subject lands. In return for that concurrence from the City, TOH has agreed to deposit the \$12.9 million into an escrow account. Upon execution of agreements between TOH and developer/operator, City staff will report back to Council on an allocation plan for said funds.

City staff will negotiate and finalize an agreement with TOH that outlines the responsibilities for both parties related to submission of the \$12.9 million and removal of the covenant. The agreement will set the terms for removal of the covenant and the terms by which the money will be free to be allocated by the City.

## **AFFORDABLE HOUSING LAND AND FUNDING POLICIES**

The Affordable Housing Land and Funding Policy approved by City Council on 26 April 2017, advances the vision and targets established in the Ten-Year Housing Homelessness Plan, the Official Plan and other Council-approved affordable housing initiatives. The Policy requires that the Official Plan target of 25 per cent affordable housing be met on any City owned property where existing or proposed zoning allows for residential uses. In addition, should the City sell a parcel of land, the Disposal Policy requires that 25 per cent of the net sales proceeds be directed to Housing to be used for the development of affordable housing elsewhere in the City. Both the City Housing Policy and Disposal Policy specifically reference City property or land.

The proposed use for a senior's residential development offering a continuum of care has significant community benefit. It is not considered to be in the City's best interest to exercise its reversionary covenant to re-acquire ownership of the land. In not being the

property owner, and with there being no transfer of the asset, there are no grounds to apply Affordable Housing Land and Funding Policy targets.

The consideration of \$12.9 million for the Reversionary Covenant represents the appreciation in monetary value of the land. It does not represent the proceeds from the disposal of a fee simple interest in land. The Disposal Policy, which is specific to the sale of land and buildings, does not apply in the present circumstance.

## **PARKLAND ACQUISITION AND FUNDING THROUGH PROPERTY DISPOSAL POLICY**

The Parkland Acquisition and Funding Through Property Disposal Policy approved by City Council on July 6, 2022, requires that 25 per cent of the net proceeds from the sale of City lands be directed towards the development of municipal parkland and recreation facilities to meet the targets of the Parks and Recreation Facilities Master Plan (2021). The policy applies to the sale of surplus City owned land that, at the time of disposal, is not zoned as parkland, considered municipal parkland, or used as a parks and recreation facility.

TOH will remain the property owner and will lease out 5.23 acres of surplus land. A payment to the City by TOH for the removal of the Reversionary Covenant on this parcel does not constitute a City land disposal under the Parkland Acquisition and Funding Through Property Disposal Policy. Given the circumstances, the Parkland Dedication and Funding Through Property Disposal does not apply.

## **FINANCIAL IMPLICATIONS**

The value uplift of \$12.9 million generated by removing the covenant from title for commercial use will be held in a separate account as an agreement between the City of Ottawa and The Ottawa Hospital until a future direction is determined with respect to the request for a Municipal Local Share Contribution in support of the new Ottawa Hospital Civic Campus.

## **LEGAL IMPLICATIONS**

There are no legal impediments to the adoption of the recommendations in this report.

Legal Services has reviewed the Affordable Housing Land and Funding Policy and the Parkland Acquisition and Funding Through Property Disposal Policy and concurs that neither applies in this case to the removal of the covenant

**COMMENTS BY THE WARD COUNCILLOR(S)**

The ward councillor is aware of this report.

**ADVISORY COMMITTEE(S) COMMENTS**

N/A

**CONSULTATION**

N/A

**ACCESSIBILITY IMPACTS**

There are no accessibility impacts associated with the recommendations.

**ASSET MANAGEMENT IMPLICATIONS**

There are no Asset Management Implications for this report.

**CLIMATE IMPLICATIONS**

There are no Climate Implications with this report.

**ECONOMIC IMPLICATIONS**

There are no Economic Implications for this report.

**ENVIRONMENTAL IMPLICATIONS**

There are no Environmental Implications for this report.

**INDIGENOUS GENDER AND EQUITY IMPLICATIONS**

There are no Indigenous, Gender and Equity Implications.

**RISK MANAGEMENT IMPLICATIONS**

There are risk implications. These risks have been identified and explained in the report and are being managed by the appropriate staff.

**RURAL IMPLICATIONS**

There are no Rural Implications for this report.

**TECHNOLOGY IMPLICATIONS**



N/A

### **SUPPORTING DOCUMENTATION**

Document 1 - Immediately follows the report

### **DISPOSITION**

Following approval by Council, Legal Services and Corporate Real Estate Office staff will complete the documentation to implement Recommendations 1 and 2 in this report. Finance and Corporate Services staff will coordinate with TOH regarding the deposit of the \$12.9 million into an escrow account.

Document 1

