CUSHMAN & WAKEFIELD

STUDY OF THE OPPORTUNITIES, APPROACH, AND EFFICACY OF A CIP FOR MONTREAL ROAD

PREPARED FOR:

CITY OF OTTAWA

CUSHMAN & WAKEFIELD

November 6, 2018

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City of Ottawa
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Regarding: Montreal Road CIP Study

Cushman & Wakefield is pleased to provide this analysis of the potential for the introduction of a Community Improvement Plan (CIP) for Montreal Road. We have completed a community tour and review of pre-identified properties. From this, we have developed a short list, and contacted various property owners or their representatives. Finally we have provided an assessment of the probable efficacy of such a program, if implemented.

We are pleased to discuss this report with you at your convenience, and thank you for the opportunity to once again demonstrate our market intelligence and real estate advisory capabilities to the City of Ottawa.

Respectfully submitted,

Cushman & Wakefield

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EXECUTIVE SUMMARY

Spurred by a request from the Quartier Vanier BIA, the City of Ottawa retained Cushman & Wakefield to assist with research and analysis to study the opportunities and efficacy of a Montreal Road Community Improvement Plan (CIP). If enacted, a CIP would permit the City to provide financial incentives to property owners that would encourage urban renewal; support businesses including not-for-profits and cultural organizations; and encourage property investment and expansion. The plan being considered would offer Tax Increment Equivalent Grants (TIEGs) for eligible projects. These grants would be calculated on the basis of the increase in the property's contribution to municipal property taxes, resulting from the value created through redevelopment.

The Study Area extends along Montreal Road from North River Road in the west, to Aviation Parkway in the east. Along this route, the character and pattern of land use changes noticeably from a "main street/streetfront commercial" feel in the west, to a more "arterial commercial" feel in the east. City staff identified 76 properties for review. A tour of the Study Area revealed a diversity of land uses, limited vacancy, a notable presence of independent businesses, no sites with significant excess land, and the presence of some currently vacant land parcels.

An Opportunity Short List categorized the 76 properties into five groups, based upon varying levels of probability of future redevelopment potential. Sites that exhibited apparent potential for a higher and better use, and those where an owner controlled adjacent properties which together would have increased redevelopment potential, were placed on a short list for further assessment.

Cushman & Wakefield contacted property owners on the short list, and 19 of the 25 property owners/representatives participated in our study. It was observed that larger Regional/Institutional owners were generally willing to explore participation in the program, but that implementation of a CIP would not necessarily expedite decisions to improve their properties. Importantly, a strong majority of Regional/Institutional owners indicated that the proposed minimum property value uplift threshold ($250,000) could be a barrier for smaller, localized participants, and that a potential modified threshold could be implemented to encourage wider participation. Among the Local/Independent property owners, almost 80% indicated that the implementation of a CIP would expedite decisions to improve their properties, although two-thirds of respondents indicated they did not have the funds required to reach the proposed minimum property value uplift threshold, and/or raised concern that the investment in the property would not be "worth it in the end." All respondents indicated that further program information would be well received, and should be made available to them in a comprehensive but accessible means, in order for them to fully understand the potential of the CIP.

Cushman & Wakefield concludes that the City of Ottawa should proceed with the development of a Community Improvement Plan for Montreal Road. However, in light of the distinctive change in character from the “main street/streetfront commercial” feel in the western section – where all but one of the 25 short listed properties with the greatest probability of future redevelopment potential are situated – to the more “arterial commercial” feel in the east, we recommend that the CIP area be narrowed to include only the properties on Montreal Road between North River Road and St. Laurent Boulevard. Further, it is recommended that City staff reconsider the $250,000 investment threshold minimum, and instead rely upon a lower threshold amount of $50,000. This would serve to prohibit trivial applications that do little to enhance property values, while having the effect of increasing the perceived equitability/inclusiveness of the CIP.

Our Implementation Strategy identifies the role of the Quartier Vanier BIA as a “program champion”; having a dedicated City staff point-of-contact; preparing a comprehensive marketing plan; and setting a minimum five-year initial program horizon.

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INTRODUCTION

Project Overview

The Quartier Vanier BIA requested that the City of Ottawa consider implementing a Community Improvement Plan (CIP) for a portion of Montreal Road in Vanier, between North River Road and Aviation Parkway, to stimulate urban renewal, business growth, and commercial vitality in the area.

The City of Ottawa retained Cushman & Wakefield to assist with research and analysis to study the opportunities and efficacy of a Montreal Road CIP, and to assist the City of Ottawa in assessing whether to proceed or not proceed. This work is very similar in scope to the Bells Corners CIP Study that Cushman & Wakefield completed in 2016.

The objective of this CIP Study is to assist the Economic Development and Long Range Planning Service to determine the overall viability, benefits, and constraints, related to the creation of a Community Improvement Plan grant program for the Montreal Road area, and to recommend an approach that would produce the maximum benefit in a timely manner.

Community Improvement Plan Overview

A CIP for Montreal Road would permit the City of Ottawa to provide financial incentives to property owners that would encourage urban renewal; promote the development of cultural assets; support businesses including not-for-profits and cultural organizations; contribute to making the city an attractive and business-friendly environment; and encourage investment and expansion. Such a program in Vanier would help to attract new businesses, support existing businesses, and nurture economic growth.

The plan being considered would offer Tax Increment Equivalent Grants (TIEGs) for eligible projects. These grants would be calculated on the basis of the increase in the property's contribution to municipal property taxes, resulting from the value created through redevelopment. Under the program, the City would reimburse participating property owners a percentage of the increment in the municipal property tax each year for a defined period of up to 10 years, once taxes are paid each year, and all other accounts with the City are in good standing. The goal of the program is to provide a Tax Increment Equivalent Grant for eligible property owners to invest in redevelopment of lands and/or buildings that are underutilized, idled, or in need of repair or renovation.

If a Montreal Road CIP is adopted, it would apply to property owners who are considering redeveloping their property for industrial, commercial, and/or office uses. It could also apply to mixed-use sites, where the property might be comprised of commercial, industrial, office, or residential land uses.

The City will set a minimum threshold increase of assessed value in line with other existing CIPs – for example, $250,000. It is possible that not all property types would be eligible under the program. For example, a preliminary list of excluded uses includes the following:

- Video arcades
- Bingo parlour or other gaming facilities
- Adult novelty stores, services, and/or adult entertainment
- Body rub establishment
- Industrial uses, including those, which, by their nature, generate noise, fumes, odours, and are hazardous or obnoxious
- Warehousing and storage facilities
- Cross-dock facilities
- Wholesale operation
- Correction facilities
- Corrections residences
- Emergency shelters

Montreal Road Study Area Overview

The Study Area extends along Montreal Road from North River Road in the west, to Aviation Parkway in the east. Along this route, the character and pattern of land use changes noticeably from a "main street/streetfront commercial" feel in the west, to a more "arterial commercial" feel in the east. The transition point is in the area of Notre-Dame Cemetery/St. Laurent Boulevard. Cushman & Wakefield notes that there is a significant presence of independent businesses in the Study Area, as opposed to local, or national/regional chain stores/franchises. A detailed assessment of the tenant mix by retail-commercial classification is not within the scope of this project. The observed level of vacancy was considered to be reasonable (i.e. notwithstanding the shuttered former Ottawa Plaza Inn, the level of vacancy is not indicative of an unhealthy commercial environment).

OPPORTUNITY REVIEW

Summary of Pre-Identified Properties

On June 6, 2018, Cushman & Wakefield completed a tour the Montreal Road Study Area, identifying the locational attributes of its retail-commercial and residential properties, and completing a Property Database. City staff had pre-identified 76 properties for the review.

Our Opportunity Review includes an evaluation of various aspects of each property, including:

- Property Owner;
- Property Type;
- Land Area;
- Building Area;
- Tenant(s);
- Accessibility (below average; average; above average);
- Visibility (below average; average; above average);
- Excess land (excess land; no excess land);
- Building appearance (below average; average; above average); and,
- Building age (year built, if known).

Using the property type identified by the Municipal Property Assessment Corporation (MPAC), the following breaks down the 76 pre-identified properties by property type, and count of properties:

RETAIL	
• Neighbourhood Shopping Centre	3
• Retail – One Storey	8
• Retail – Converted House	1
• Restaurant	9
OFFICE	
• Large Office Building	3
• Office – Converted House	1
MIXED USE	
• Retail or Office with Residential Unit(s)	20
• Retail with Office(s)	6
AUTOMOTIVE	
• Auto Dealership	2
• Auto Repair	2
• Gas Station	3

RESIDENTIAL	
• Single-Detached	2
• Semi-Detached	1
OTHER	
• Assembly Hall/Community Hall	1
• Commercial Condominium	1
• Motel	3
UNDEVELOPED LAND	
• Surface Parking Lot	2
• Currently Vacant Land	8
TOTAL SITES	76

Summary of Observations from Study Area Tour

The following presents some conclusions drawn from our tour of the Study Area:

1. Diversity of land uses
   - There is a broad range of land uses throughout the Montreal Road Study Area. The retail-commercial uses support the adjacent neighbourhoods, as well as providing amenities and a desirable local environment for office and other employment uses in the area. There is also a significant extent of mixed-use properties that combine ground floor retail-commercial space with upper level residential units.
2. Limited vacancy
   - In general, the properties had a healthy level of occupancy. What vacancy did exist seemed to be concentrated in a few properties.
3. Notable presence of independent businesses
   - There is a significant presence of independent businesses in this area. This may be due to the relative affordability of leased retail-commercial space in this area, due to less competition from well-capitalized occupiers such as regional/national retail chains/franchises.
4. No sites with significant excess land
   - The developed properties along the Montreal Road Study Area exhibit a typical site coverage. There are no obvious sites that feature a significant amount of undeveloped land that would be easily developed (excluding the currently vacant land parcels).
5. Presence of some vacant land parcels
   - There are a handful of vacant parcels of land which present opportunities for future development, should demand materialize. Notably, we understand that all of the currently vacant sites have previously been home to some form of development, making them eligible under CIP guidelines.

OPPORTUNITY SHORT LIST

Overview

An inventory of the properties considered to be the likeliest opportunities where investment and property improvement could work to elevate the property toward a higher and better use is the next step of our review. This set of properties constitutes those that do not already exhibit the highest and best use of the site, and/or those which are considered to have development/redevelopment potential, in the opinion of Cushman & Wakefield.

This short list has been prepared without prior consultation with property owners. The motivations of property owners are a challenge to predict, along with the timing of prospective investment/reinvestment decisions. Therefore, this list must be viewed as a best estimate by Cushman & Wakefield regarding the suitability of introducing a CIP for Montreal Road.

Opportunity Short List Categories

Cushman & Wakefield has developed a set of five categories into which all 76 sites have been placed. These five categories are as follows (in descending order of probability of future redevelopment potential):

Category 1 – "Yes"

The property belongs on the short list for consideration.

Category 2 – "Maybe"

The property has particular characteristics that merit additional consideration, and it is a short list candidate.

Category 3 – "Maybe – Ownership of Adjacent Sites"

There is potential for significant redevelopment if the site is combined with adjacent properties. However, it is less likely to intensify unilaterally. Notably, the property owner owns a neighbouring site.

Category 4 – "Maybe – with Neighbouring Property/Properties"

There is potential for significant redevelopment if this site was to be combined with adjacent properties. However, it is less likely to intensify unilaterally.

Category 5 – "Unlikely"

There is a particular rationale identified for why these sites are unlikely to redevelop, and therefore do not warrant further attention at this time. In many cases, the existing use already represents significant density for the site, and can be considered to be the highest and best use. In other cases, the site is too small to support intensification.

Opportunity Short List Analysis

Category 1 – “Yes” (8 sites)

112 Montreal Road

- Property is well positioned for redevelopment. The existing use (Ottawa Plaza Inn) has closed for business.

115 Montreal Road

- A corner site offering good prospects for future intensification – particularly if aggregated with adjacent properties.

199 Montreal Road & 164-170 Hannah Street

- A deep corner site offering good prospects for future intensification.

234 Montreal Road

- There is a proposal to demolish this building. Due to the small size of this site, the best opportunity is a joint development with its neighbouring property (240 Montreal Road).

240 Montreal Road

- There is a proposal to demolish this building. Due to the small size of this site, the best opportunity is a joint development with its neighbouring property (234 Montreal Road).

250 Montreal Road

- This large, currently vacant site is a prime opportunity for development. It is a notable "hole" in the otherwise continuous development fabric of the street. This site is conducive to be integrated as part of a property assembly that could include adjacent parcels at 234 and 240 Montreal Road, creating the potential to become a landmark development.

287 Lacasse Avenue

- Although not a large site, this undeveloped land presents an opportunity for development.

3 Selkirk Street

- A "gateway" property, this is among the largest land parcels in the proposed CIP area, and presents a significant opportunity for intensification.

Category 2 – “Maybe” (6 sites)

150 Montreal Road

- This is a large corner site that already has a significant amount of density. However, additional density or a larger scale redevelopment is conceivable on this prominent site, if underground parking is incorporated.

267 Marier Avenue

- This parking lot supports adjacent commercial uses. A parking solution would have to be identified to support any larger-scale redevelopment along this block.

283 Lacasse Avenue

- Two-storey building represents a fair amount of existing residential density. The adjacent property (287 Lacasse Avenue) is currently used for parking.

350 Montreal Road

- Potential for redevelopment to a higher density land use.

616 St. Laurent Boulevard

- This building currently supports the adjacent auto dealership. It is considered a possible site for intensification.

651 Montreal Road

- Potential for redevelopment to a higher density land use.

Category 3 – “Maybe – Ownership of Adjacent Sites” (11 sites)

143 Montreal Road, 149 Montreal Road, 167 Montreal Road, 171 Montreal Road, 209 Montreal Road, 213 Montreal Road, 265 Montreal Road, 267 Montreal Road, 270 Durocher Street, 313 Montreal Road, and 315 Montreal Road.

- Each of these properties features the potential for redevelopment if the site is combined with an adjacent property/properties. However, any individual site is less likely to intensify on its own. Notably, all of these properties have in common the fact that a single property owner controls an adjacent parcel, which increases the possibility of a larger-scale project (compared to the challenges of separate adjacent property owners collaborating on a redevelopment). There are five property owners in total across these 11 sites, as per Municipal Property Assessment Corporation data.

Category 4 – “Maybe – with Neighbouring Property/Properties” (42 sites)

161 Montreal Road, 181 Montreal Road, 185 Montreal Road, 2 Montreal Road, 201 Montreal Road, 233 Montreal Road, 25 Montreal Road, 251 Montreal Road, 255 Montreal Road, 257 Montreal Road, 263 Hannah Street, 270 Montreal Road, 272 Montreal Road, 275 Montreal Road, 279 Montreal Road, 281 Montreal Road, 287 Montreal Road, 289 Montreal Road, 29 Montreal Road, 309 Montreal Road, 310 Montreal Road, 323 Montreal Road, 339 Montreal Road, 343 Montreal Road, 381 Montreal Road, 385 Montreal Road, 519 Montreal Road, 55 Montreal Road, 595 St. Laurent Boulevard, 598 Montreal Road, 605 Centre Street, 606 Montreal Road, 609 Centre Street, 615 Centre Street, 630 Montreal Road, 75 Montreal Road, 81 Montreal Road, 85 Montreal Road, 89 Montreal Road, 90 Montreal Road, 94 Montreal Road, and 99 Montreal Road.

- There is potential for redevelopment of these sites if combined with an adjacent property/properties. However, any individual site is less likely to intensify on its own. There is no apparent relationship between the property owner and an adjacent site, as per Municipal Property Assessment Corporation data.

Category 5 – "Unlikely" (9 sites)

277 Granville Street
- Site size is not well suited to support intensification.

282 Dupuis Street
- This is among the more modern commercial/office developments in the CIP area. This is not considered a good candidate to promote intensification, given the density that already exists on site.

282 Montreal Road
- Two-storey building already represents a fair amount of density for this site.

286 Montreal Road
- Two-storey building already represents a fair amount of density for this site.

322 Montreal Road
- Commercial condominium units – unlikely to intensify given the amount of density already in place.

412 Montreal Road
- Residential property – this very small site is of little significance, unless acquired as part of larger land assembly.

414 Montreal Road
- Residential property – this very small site is of little significance, unless acquired as part of larger land assembly.

617 St. Laurent Boulevard
- Site size and location is not well suited to support intensification.

665 Montreal Road
- Motel is currently undergoing extensive renovations.

OUTREACH

Overview

Following the development of the Opportunity Short List and review/approval by City staff, we interviewed select property owners. The interviews were a combination of face-to-face and (primarily) telephone interviews. The interviews were held on a confidential basis, in order to obtain feedback that a property owner/representative may not have disclosed directly to City staff. Accordingly, all responses are provided in an aggregated fashion (where required), so that a specific property owner cannot be identified. These interviews build upon an earlier consultation event held by City staff on April 30, 2018.

The interview questions focused on the following topics:

- Level of responsibility/decision-making of the interviewee;
- Interviewee's knowledge of CIP elements;
- Interviewee's perception of CIP elements that would be appropriate for Montreal Road, and more specifically, for their own property;
- Interviewee's level of interest in participation in a CIP; and,
- Determination of ongoing interest in the CIP development process on the part of the interviewee.

From the original list of 76 properties, Cushman & Wakefield developed a short list of 25 properties to be considered. Our consultation with property owners was concentrated on the properties deemed to have a higher success probability: those deemed a Category 1 – "Yes", Category 2 – "Maybe", and Category 3 – "Maybe – Ownership of Adjacent Sites". Sites considered less likely to be CIP participants, due to site conditions, or the necessity to assemble adjacent properties in order to maximize redevelopment potential, were excluded from further analysis.

Of the 25 properties short-listed, we were successful in reaching almost three-quarters for an interview (19 properties, or 76%). Of the 19 respondents, 26% (5 properties) were considered to be within our Category 1 – "Yes" subset of participation; these respondents were found to be larger, regional/institutional owners. The remaining 74% (14 properties) respondents were found within the Category 2 – "Maybe" and Category 3 – "Maybe – Ownership of Adjacent Sites" subsets, and included primarily local/independent owners.

Our findings showed a distinct trend within each ownership structure, as discussed below. For the purpose of confidentiality, this report does not disclose the property owners/representatives that were interviewed.

Regional/Institutional Owners Comments

Larger owners in the Study Area were of a regional or institutional ownership-type. The management structure of a regional/institutional owner differs significantly from that of the localized independent owner, as these larger landlords are responsible for specific criteria related to the controlling investment fund, shareholders, and operations of the parent company.

The following highlights the key findings of interviews with Regional/Institutional owners:

- Respondents for this ownership structure type were generally familiar with a CIP – particularly those that have been previous participants in existing CIP's within the City of Ottawa, or elsewhere.
  - Among those unfamiliar with the proposed CIP, we undertook lengthier discussions of the potential opportunities that a CIP, if implemented, could provide.
  - Upon discussion of the potential CIP elements and the goals that the City wishes to accomplish, the respondents all indicated a willingness to receive further information, and be involved in the process as it unfolds.
- 60% of Regional/Institutional owner respondents indicated a willingness to explore alternative programs implemented with a CIP, as these owners have had previous exposure to other CIP programs.
- 80% of Regional/Institutional owner respondents indicated that the implementation of a CIP would not necessarily expedite decisions to improve their properties, but that opportunities would be explored within their existing long-term capital plans, and further pursued if the cost-benefit analysis proved positive.
  - The rationale behind this assertion is that as these ownership groups are responsible for specific requirements related to return on investment of the asset, and that although a favourable program in a general sense, expediting capital expenditure items would affect their "bottom line", and thus may preclude participation.
- 100% of Regional/Institutional owner respondents indicated that the implementation of a CIP in any form would not necessarily affect their capital plans; their focus was on maintaining occupancy and enhancing cash flow, rather than focusing on physical property improvements.
- 100% of Regional/Institutional owner respondents requested additional information related to the monetary allocations (minimums/maximums), as well as the projected time period to implementation and duration of a CIP.
- 80% of Regional/Institutional owners indicated that the proposed minimum property value uplift threshold ($250,000) could be a barrier for smaller, localized participants, and that a potential modified threshold could be implemented to enhance the program and encourage wider participation.

- When further explored, the following comments were noted:
  - A higher threshold limit could price smaller owners out of the program, who would otherwise be participants.
  - Lack of smaller owner participation could be perceived as favoritism towards larger/better capitalized property owners, or as a developer-centric model.

Local/Independent Owners Comments

Local or Independent owners are smaller in structure and operation in comparison to Regional/Institutional owners. Typically, these Local/Independent owners are characterized as individuals who are stepping into the foray of commercial property ownership, and are more heavily (directly) involved in their properties, as there is a heightened attachment or “pride of ownership”, as compared to larger ownership groups who may be more focused on portfolio-level management. The performance of a single property is less critical to Regional/Institutional owners, who manage a portfolio of assets, compared to a Local/Independent owner/investor, who may manage only a small number of assets (or just one).

The following highlights the key findings of interviews with Local/Independent owners:

- Respondents for this ownership structure type were generally familiar with a CIP, either through their attendance at the earlier community forum organized by City staff, or ongoing participation/involvement with the local BIA. Upon discussion of the elements of the proposed CIP and its goals, the respondents all indicated a willingness to receive further information.
- 100% of respondents indicated a willingness to participate in any and all applicable programs made available within the CIP – with the caveat that the exploration of all the programs would come at no additional charge to themselves for doing so.
- Almost 80% of Local/Independent owner respondents indicated that the implementation of a CIP would expedite decisions to improve their properties.
  - In further exploration of interest by these property owners, we asked about their probability to participate in view of the proposed minimum property value uplift threshold of $250,000. 64% of respondents indicated they did not have the funds required to reach this dollar threshold, and/or raised concern that the investment in the property would not be “worth it in the end.”
  - All Local/Independent owner respondents requested additional information related to the monetary allocations (minimums/maximums), as well as the projected time period to implementation and duration of a CIP.

Montreal Road BIA Comments

The BIA believes that increased property improvement is one of the keys to fostering a healthy retail-commercial market in the community of Vanier, and to reduce the community stigma that has prevailed in recent years.

The BIA has conceded that the Montreal Road area of Vanier has historically been below a threshold/standard in comparison to other arterial/traditional main streets within the city. However, they've also indicated that local business owners recognize this, and have shown a willingness to improve their properties to enhance the area. The BIA believes that with incentive programs in place, improvement in local business and properties will be more economically viable for the area.

The City of Ottawa has already put forth plans for improvements to Montreal Road, including infrastructure and roadway improvements. The BIA notes that this improvement has been met with mixed emotions as to the results the changes may bring to Montreal Road.

Summary of Findings

In general, we observed a divide between the respondents interviewed which matched closely the respective ownership structures and our analysis of probabilities of participation. Local/Independent owners typically showed a willingness to participate in a CIP, as long as their costs were modest. Alternatively, Regional/Institutional owners have the funds and wherewithal to absorb capital costs, but would not necessarily participate if the return did not have a positive effect on their bottom line (a focus on return on investment).

Larger Regional/Intuitional Owners recognized that for any significant change to be made along Montreal Road, that participation of local/smaller owners would be a key requirement, and indicated that the minimum threshold and/or program incentive must be at a breakpoint that benefits all parties, while still being fiscally responsible.

A number of owners were not well informed about the program details and potential benefits of a CIP. Further marketing and an outreach/education program would be a necessary element of the roll-out of a Community Improvement Plan for Montreal Road.

All respondents indicated that further information would be well received, and should be made available to them in a comprehensive but accessible means, in order for them to fully understand the potential of the CIP. When asked how they would like to see this accomplished, several answers came up, including:

- A link to the City of Ottawa webpage;
- Joint marketing with the Vanier BIA; and,
- Concise marketing material which would direct them to a specific individual at the City of Ottawa (a dedicated point of contact) who could answer all of their questions.

Cushman & Wakefield notes further that communications materials could be included with property tax assessment notices as an effective means of marketing the Montreal Road CIP, if it is enacted.

It is our belief that although respondents conveyed positive attitudes and a willingness to participate, actual participation will be directly related to the structure and elements of the program implemented, and the amount of funds made available to participating property owners, and program timing.

RECOMMENDATIONS

Overview

The following section explores a range of issues that emerged as Cushman & Wakefield considered the suitability of a CIP for Montreal Road. We then provide a rationale for proceeding with the development of a CIP, along with an implementation strategy.

Issues for Consideration

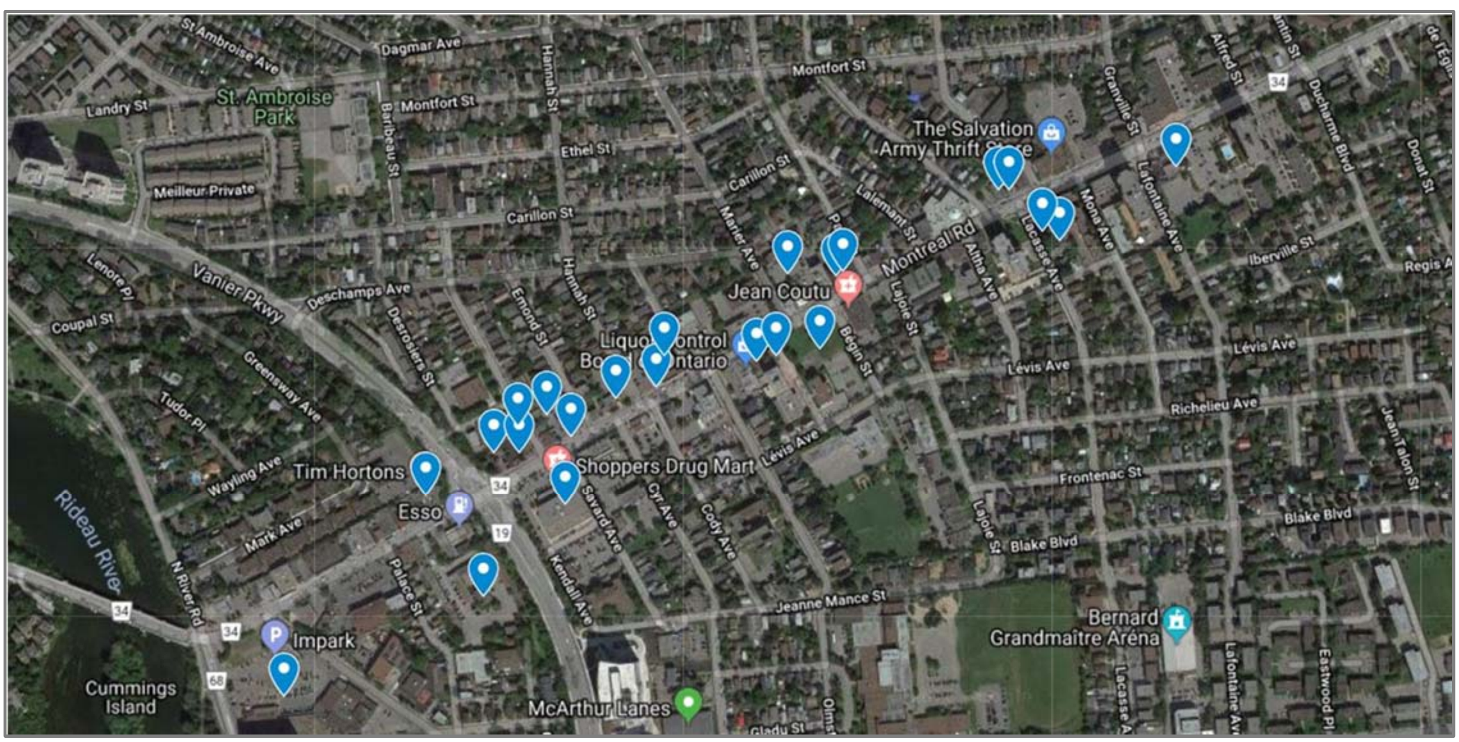
In our assessment of the rationale for proceeding or not proceeding with a CIP for Montreal Road, a number of key issues have been identified. Below, we discuss each issue, and how it may impact the success of the proposed CIP.

<u>Issue #1: CIP Boundary Refinement</u>

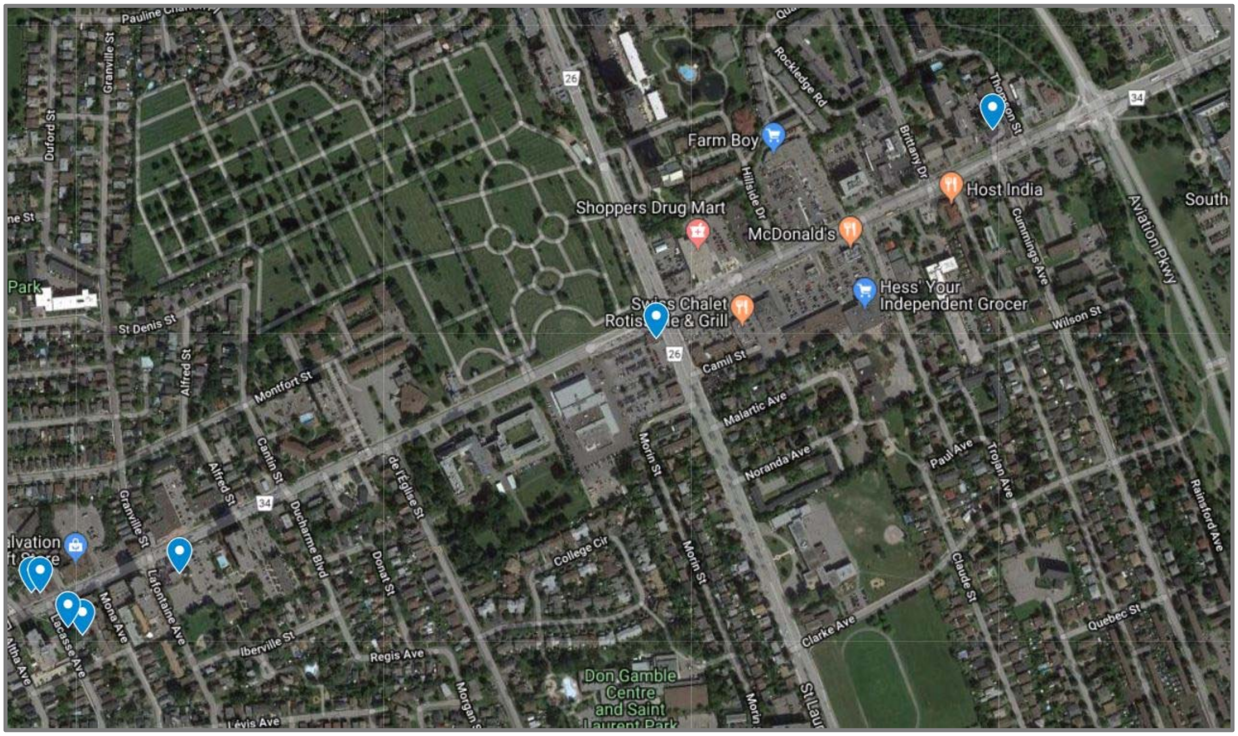
Overview

Cushman & Wakefield has identified two distinct geographies within the Montreal Road Study Area. It is observed that the built form and character changes from a "main street/streetfront commercial" feel in the west, to a more "arterial commercial" feel in the east. The transition point is in the area of Notre-Dame Cemetery/St. Laurent Boulevard. The following mapping identifies the location of the 25 short list properties; notably, 24 are situated west of St. Laurent Boulevard.

Map of Short List Properties: Western Section



Map of Short List Properties: Eastern Section



Conclusion

Based on these observations, there is a rationale for City staff to consider adjusting the boundary of the CIP to include only properties within the original Study Area that lie between North River Road in the west and St. Laurent Boulevard in the east.

Issue #2: Perceived Inclusiveness

Overview

An important consideration for any CIP is that it be seen as being accessible to all property owners within the defined boundary area, should they seek to participate. Cushman & Wakefield has some concern – reinforced through our interviews with local property owners – that the proposed minimum property value uplift threshold of $250,000 may preclude participation among some of the smaller, independent owners along Montreal Road. There is a feeling that this level of capital commitment may be perceived as favouring the larger, better capitalized or institutional property owners in the area. It is important to recognize that a $50,000-$200,000 capital reinvestment in a property currently valued at less than $1,000,000 represents a substantial contribution from the property owner, whom may not have the financial means to contribute beyond this amount, and whom but for the CIP would not undertake this reinvestment.

Whereas larger, well capitalized property owners may seek to leverage the TIEG to redevelop a property to a higher and better use, with increased density, those smaller property owners along Montreal Road may have different real estate investment objectives. An independent owner of a single property may prefer to allocate $250,000 of capital towards the purchase of a second property, rather than reinvest in their current asset. For example, a $250,000 investment could be leveraged with financing (at a conventional loan-to-value ratio of 75%) to acquire a property valued at $1,000,000. This new asset would provide a second income stream, rather than the “all eggs in one basket” approach of reinvesting in the original owned property. However, if the proposed $250,000 property value uplift threshold were reduced, it may trigger incremental capital improvements at Montreal Road properties that would otherwise not occur.

Conclusion

Cushman & Wakefield recommends that City staff reconsider the $250,000 investment threshold minimum, and instead rely upon a lower threshold amount of $50,000. This would serve to prohibit trivial applications that do little to truly enhance property values, while increasing the accessibility and perceived inclusiveness of the CIP program.

Issue #3: Lease Clauses

Overview

Commercial leases involve various commitments between the landlord and a tenant. Among the set of rights that a tenant may gain under a lease agreement are the right to quiet enjoyment of the premises, as well as the right to compensation in the event a lease is terminated, or the property is demolished. While a number of the properties within the Study Area are owner-occupied, these lease clauses are all of relevance to a scenario where a leased property is targeted for redevelopment under the proposed CIP.

Quiet Enjoyment

“Quiet enjoyment” refers to the right to the undisturbed use and enjoyment of real property by a tenant or landowner. It is of relevance to this CIP analysis, as tenants of a leased property could claim that this right is being violated, should a property owner pursue a significant redevelopment. Thus, leased properties may be less likely to participate in the proposed CIP versus owner-occupied premises.

Demolition Clause

If included in the lease, a demolition clause will typically give the landlord the right to demolish, renovate, remodel, or alter the building, to such an extent that the landlord requires possession of the leased premises. The clause will typically stipulate a notice period (e.g. upon 12 months written notice), and may or may not grant compensation to the tenant.

A requirement for compensation to the tenant may inhibit the prospects of a landlord seeking to redevelop its premises, and take advantage of the proposed CIP. The absence of a demolition clause could delay the timing of such a redevelopment until the lease has expired.

Termination Clause

An early termination right may be conferred to one or both parties to a lease, and may or may not incorporate compensation. If a landlord sought to redevelop its property, it may face a financial penalty in the event that the lease stipulates compensation to the tenant if the lease is terminated before the contractual term has expired. Therefore, the existence of such a clause may inhibit the prospects of a landlord seeking to redevelop its premises, and take advantage of the proposed CIP, or delay the timing of such a redevelopment until the lease has expired.

Conclusion

Commercial tenants have a range of rights under a lease with a landlord which may inhibit the potential redevelopment of a property. This makes owner-occupied properties more likely to be CIP participants.

Rationale for Proceeding with Development of a CIP

The goal of a CIP for Montreal Road is to stimulate renewal, growth, and increased commercial vitality in the area, by providing a Tax Increment Equivalent Grant for eligible property owners to invest in redevelopment of lands and/or buildings that are underutilized, idled, or in need of repair or renovation. **Our conclusion is that the City of Ottawa should proceed with the development of a Community Improvement Plan (CIP) for Montreal Road, focused on properties from North River Road to St. Laurent Boulevard.**

The efficacy of a CIP for Montreal Road – or its ability to produce the desired result or effect – is considered moderate. While there has been considerable interest expressed by property owners in our outreach interviews, it is noted that Regional/Institutional landlords are generally inclined to manage their assets according to a long-term capital reinvestment/redevelopment plans. Unless the expenditure can be linked to a return on investment, such landlords are inclined to maintain the status quo. On the other hand, Local/Independent property owners may have a more “hands-on” approach to their assets, and a direct financial interest in improving these properties. Also, the decision-making process of Local/Independent property owners is much more direct compared to larger landlords, who are responsible for a broad portfolio of assets, and who may delegate day-to-day property management authority to employees, yet retain final say on significant capital expenditures.

Of the 25 short list properties, 24 are located between North River Road and St. Laurent Boulevard. In discussion with short list property owners (19 property owners were reached), 60% of Regional/Institutional owner respondents indicated a willingness to explore the possibility of CIP participation – although it would not necessarily expedite decision-making with regard to long-term capital planning. Among the Local/Independent owners that were interviewed, all indicated a willingness to consider CIP participation, although nearly two-thirds indicated that the $250,000 investment threshold minimum was infeasible.

In reconciling some of the issues and challenges associated with the proposed CIP, **Cushman & Wakefield recommends that City staff reconsider the $250,000 investment threshold minimum, and instead rely upon a lower threshold amount of $50,000**. This would serve to prohibit trivial applications that do little to enhance property values. An independent property appraisal is required in order to satisfy the City that the proposed redevelopment is in accordance with the required minimum property value uplift, so that it is not discovered after the fact that a smaller-scale redevelopment has in fact not met the uplift target, once Municipal Property Assessment Corporation's valuation takes place post-redevelopment. The adjustment away from the proposed $250,000 minimum also has the effect of increasing the perceived equitability/inclusiveness of the CIP – as to not be seen to be favouring larger, well capitalized owners, to the detriment of smaller, independent property owners.

Implementation Strategy

The following are key elements of the implementation strategy in order for the CIP to be successful:

1. BIA as a "program champion"

The Quartier Vanier BIA requested that the City of Ottawa consider a Community Improvement Plan for the area. The BIA must become the "program champion" for the project, and serve as a key outlet for the promotion and marketing of the CIP. It is apparent from our outreach interviews that details of the proposed CIP were not well understood among a segment of local property owners.

2. Dedicated City of Ottawa staff point-of-contact

The City of Ottawa should appoint a staff member from the Planning, Infrastructure and Economic Development Department to be the single-point-of-contact for inquiries regarding the Montreal Road CIP. This staff person would have contact information posted on the project website, and would periodically liaise with the BIA in order to monitor interest in the program. This staff person could also meet with prospective interested property owners to discuss the details of the CIP.

3. Comprehensive marketing program

It is clear from our outreach interviews that some property owners are not well informed about the nature of a CIP, and how to potentially take advantage of programs that may be offered. Therefore, a more aggressive marketing program for the Montreal Road CIP must be developed, compared to efforts to-date. This must include a website that provides information in a straight-forward manner for those making a cursory inquiry, as well as detailed program information for those looking for it – including a checklist of eligibility criteria (to be determined, but similar in scope to those for Ottawa's other CIPs for Orléans, Carling Avenue, St. Joseph Boulevard, and Bells Corners). In addition, materials should be prepared that the BIA can periodically distribute electronically and in hard copy format to members. Perhaps information can also be included in property tax assessment notices sent to property owners in the area covered by the CIP.

4. Set an initial time frame for the CIP

In order to stimulate program participation, a time frame should be set for the CIP. This will act to accelerate investment activity by property owners who may be considering a capital investment/reinvestment, but have a longer-term planning horizon. This will also provide City staff with an opportunity to review the success of the program, and to decide whether it should be extended, and/or refined, to better suit the needs of local property owners. A minimum five year time frame is recommended, in order to allow the program to extend well beyond the pending roadway revitalization that will impact a large portion of the CIP Study Area.