



REAL Hotel Lease

Date	October 6, 2021
To	Executive Committee
From	Financial Strategy & Sustainability
Service Area	Land, Real Estate & Facilities
Item No.	EX21-64

RECOMMENDATION

The Executive Committee recommends that City Council:

1. Pursuant to the Campus Master Lease Agreement between the City and the Regina Exhibition Association Limited (REAL), consent to REAL entering into a sublease to Genesis Hospitality Inc. of a portion of the City owned property located at 1700 Elphinstone Street (Campus) for a potential total term, including all possible extensions, of 90 years and otherwise in accordance with the terms and conditions as described in this report.
2. Delegate authority to the City Manager, or his designate, to provide written confirmation on behalf of the City of said consent, including consent to any amendments or terms that do not substantially change what is described in this report.
3. Delegate authority to the City Manager, or his designate, to sign or authorize the signing of any required planning permits on behalf of the City, as landowner, to initiate any necessary planning processes for the development contemplated by the said sublease.
4. Approve these recommendations at its meeting on October 13, 2021, after giving public notice in accordance with *The Public Notice Policy Bylaw, 2020*.

ISSUE

Further to the approved Master Campus Lease Agreement (Campus Lease) between the City of Regina (City) and the Regina Exhibition Association Limited (REAL), REAL leases and is

responsible for the operation, maintenance and development of the City owned property and facilities located at 1700 Elphinstone Street (Campus). In accordance with the Campus Lease, REAL has entered into a conditional offer to lease, outlined on the attached Schedule A, and based on the offer has requested the City's consent to enter into a sublease with Genesis Hospitality Inc. (Genesis) of a portion of the Campus, identified as "Parcel B" on the attached Schedule B. City Administration has reviewed the offer to lease that REAL has proposed and confirmed that the terms and conditions contained within are consistent with the requirements of the Campus Lease. The responsibility of the day-to-day operation and management of the sublease will rest with REAL.

Pursuant to the terms of the Campus Lease, REAL is authorized to sublease portions of the Campus, without the City's consent, on condition that, among other requirements, the proposal is consistent with the Master Site Plan and the term of the sublease does not exceed the current term of the Campus Lease. In this case because the Master Site Plan has not yet been approved by Council and the proposed sublease, if fully extended, is for a total term of 90 years which exceeds the current term of the Campus Lease, City Council approval is required. Administration is seeking Council's consent to REAL entering into the sublease as presented by REAL and as described in this report.

IMPACTS

Policy/Strategic

The Campus Lease authorizes REAL to enter into subleases of the site, subject to obtaining the City's prior consent where the proposed term of the sublease could exceed the current term of the Campus Lease. Section 41 of *The Regina Administration Bylaw No. 2003-69* authorizes the City Manager to approve leases of City owned property with some exceptions, including any lease involving a term not exceeding 10 years.

In this instance, City Council approval is required as the potential term of the proposed Sublease is both longer than the current term of the Campus Lease and exceeds 10 years.

The proposed development is consistent with policy 12.6 of *Design Regina: The Official Community Plan Bylaw 2013-48* in Section D10 Economic Development Goal 2 Economic Growth:

- 12.6 Collaborate with community economic development stakeholders across the region to leverage shared economic advantages and tourism opportunities, including but not limited to:
 - o 12.6.4 Maximizing potential linkages and leveraging special economic assets such as Innovation Place, the Global Transportation Hub, Regina International Airport, the University of Regina and other specific lands and land uses with high linkage/spinoff potential.

The Campus is the largest civic and sport resource in the city. This development is consistent with the REAL 2.0 Strategic Plan for the Campus, which was previously supported by City Council. It supports the continuing financial vitality of the Campus by increasing activation of the site and provides an additional opportunity for services to residents, users of the Campus and the travelling public. The development expands the Campus to support its place as an important community destination point and institution.

Financial

The City will not see a direct revenue stream from the sublease as rental revenues are retained by REAL. However, the net revenue from the lease will assist in offsetting operational costs to REAL and fulfilling its obligations under the Campus Lease with respect to the repair, maintenance and capital renewal of the Campus.

The term of the sublease is for 40 years with five options for Genesis to extend for an additional ten years each, for a total potential lease length of 90 years. The annual lease rates for the first 40 years of the sublease are as follows:

Years 1-10	\$108,000 annually
Years 11-20	\$118,800 annually*
Years 21-30	\$145,324 annually
Years 31-40	\$168,577 annually

*The proposal includes a provision to increase the 11 – 20 year annual rate to \$125,280 in the event that the City’s development charges applicable to the proposed development at the time of actual permit application(s), are at least \$200,000 less than such charges that would have applied to the same application(s) as of September 10, 2021.

Genesis will pay \$7,500 per year for access road costs which will increase by eight per cent every five years.

After the initial 40 year lease, provided Genesis is in good standing, each of the subsequent five 10-year renewal periods will be granted under the same terms and conditions except for Rent and Access Road Costs which shall be determined at the beginning of each extension term by mutual agreement of the parties or, in absence of agreement, through arbitration in accordance with *The Arbitration Act 1992* (Saskatchewan) based on the fair market rent for unimproved land of similar size and location and the Access Road Costs shall be based on Genesis’s proportionate share of the REAL’s actual costs to maintain the access roads.

The sublease grants the lessee a 24-month fixturing period rent free from the date of possession.

REAL will be responsible to provide (at its sole cost) adequate utility servicing (fibre optics, natural gas, electrical, water and sewer) to the property boundary of the leased land as well as for obtaining

all required subdivision control and zoning approvals. REAL will also allow connection to the International Trade Centre building, the cost of which will be the responsibility of Genesis.

While details of the property tax revenue are not yet available, the City will expect to see a positive financial impact related to the collection of property taxes from the proposed development.

The City will retain ownership of the land.

Environmental

City Council set a community goal for the City of Regina of achieving net zero emissions and sourcing of net zero renewable energy by 2050. In support of this goal, City Council asked Administration to provide energy and greenhouse gas implications of recommendations so that City Council can evaluate the climate impacts of its decisions.

The proposed sublease involves the construction of a hotel on City-owned property. Although difficult to quantify at this stage, the construction of any new building contributes to additional greenhouse gas (GHG) emissions in two ways. First, producing building materials and the construction process itself are both energy intensive and generate emissions. Second, there are also GHG emissions associated with the lifecycle of a building.

Unlike other assets, buildings are not replaced frequently. Roughly 60 per cent of all buildings in use today will still be in use by 2050 and buildings account for 18 per cent of Canada's GHG emissions. The negative impact of energy inefficient buildings will persist for multiple generations. It is important that significant attention be given to decisions on energy performance and efficiency as both will have direct implications on long-term GHG emissions.

Although the Master Site Plan and Design Guidelines have not yet been submitted by REAL for City Council's approval, REAL has agreed through the Campus Lease to require development on the Campus generally to incorporate standards that encourage strategies for sustainable development.

OTHER OPTIONS

City Council could refuse to consent to the sublease or provide consent subject to conditions or to REAL negotiating changes to any specific terms that are of concern.

COMMUNICATIONS

Public notice of the Campus Lease, including the granting of authority to sublet the property, was previously given in accordance with *The Cities Act* and *The Public Notice Policy Bylaw, 2020*.

Because the proposed sublease has the potential to extend beyond the current term of the Campus Lease, public notice of City Council's intention to consider consent to enter into a sublease with

Genesis was also given in accordance with applicable legislation.

A copy of this report has been provided to REAL and City Council's decision will also be provided to REAL who will communicate with the proposed tenant.

DISCUSSION

REAL is a non-profit, municipal corporation wholly controlled by the City of Regina. REAL's corporate mandate includes that it will "develop, operate and maintain City and other facilities to provide world-class hospitality for trade, agri-business, sporting, entertainment and cultural events that bring innovation, enrichment and prosperity to the community." In February 2020, REAL presented the City's Priorities and Planning Committee with its renewed Strategic Plan for 2020-2035 (REAL 2.0 Strategic Plan) outlining its intention to expand existing and develop new commercial opportunities on the Campus that support its mandate.

REAL has historically undertaken the care and management of the Campus pursuant to previous operating and leasing agreements entered into with the City over many decades. On August 11, 2021, the City approved an updated Campus Lease Agreement with REAL that reflects the continuation of the traditional scope of REAL's role in relation to the Campus, but also includes expanded authority to pursue new development and subleasing opportunities for portions of the Campus where such proposals are consistent with the Strategic Plan, the approved Master Site Plan and other conditions as outlined in the Campus Lease.

In accordance with the requirements of the Campus Lease, the City expects that REAL will be submitting its proposed Master Site Plan and Design Guidelines for the Campus for City Council's approval before the end of 2021. In the interim, the proposed sublease is consistent with the previously endorsed Strategic Plan and with the identified use for this location on the Campus.

Further to its overall role in managing and operating the Campus and its authority under the Campus Lease, REAL as an independent municipal corporation of the City, is responsible for undertaking appropriate due diligence in assessing terms and conditions of any lease agreements it enters into. REAL has secured and vetted the proposed tenant and is directly responsible for negotiating the commercial terms for the proposed sublease and for managing the rights and obligations of the landlord thereafter. However, based on the length of the proposed term which, if fully extended, has the potential to extend the sublease beyond the current term of the Campus Lease, the City's consent is required.

The key business terms of the sublease for which consent is requested are outlined below:

- **Subtenant** – The proposed subtenant is Genesis Hospitality Inc.

Leased Premises & Use – The proposed leased premises are within the REAL Campus, comprising an area of approximately 1.5 acres located as shown as Parcel B on Schedule B. Genesis proposes to build and use the premises solely for the purpose of operating a 140-room hotel on the site. REAL will also allow connection to the International Trade Centre building, the cost of which will be the responsibility of Genesis.

- **Term** – The sublease is granted for an initial term of 40 years, with an option for Genesis to extend the term for five subsequent terms of 10 years each. The full term, if all options are exercised, is 90 years.
- **Rent** – The rental rate was established and determined to be commercially competitive by Colliers International. All rent payments are retained by REAL in accordance with the Campus Lease, at the proposed rates for the initial 40 year lease term as follows:

Years 1-10	\$108,000 annually
Years 11-20	\$118,800 annually*
Years 21-30	\$145,324 annually
Years 31-40	\$168,577 annually

*provision for adjustment as previously noted.

- **Taxes** – Genesis is responsible for payment of the applicable property taxes to be assessed against the leased premises.
- **Tenant Improvements/Work** –The sublease makes Genesis responsible, at its expense, for construction of all required improvements to the land to build a +/-140-suite hotel complete with parking and landscaping. Genesis is also responsible (at its sole cost) for all required permits, fees, and applicable development charges.

REAL will be responsible to provide (at its sole cost) adequate utility servicing (fibre optics, natural gas, electrical, water and sewer) to the property boundary of the leased land as well as receive all subdivision control and zoning approvals. REAL will provide the tenant 24 months from the date of possession as a rent-free fixturing period. REAL will also allow connection to the International Trade Centre building, the cost of which will be the responsibility of Genesis. Other items included in the lease terms include:

- Genesis is granted license rights across other areas of the Campus for the purpose of access to and from the leased premises and will pay \$7,500 annually in addition to the rent reflecting a contribution to the cost of maintaining and repairing those access roads (this amount will increase by eight per cent every five years).
- Genesis will not be responsible to demolish its facilities at the end of the lease.

- Genesis agreement to become a member of the Regina Hotels Association for the initial five years of the lease.
- The sublease restricts the development of other hotels or similar temporary paid accommodation uses from being developed on the Campus.
- The sublease is subject to the satisfaction or waiver of a number of conditions, including Council consent, final confirmation of the site size, access and utility service connections for the development and related planning approvals, Genesis obtaining suitable construction contract(s) and financing and being satisfied with the condition and suitability of the site.

DECISION HISTORY

On April 29, 2020 (CR20-24), City Council authorized REAL to pursue material alterations to the Campus for the development of commercial opportunities which are aligned with their REAL 2.0 Strategic Plan.

On August 11, 2021 City Council approved the Master Campus Lease Agreement between the City and REAL.

This sublease has not been before City Council prior to today.

The recommendation contained in this report requires City Council approval.

Respectfully Submitted,

Respectfully Submitted,



Shaun Bzdel, Director, Land, Real Estate & Facilities

9/24/2021



Barry Lacey, Exec. Director, Financial Strategy & Sustainability

9/29/2021

Prepared by: Keith Krawczyk, Manager, Real Estate

ATTACHMENTS

Schedule A - REAL Hotel Lease Summary

Schedule B - Development Lands