

Report to Council



Date: October 3, 2022
To: Council
From: City Manager
Subject: Sublease – Northland Properties Corporation
Department: Kelowna International Airport and Real Estate

Recommendation:

THAT Council receives for information the report from Kelowna International Airport and Real Estate dated October 3, 2022, with respect to the sublease with Northland Properties Corporation.

Purpose:

To provide Council with information on the sublease with Northland Properties Corporation.

Background:

Kelowna International Airport's 2045 Master Plan (the 2045 Master Plan) identified that an on-site hotel could significantly add to customer service for passengers with late night arrivals or early morning departures, and through the expansion of restaurant and business meeting options on site. As a result, the 2045 Master Plan recommended that Kelowna International Airport (the Airport) explore the opportunity to have a hotel on-site through third-party investment.

The Agricultural Land Commission has also provided feedback to the City and the Airport on multiple occasions about their desire for a parkade to be built on-site.

In the first quarter of 2022, the Airport worked with HM Commercial Group (HM) to market a three-phase expression of interest for a long-term land lease to build a hotel and parkade at the Airport. The hotel and parkade site could be up to 3.9 acres, the land lease term was for up to 99 years, the price was \$9,995,000 as determined by an independent appraisal, and there was a requirement for a 1,000-stall parking solution. This process included a marketing campaign from October 2021 to January 2022, consisting of an MLS listing, on-site signage and 471 emails sent to local, national, and international clients. Following a robust three stage selection process where a 7-person committee assessed the expressions of interest on a variety of factors including; experience, financials, amenities, construction philosophy, and feasibility, Northland Properties Corporation (NPC) was selected as the successful proponent to move forward with negotiations.

NPC is Canada’s largest privately owned hospitality company and is one of the most trusted names in hospitality. It was incorporated in 1963 and is 100% Canadian owned and operated. NPC believes the foundation of its success is the talented individuals who build and create its unforgettable guest experiences, and the guests who choose to experience NPC’s hospitality. NPC operates in five countries, has 10,000 employees, owns, and operates 63 hotels and resorts, 175 restaurants and venues, and three hockey teams, and is the force behind well-known brands including The Sutton Place Hotels, Sandman Hotel Group, Moxies, Denny’s, Chop Steakhouse & Bar, Shark Club, Revelstoke Mountain Resort, Grouse Mountain, and the Dallas Stars NHL team.

The hotel would be located adjacent to the Airport terminal building on lands leased from Transport Canada as outlined in the sublease attached as Appendix A. As a result, the Airport would receive 100% of revenues generated from the sublease.

Previous Council Resolution

Resolution	Date
<p>That Council approves the sublease with Northland Properties Corporation attached as Appendix A to the report of the Kelowna International Airport and Real Estate departments dated September 26, 2022;</p> <p>AND THAT the 2022 Financial Plan be amended to include the annual revenue and costs associated with the Northland Properties Corporation sublease as outlined in the report from Kelowna International Airport and Real Estate dated September 26, 2022;</p> <p>AND THAT the Real Estate Department Manager be authorized to execute all documents necessary to complete and maintain this transaction, including renewals;</p> <p>AND FURTHER THAT Council direct Kelowna International Airport and Real Estate to bring forward details of the sublease with Northland Properties Corporation to a regular PM Council meeting.</p>	<p>September 26, 2022</p>

Discussion:

Fair Market Value

A third-party land lease rental valuation was commissioned to determine the market value of the hotel and parkade lands. This report concluded that the prepaid land rent for a term of up to 99 years was \$9,995,000 for 3.9 acres. The proposed term of the hotel sublease is outlined in the table below.

Hotel Sublease

Sublease Component	Description
Tenure Type	Land sublease
Land Sublease Area	2.0065 acres

Term	Commencing on the date that all conditions precedent are satisfied or waived and expiring on December 31, 2054
Renewal Consideration	Options to renew aligned with Head Lease renewals granted, not to exceed a total term of 99 years.
Buyout	<p>If</p> <ul style="list-style-type: none"> the City's lease with Transport Canada is terminated or not renewed, and the Airport assets are transferred or leased to a person who is not the City, airport operator or an airport authority, and NPC no longer has any right to occupy the subleased lands or the hotel, and the City receives compensation for the subleased lands and the hotel, <p>the City shall pay NPC the then current market value for the subleased lands and hotel based on the remaining term of the sublease based on a 99-year term.</p>
Option to Purchase Land	If the City becomes the owner of the land the hotel is built on and wishes to sell the land to a third-party which is not an airport operator or airport authority, NPC will be granted the right to purchase the hotel lands at fair market value.
Rent	<ul style="list-style-type: none"> \$500,000 deposit on the date the sublease is fully executed \$2,072,426.50 on the date that all of NPC's conditions precedent are satisfied or waived \$110,506.63 annually for 40 years commencing on the date the construction of the hotel reaches substantial completion
Airport Maintenance Charge	\$3,248.70 per annum (increasing at 2% per annum as per Airport Fees Bylaw 7982).
Sublease Costs	<ul style="list-style-type: none"> Tenant to pay all costs. City to pay the cost of providing utility services to the border of the subleased lands and relocating a utility easement at an anticipated cost of \$3,470,000.
Construction	Construction to commence within 18 months of the City removing its conditions precedent and be substantially complete within 54 months of the City removing its conditions precedent.
Hotel	<ul style="list-style-type: none"> Minimum of a six storey, 207 room Sutton Place hotel Maximum of an eight storey, 293 room Sutton Place hotel Conference space Restaurant To be constructed, finished and appointed to the same level as the Sutton Place Halifax Branding not to be changed Hotel not to fall below a British Columbia Automobile Association four diamond rating (except for the expectation to provide valet service)
Parking	<ul style="list-style-type: none"> NPC to construct at least 105 surface parking stalls on the subleased premises

	<ul style="list-style-type: none"> • If a parkade is built: <ul style="list-style-type: none"> (i) 146 parking stalls less the number of surface parking stalls constructed, designated for exclusive use for NPC employees and/or patrons of the hotel while staying at the hotel at no charge on the parkade property (ii) Reasonable commercial efforts made to accommodate the additional parking needs of patrons of the Hotel while staying at the Hotel on a non-exclusive basis at 70% of the daily rate, limited to up to 44 parking stalls within the parkade at any one time (iii) Patrons of the restaurant shall be entitled to 2 hours of free parking in the parkade on a non-exclusive basis
City Conditions Precedent	<ul style="list-style-type: none"> • Within 90 days of execution of the hotel sublease, the City is satisfied, in its sole discretion, with the cost of providing utility services to the boundary of the subleased lands and relocating a utility easement • Within 90 days of execution of the hotel sublease, the City and NPC enter into a sublease for construction and operation of a parkade at the Airport
Subtenant's Conditions Precedent	<ul style="list-style-type: none"> • Within 90 days of the City removing its conditions precedent, NPC shall be satisfied in its sole discretion with the results of all searches, reviews and investigations which NPC deems advisable with respect to the subleased lands • Within 15 months of the City removing its conditions precedent, receipt of development and building permit approvals for the construction of the hotel • Within 100 days of execution of the hotel sublease, the Subtenant is satisfied, acting reasonably, with parking arrangements. This condition is waived if the parties enter into a ground sublease for the construction of a parkade.
Site Condition on Expiry	Land, structures, and any improvements revert to the City upon expiry.
Demolition Fund	An amount equal to demolish and remove the buildings is to be calculated at year 80, with that amount to be deposited into a separate account by NPC in equal instalments over the last 19 years of the Term. If the building is demolished for less than the Demolition Fund, the difference will be paid to NPC. If the building is renovated, the Demolition Funds can be used towards renovations.
Use of Meeting Room Facilities	The City is granted the use of hotel meeting room facilities up to six times per year for City-related business development events.
City of Kelowna Usage	The City of Kelowna will be granted 25 stays per calendar year for business development and related business purposes.

The Airport and Real Estate will continue to work with NPC on a parkade sublease that will be brought to Council for approval. If the parkade sublease is approved by Council, or the City waives the condition for

a parkade sublease, NPC will apply for a zoning bylaw text amendment and a development permit for the hotel, for Council to consider.

Conclusion:

The Airport and Real Estate recommend Council receives this report for information.

Internal Circulation:

Financial Services
Real Estate
Communications

Considerations applicable to this report:

Legal/Statutory Authority:

Notice of disposition of City-owned land was published pursuant to Section 26 of the *Community Charter*.

Financial/Budgetary Considerations:

The sublease with NPC will result in a \$500,000 deposit being paid on the date the sublease is fully executed, \$2,072,426.50 being paid on the date that all of NPC's conditions precedent are satisfied or waived, and \$110,506.63 being paid annually for 40 years commencing on the date the construction of the hotel reaches substantial completion. The Airport Maintenance Charge will be paid at an annual rate of \$3,248.70, increasing at 2% per annum. The 2022 revenue associated with the sublease, and the \$3,470,000 in capital expenditures will be incorporated in the 2022 Financial Plan. It is anticipated that the capital expenditures will be incurred in 2024. The expenditures will be funded from the Airport Fund and there will be no impact to taxation.

Considerations not applicable to this report:

Legal/Statutory Procedural Requirements:

Existing Policy:

External Agency/Public Comments:

Communications Comments:

Submitted by:

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Approved for inclusion:

S.S.

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