

ON TABLE ITEM

Date: Dec. 18, 2017
Meeting: Public Hearing
Item: #5-Onni

Schedule 11 to the Minutes of the Public Hearing meeting of Richmond City Council held on Monday, December 18, 2017.

CityClerk

From: Badyal,Sara
Sent: Monday, 18 December 2017 08:51
To: CityClerk
Cc: Craig,Wayne
Subject: FW: Onni
Attachments: Onni Imperial Landing Dec 18 2017 Rezoning Amenity Contribution Calculation.pdf

-----Original Message-----

From: John Roston, Mr [<mailto:john.roston@mcgill.ca>]
Sent: Saturday, 16 December 2017 12:40
To: Brodie,Malcolm; Johnston,Ken; Au,Chak; Loo,Alexa; Dang,Derek; McPhail,Linda; Day,Carol; McNulty,Bill; Steves,Harold
Cc: Badyal,Sara; Sean Lawson
Subject: Onni

Dear Mayor and Councillors,
I have a couple of options to suggest for resolving the Onni amenity contribution saga. The preferred one proposes an amenity calculation based on fact, not guesses. It does not rely on consultants. It does not rely on trust and goodwill. It allows the project to proceed immediately without further hearings and chasing around in circles. Details are in my attached submission to the Dec. 18 Public Hearing.

With best wishes for the holiday season, John Roston

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Onni Imperial Landing Rezoning Amenity Contribution Calculation

Roston submission for Public Hearing December 18, 2017.

High lease rates and a low cap rate increase the uplift in property value that would result from rezoning. Doubts were raised about the report by the City's consultant, Mr. Wozny, because he used lease rates for some buildings that were lower than the lease rates that Onni submitted in 2014 as their expected lease rates and he used a cap rate that was higher than the cap rate submitted by Onni's consultant. A Steveston real estate agent, Mr. Lawson, also submitted his view that much higher lease rates and a much lower cap rate should be used.

At the last Public Hearing on Nov. 20th, Mr. Craig stated that staff had been in touch with Mr. Wozny and he did not wish to change his report. Councillor Loo pointed out that if Council had doubts about Mr. Wozny's report, it should not go back to him, but engage a different consultant. After the Public Hearing, Mr. Lawson submitted the name of a highly qualified appraiser who is familiar with Steveston commercial real estate. Staff nevertheless went back to Mr. Wozny and, as expected, he did not change his report. It's hard to see how Council is further ahead than it was on Nov. 20th.

The central problem is that no one knows the correct lease rates and cap rate that should be used in the calculation. The use of consultants results in educated guesses, but they are still guesses and not fact.

I have two options to suggest:

Suggested Option 1:

- A. There is no way to be sure of an appropriate cap rate without putting the buildings up for sale. Therefore, the easiest way to agree on a cap rate is to accept the 5.25% rate submitted by Onni's consultant.
- B. The lease rates and the costs involved in leasing are unknown until the buildings are actually leased. It may take a couple of years to fit out and lease all the space. Some of the space may be initially leased at artificially low rates for a brief period until longer term tenants can be found.
- C. The easiest way of being sure that accurate lease rates and leasing costs are being used is to agree on an amenity contribution that is split into two installments:
 1. The immediate payment of Onni's current offer of \$4.75 million.
 2. The calculation 3 years from now of the total uplift using the actual lease rates and leasing costs at that time for all 6 buildings. Agree now that the total amenity contribution will be the greater of 75% of that calculation of actual uplift or the \$4.75 million already paid. If that total amenity contribution is greater than \$4.75 million then the difference will be paid at that time.
 3. If Onni is operating a hotel itself rather than leasing it to an independent hotel operator, then the actual hotel revenue can be used to calculate an appropriate nominal lease rate.
- D. The advantage of this arrangement is that the amenity calculation is based on fact, not guesses. It does not rely on consultants. It does not rely on trust and goodwill. It allows the project to proceed immediately without further hearings and chasing around in circles.

Suggested Option 2:

- A. If Onni does not accept Option 1 then the main reason will be that it knows the actual lease rates will be much higher than the lease rates used by the consultants and/or the leasing costs will be much lower. That should give Councillors pause in considering other options.
- B. Councillors for whom the hotel is a key factor in their support for rezoning should keep in mind that Onni has refused to commit to actually opening a hotel.
- C. Similarly, Councillors for whom eliminating empty buildings is a key factor should keep in mind that Onni may leave Buildings 5 and/or 6 empty to continue public pressure for rezoning to allow retail.
- D. If Councillors nevertheless choose to pursue a single amenity contribution payment now, then the full \$5.5 million contribution calculated by the City's consultant should be the lowest amenity contribution that the circumstances allow them to accept.
- E. Although this option allows the project to proceed immediately without further hearings, the amenity calculation is based on guesses by consultants. The issues of trust and goodwill remain. There is the possibility that in 3 years, when actual lease rates are known, the acceptance of \$5.5 million will become a political issue.

Finally, I hope that Council will direct the amenity contribution to a Steveston amenity fund rather than the current designation for a new Steveston Community Centre. There should be consultation with Steveston residents on priorities before a decision is made on best use of the funds.

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