

# Staff Report



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| To           | <b>Committee of the Whole</b>  |
| Service Area | Office of the Chief Administrative Officer                                   |
| Date         | Tuesday, June 4, 2024  |
| Subject      | <b>Drill Hall Responses to Expression of Interest and Planned Future Use</b> |

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## Recommendation

1. That the building at 72 Farquhar Street known as the Drill Hall, be declared a surplus asset and that no further investment into the building other than general maintenance and security occur.
  2. That staff be directed to sell 72 Farquhar Street in accordance with City process and protocol.
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## Executive Summary

### Purpose of Report

The City acquired the property at 72 Farquhar Street, known as the Drill Hall, in 2017. The building's foundation and structure were in a failing condition. Rehabilitation work was completed to address this condition.

In 2021, staff completed a [market findings report](#) to investigate potential commercial uses for the site. The report concluded that there was no private market interest to acquire and repurpose the building. In [October 2021 Council directed](#) staff to prepare an open proposal to solicit uses for the property at 72 Farquhar Street in conjunction with finalizing the stabilization of the property.

In 2023, the City issued a public Request for Expression of Interest (RFEOI) for the use of the Drill Hall. Two submissions were received. The first submission proposed a business hub representing three entities using the space. The second submission proposed the Drill Hall be used as the Guelph Centre for the Visual Arts.

This report details the findings from the RFEOI process with the two proponents and the recommended next steps related to the Drill Hall building located at 72 Farquhar Street.

### Key Findings

The City received two submissions from the RFEOI process. The first submission, the Business Centre Guelph-Wellington, later identified that due to changes in community and business-support funding, they are currently focusing on their core business and are no longer interested.

The second proponent was the Guelph Centre for Visual Arts. This proposal requested significant financial capital and operating support from the City which staff do not recommend.

Currently, there is no financially viable use for the Drill Hall property that is in alignment with the City's capital budget and strategic plan. Given this, staff recommend declaring the building a surplus asset and that no further investment into the building, other than general maintenance and security occur. The building is a heritage-designated structure. Staff are recommending that the City begin the process to sell this asset.

Staff will initiate an appraisal for the site. The price and potential revenue generation will be informed by comparator data, parking availability, rail line setback area, heritage status and incenting site re-use among other site-specific criteria.

### **Strategic Plan Alignment**

Currently, continued support of the Drill Hall and rehabilitation costs do not align with the Strategic Plan nor the continued financial pressures the City is confronting.

The RFEOI was centered around supporting downtown revitalization and the economy. However, the associated financial support in both capital and ongoing operating funds required within both proposals exceeds approved and proposed budget limitations. The sale of the site is the recommended course of action.

### **Future Guelph Theme**

Foundations

### **Future Guelph Objectives**

Foundations: Maintain the City's healthy financial position

### **Financial Implications**

The Drill Hall was acquired through a land transaction with Metrolinx for a nominal value in 2017. This land transfer fulfilled the contribution agreement to extend GO Train service to Guelph. This contribution agreement and the City of Guelph financial contributions were outlined in report [FIN-13-49 "Metrolinx Contribution Agreement"](#). Refer to Attachment 1 - Staff Report FIN-13-49 Metrolinx Contribution Agreement.

Since 2017, the City has spent approximately \$5 million rehabilitating the building's foundation and structure. To bring the building to an occupant-ready state, another potential \$5 million (a conservative estimate) of capital funding along with ongoing operational and maintenance costs is required.

Staff have concluded an internal review, commercial market sounding and public RFEOI process to identify potential uses for this site. No use has been identified that does not require significant amounts of capital and operational funds. Staff recommend selling the property to advance creative re-purposing of the building. This recommended action aligns with the Future Guelph Strategic Plan to maximize real estate opportunities and to maintain the City's financial health. This process will be completed in alignment with the City of Guelph's [Policy for the Sale and Disposition of Real Property Interests](#).

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## **Report**

The City acquired the property at 72 Farquhar Street known as the Drill Hall in 2017 from Metrolinx as part of a land exchange that helped bring two-way GO

Transit rail service to the community. The details of that transaction can be found in the [Council Report CAO-2018-27 - Metrolinx Transfers \(pages 152-157\)](#) and Attachment 2 – Staff Report CAO-2018-27 Metrolinx Transfers. The transaction included requirements for the City to rehabilitate the building structure which was in failing condition. The City designated the building per bylaw (2018)-20332 under part IV of the Heritage Act after the land transfer.

The City has invested significant capital into the building to repair structural components at imminent risk of failure. During the same period, staff worked to find a long-term use for the property. This included completing a [market findings report](#) in 2021 and a [RFEOI in 2023](#). Staff have also investigated other opportunities for this site that align with the City’s strategic plan, such as affordable or transitional housing. The site is located adjacent to the Metrolinx rail corridor, it is non-compliant with Metrolinx requirements for high-occupancy, sensitive use such as residential development.

The 2021 market-sounding study provided insight into interest in the building from both private industry and community groups. The study found there was no market interest from private sector developers given the restrictions on the site and the building and the lack of parking. However, the report indicated there was community interest in the building/property. In [October 2021 Council directed](#) staff to prepare an open proposal to solicit uses for the property at 72 Farquhar Street in conjunction with finalizing the stabilization of the property.

In 2023 the City initiated the RFEOI process. The RFEOI indicated the building required significant capital investment to make it occupiable. The 2023 - RFEOI process identified several City requirements that were to be demonstrated by the proponents including:

- Compliance with the Official Plan, Downtown Secondary Plan, Economic Development and Tourism Strategy and other City Master Plans
- Financial requirements and a business plan including funding for capital restoration, long-term operations, preferred ownership structure and expected support from the City
- Community benefit including social, economic, cultural and heritage benefits

The financial requirements of the RFEOI outlined that:

“The proponent within their submission shall submit to the City a business plan for how their proposed end use of the Drill Hall would restore and reanimate the building and how it would be funded. This business plan would need to include the following:

- Information on the capital funding for the restoration and reanimation of the Drill Hall Building
- Information on longer-term ownership structure (i.e., leasing vs. ownership)
- Information on long-term funding to support the continued use on the site if leasing or other City involvement is required
- Information on potential revenue and revenue opportunities if there is expected to be City funding to support the proposal

The City does not currently have funding within their long-term capital plan to support further restoration and revitalization of the Drill Hall. Any requirements

from the City within the proponent's proposal shall be clearly identified (financial or otherwise) including items such as proposed supportive grants, etc."

Staff received two proposals in response to the RFEOI. The first submission was for the building to be used as a business hub representing three entities utilizing the space. The second submission proposed the building be used as the Guelph Centre for the Visual Arts.

Staff met with individual proponents to discuss each of their proposals. Staff also held a subsequent meeting with both proponents present to determine if there were opportunities to combine their proposals. There was no appetite to explore combining the proposals, so staff evaluated each proposal individually.

Provincial and Federal funding are integral to the operation of the Guelph Business Hub proponents. Recently these funding models have significantly changed. As a result, the proponent(s) of this proposal identified that they need to focus on their core business and have withdrawn from the process. The Guelph Centre for Visual Arts has confirmed their interest; however, their proposal identifies significant funding support for capital investment and ongoing operational support. In addition, there is no revenue identified by the group for the City to recover capital or operational costs.

The RFEOI identified that there were no City funds available to invest further in the building. The RFEOI required proponents to include a business plan that included lease payments or any other potential funding information. The proponents provided this information, but it did not identify revenue that would make the City whole from any further investment. No lease payments or debt repayment was proposed. Nominal profit sharing was proposed, starting in year three. The revenue identified was nominal and would not address the City's ability to repay debt or meet other financial obligations. This proposed financial model is not sustainable.

Significant capital and operational funding is required from the City to provide for a community use of the site, it is recommended that the City sell the property.

Purchasers will be responsible for resolving:

- the estimated costs to bring the building to an occupiable state;
- the impacts of the Metrolinx setback guidelines from the rail track; and
- the zoning regulations and heritage designation.

The investment in the site to date has helped ensure that the building remains intact and provided necessary structural improvements that will benefit a potential purchaser. The status of the building as a designated heritage resource will be maintained and purchasers will be required to comply with City and Provincial heritage legislation. The recommendation is to sell the property for a nominal amount. This price point considers the impacts identified above and helps incentivize site re-use.

Should the property not sell, the City may need to look at options to increase the value of the property. Options will be communicated via a future Council report.

### **Financial Implications**

The property was acquired through a land exchange for a nominal value in 2017 that included the transfer of the City-owned VIA Train Station to Metrolinx to satisfy the City's commitment to bringing two-way Go Transit train travel to the City. This

land transfer fulfilled the contribution agreement to extend GO Train service to Guelph. This contribution agreement and the City of Guelph financial contributions were outlined in report [FIN-13-49 "Metrolinx Contribution Agreement"](#). Refer to Attachment 1 – Staff Report FIN 13-49 Metrolinx Contribution Agreement.

Since 2017, the City has spent approximately \$5 million rehabilitating the building's foundation and structure. It is estimated that to bring the building to an occupant-ready state, at least an additional \$5 million is required. As no use has been identified for this structure that is in alignment with the Future Guelph Strategic Plan, no further expenditures have been included within the multi-year capital or operational budgets for the City. Therefore, staff recommend the sale of the property.

The recommendation of this report limits the City's funding to general maintenance and building security.

Prior to the sale of the property, staff will retain an appraisal. Any revenue realized by the sale of the property will offset property taxes otherwise required to achieve the City's strategic plan priorities.

### **Consultations and Engagement**

City of Guelph Planning & Building Services and Finance departments

### **Attachments**

Attachment 1 – Staff Report FIN-13-49 Metrolinx Contribution Agreement

Attachment 2 – Staff Report CAO-2018-27 Metrolinx Transfer

### **Departmental Approval**

None.

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