



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: October 11, 2005
Author: Karen Hemmingson
Phone No.: 604.871.6077
RTS No.: 4565
CC File No.: 5051
Meeting Date: November 1, 2005

TO: Vancouver City Council

FROM: The Director of Development Services and the Director of Current Planning
in consultation with The Director of Finance

SUBJECT: Status Report on the Heritage Building Rehabilitation Program for
Gastown, Chinatown and Hastings Corridor

RECOMMENDATION

- A. *THAT Council receive this report for INFORMATION.*
- B. *THAT the Mayor, on behalf of Council write to the Federal Government urging it to reconsider its decision to make strata-titled heritage projects ineligible for its Commercial Heritage Properties Incentive Fund grants.*
- C. *THAT Council policy and procedures regarding the property value input be revised as outlined in Appendix A.*

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services recommends approval of A, B and C.

COUNCIL POLICY

Heritage Building Rehabilitation Program Policies and Procedures for Gastown, Chinatown and Hastings Street Corridor.

PURPOSE

In July 2003, Council approved the Heritage Building Rehabilitation Program, with program implementation beginning in the fall of 2003. At the time of approval, Council requested an annual report regarding program implementation. The following report informs Council of the status of a number of issues, such as impact on low income housing stock, the health of the density bank, and impacts on property tax revenues, which Council expressed interest in monitoring over the five year life of the program.

SUMMARY

In the year and a half since the implementation of the HBRP, the City has awarded heritage incentives to 9 projects, with 8 applications underway and 8 proposals under development. The program has already made a significant contribution to revitalizing the physical infrastructure in this part of the city, increasing the availability of housing and introducing new uses to this economically depressed area. Revitalization efforts are already beginning to have an impact, and the program is working. Some minor modifications to improve program implementation are recommended, as well recommending City Council write to the Federal Government urging it to reconsider its decision to make strata-titled heritage projects ineligible for its Commercial Heritage Properties Incentive Fund grants.

BACKGROUND

Area Revitalization

On July 28, 1998, Council confirmed principles to provide general guidance to actions and planning in the Downtown Eastside, Chinatown, Gastown, Strathcona and Victory Square which included encouraging legitimate commercial activity, improving conditions at the street level, improving low income housing, reducing crime, and helping community people to find allies and seek a common future.

On June 24, 2000 Council adopted the following principles to guide the development of an Economic Revitalization Strategy for the Downtown Eastside:

- Build from within and involve those who already live and work in the area; Preserve and enhance the sense of community felt by residents of the Downtown Eastside and surrounding communities;
- Listen to those most affected;
- Improve the liveability and safety of the Downtown Eastside for everyone; and Develop and implement a well understood plan that delivers results.

A Revitalization Plan has been drafted based on community consultations, and includes building on the area's rich cultural and heritage assets, and assisting businesses and residents to participate in and benefit from increased economic activities and employment opportunities. Assisting private owners with the rehabilitation of the area's heritage resources through the Heritage Building Rehabilitation Program is understood as a key component in revitalizing the area.

Gastown Heritage Building Rehabilitation Program

In July 2003, City Council approved a program of incentives to facilitate the conservation and rehabilitation of buildings in Gastown, Chinatown and the Hastings Corridor. The program is available for a five (5) year period (2003 - 2008) to initiate economic activity in these historic areas through work on individual heritage buildings. The objective is to encourage owners to rehabilitate their heritage buildings by compensating them for shortfall costs with a package of incentives. These costs are defined as the amount required to enable project viability when a major building upgrade is undertaken. The City determines the amount of each incentive through site-specific analysis, and compensation is given to the owner through various tools in the following order:

1. Federal Historic Places Initiative Program
2. Facade Grant
3. Property Tax Exemption
4. Transferable Bonus Density

On July 19, 2005 Council approved the extension of the program to Victory Square.

As an added incentive for preserving low-scale historic buildings that contribute to the distinctive sawtooth-character of historic Gastown, the Heritage Building Rehabilitation Program (HBRP) allows the City to authorize transfer of "notional" residual density off-site, as part of the bonus density allocation. It is referred to as notional density as there are no FSR regulations in Gastown. Therefore, the main factor in regulating development potential is the height limit. Based on this, Council established, as part of the Building Rehabilitation Program, that residual density is the difference between 5.5 FSR and the on-site FSR. This approach was also adopted for Chinatown, the Hastings Corridor and now Victory Square.

Historic Places Initiative

Historic Places Initiative (HPI) Commercial Heritage Incentive grant is a Federal Government building incentive program that awards building owners up to 20% of the total rehabilitation costs, up to a \$1,000,000 maximum, in the form of a cash grant after the work is completed. To date, all the incentive projects have applied for the federal grant. One project to date, 5 W Pender Street, has been approved for a federal grant.

Recently, the Federal Government decided that strata-titled projects were ineligible for their program given that the emphasis is directed toward commercial heritage properties. The result is that three projects that applied for the HPI program, 55 E Cordova Street, 522 and 540 Beatty Street, will not be eligible for a grant of up to a million dollars. This will have the effect of increasing the dependence on the City's transferable density as in each case, the City agreed to give additional bonus density if applicants were not successful securing the federal grant. It is in the City's interest to encourage a balanced use of incentives, to ensure that projects in BC have access to federal grants and are not only dependent on City grants and transferable density. Recommendation B requests that the City write to the Federal Government to urge them to reconsider their decision.

DISCUSSION

A. PROGRAM OVERVIEW

In the year and a half since the implementation of the HBRP, the City has awarded heritage incentives to nine projects. Eight applications are underway and eight proposals are currently under development. The program has already made a significant contribution to revitalizing the physical infrastructure in this part of the city, increasing the availability of housing and introducing new uses to this economically depressed area. These nine projects will provide a range of rental, strata, single room accommodation, and commercial live-work units, which increase housing options. Recent applications also include upgrading existing buildings with office, retail and restaurant uses, bringing new life to the heritage precincts.

The first nine projects resulted in a combined shortfall cost totalling \$13.5 million. The program has provided a combination of incentives to offset these shortfalls:

- ◇ property tax exemptions with a total net present value of \$1.4 million (to be applied between approximately 2006 and 2020 as property owners have up to 5 years to complete the work, after which the 10 year property tax exemption will begin),
- ◇ \$600,000 in façade grants for all nine projects, and
- ◇ 335,618 square feet of transferable bonus and residual density (valued at \$12.4 million, with some projects having received density valued at \$25 per square foot, and the most recent ones at \$50 per square foot.

Detail of the nine projects is included in Table 1. The shortfall costs funded through the HBRP have ranged from \$1.0 million to \$3.5 million per project.

Table 1: Overview of Completed and In-Process HBRP Applications, as at August 2005 (First Two Years of Program)

ADDRESS	TRANSFER- ABLE BONUS DENSITY (SQ FT) ⁴	RESIDUAL DENSITY (SQ FT) ⁵	VALUE OF TRANSFERABLE & RESIDUAL DENSITY	FEDERAL GRANT	FAÇADE GRANT	PROPERTY TAX EXEMPTION (NPV, \$2004)	TOTAL SHORTFALL COSTS
GROUP 1: COMPLETED APPLICATIONS							
1. 44 (46) Water St. ¹	28,700	16,800	\$1,137,500	\$0	\$50,000	\$382,021	\$1,150,000
2. 50 (52) Water St. ¹	40,800	27,800	\$1,715,000	\$0	\$50,000	\$768,678	\$1,837,971
3. 55 E. Cordova (Koret Building) ²	60,000	0	\$1,500,000	\$0	\$100,000	\$0	\$1,744,000
4. 5 W. Pender	30,039	922	\$1,548,050	\$218,671	\$100,000	\$247,294	\$2,067,896
5. 36 Water St. ²	18,640	0	\$932,000	\$0	\$100,000	\$0	\$1,032,000
6. 540 Beatty St. ^{2,3}	68,400	0	\$3,420,000	\$0	\$50,000	\$0	\$3,470,000
7. 522 Beatty St. ^{2,3}	43,517	0	\$2,175,850	\$0	\$50,000	\$0	\$2,225,832
8. 124 Powell	0	0	\$0	\$0	\$50,000	\$0	\$0
9. 51 W. Hastings	0	0	\$0	\$0	\$50,000	\$0	\$0
Sub-Total	290,096	45,522	\$12,428,400	\$218,671	\$600,000	\$1,397,993	\$13,527,699

1. Property value input was determined by a 3rd party appraisal as approved by Council July 31, 2003.
2. Owner declined tax exemption
3. Property is in Victory Square which was outside the original geographic scope of the program.
4. The bonus density is valued at \$25 per square foot for 44 Water, 50 Water and 55 East Cordova. The value is \$50 per square foot for 5 West Pender, 36 Water, 540 Beatty and 522 Beatty.
5. The value of the residual density is not part of the incentive package.

Table 2 provides information about the 8 properties currently in the application process:

Table 2: Applications in Process

1.	6 Water St	5.	412 Carrall St.
2.	12 Water St.	6.	163 W Hastings St.
3.	1 E Pender St.	7.	40 Powell St.
4.	1 W Hastings St.	8.	51 E Pender St.

It is noted that for certain applications, residual density has been awarded in addition to property tax exemptions, façade grants and transferable bonus density. This is included as an added incentive for property owners to maintain building characteristics, as discussed in the Background section of this report.

While the property tax exemptions and façade grants have a direct financial impact on the City, the transferable density does not. (The impact on the City's density bank is discussed later on in this report)

Only three of the nine projects completed to date have accessed the property tax exemption alternative with the exemption ranging from \$247,000 to \$769,000 (net present value) per project. While the program is still in the early stages, applicants are indicating that the property tax exemption is not useful for strata-titled projects. The issue for the developer is that they are generally not able to capture the value of a future tax exemption through the sale of strata units. Staff have identified this as an issue, and will be convening a workshop with owners and developers to explore alternative strategies that would allow developers to take advantage of this component of the compensation program.

B) IMPACTS OF THE PROGRAM ON PROPERTY TAXES

The Director of Financial Planning and Treasury notes that the property tax exemption available under the program provides a full exemption for the property from the point of occupancy until the full value of the available exemption is reached or 10 years has elapsed, whichever is earlier. This exemption can provide a significant benefit to the developer - enough to provide incentive to advance the redevelopment - as well as costs to the property tax system.

Benefit to the Developer

As noted above, the property tax exemptions provided to date total \$1.4 million (net present value). The following table provides Council with a range of projected benefits to developers from the tax exemption program during 2005 to 2008, based on our experience to date. The assumption that underlies the analysis is that the properties that take advantage of the exemption option would redevelop without this incentive being available. In this table, nine scenarios are considered, which result in total subsidies to developers ranging from \$2.3 million to \$12.0 million. This would be in addition to the \$1.4 million in tax exemptions that have already been granted.

Estimate of Range of Possible Tax Benefit to Developers of Heritage Building Rehabilitation Program Tax Exemptions in Years 3 Through 5 of the Program

AVERAGE EXEMPTION VALUE P.A.	ASSUME 3 NEW TAX EXEMPTIONS P.A.	ASSUME 5 NEW TAX EXEMPTIONS P.A.	ASSUME 7 NEW TAX EXEMPTIONS P.A.
\$250,000	\$2.3 million	\$3.8 million	\$5.3 million
\$500,000	\$4.5 million	\$7.5 million	\$10.5 million
\$800,000	\$7.2 million	\$12.0 million	unlikely

1. The assumed average exemption dollar values are based on the minimum and maximum tax exemptions granted to date.

The actual value of the exemptions for the remaining three and a half years of the HBRP depends on two things:

- How many more HBRP applications that include a tax exemption component will be completed successfully?
- What will be the value of each tax exemption granted in the future?

Impacts for the Property Tax System

The property tax exemptions program has a number of impacts on property taxes and property taxpayers.

As the City develops its tax levy without consideration to the changes in tax status of individual properties on the assessment roll, any direct revenue loss as a result of a property tax exemption is transferred to owners of taxable property who pay higher taxes. In particular, at the time of redevelopment, the land and building is already on the tax roll and is paying taxes. In this case, the exemption imposes a real loss of property tax revenue to the City that has to be made up by shifting the cost to other property owners as part of the annual tax rate setting exercise. For the three properties that have taken advantage of the exemption to date, the value of this exemption is \$57,222 annually in municipal taxes and

\$30,800 annually in other tax levies based on current assessed values. Over a 10 year exemption period this represents a benefit from other taxpayers to the developer of approximately \$652,000 on a net present value basis.

The impact of the balance of the exemption - as it applies to the new value created through the redevelopment process - is less clear because of the uncertainty about whether and when the redevelopment would have occurred without the exemption. Under normal circumstances, new value would be added to the assessment roll as the redevelopment is completed and new taxes would be generated for the City, reducing the amount of the annual tax increase for existing properties. However, under the exemption program, new value is exempt from taxation and the City receives no additional tax revenue until the exemption period is past, (noting that once exemption period is past, the improved building would contribute more taxes to the city). Whether this also represents a loss of revenue to the City depends on whether the redevelopment would have occurred without the exemption and when:

- If the redevelopment would have occurred without the subsidy, then there is a real loss of property tax revenue, however, in this situation it is unlikely a tax exemption would be granted to the developer.
- If the redevelopment would have taken place during the exemption period, then there is a loss of revenue from the point of redevelopment until the property tax exemption period expires and the property becomes taxable;
- If the redevelopment would not have taken place until after the exemption period, then there would not be a revenue loss.

While staff can not easily ascertain which scenario would play out, it is known that in the ten years preceding the HBRP no heritage building was rehabilitated without civic incentives. During this period, the four heritage projects that occurred in Gastown all required density bonuses. With the program in place, there are nine approved and sixteen projects in the application or pre-application stages.

There is one further consideration with respect to the impact of the rehabilitation program on property taxes. As the incentive program encourages redevelopment of buildings in Gastown, Chinatown and along Hastings Street, interest in the area could increase and the value of all properties in the area could rise. While increases in market value alone will not result in additional property tax revenue for the City, it could result in higher relative taxation in these areas compared to other areas of the City. While it is too early in the program to measure this impact and, given the dynamic nature of the assessment system, it may not be possible to ever measure it, staff will consider this impact in future reports to Council.

C) HERITAGE BUILDING REHABILITATION PROGRAM IMPACT ON DENSITY BANK

In November 2002, the balance of unsold heritage density reached a historic high of over 427,000 sq.ft. Currently, density in the bank has been reduced to 98,400 sq.ft. This take-up of density has been very positive. The first nine projects have generated 290,096 sq.ft. which has not overburdened the density bank.

However, given the high number of proposals that are now coming in and the potential negative effect they could have on the inventory of transferable density if not managed, staff

are now advising applicants to consider other options to optimize the economic viability of their proposals while still upholding other city policies such as heritage conservation standards. This will help reduce dependency on transferable density.

D) VALUE OF DENSITY

For the purposes of the City's shortfall cost analysis, when the program started in 2003, Real Estate Services (RES) placed the working value of transferable density at \$25 per sq.ft. Starting in the spring of 2004, density sales increased to the \$50 - \$65 sq.ft. range and have remained there. Staff therefore, increased their working number of the value of density to \$50 per sq.ft. In order to be responsive to market fluctuations, Real Estate Services staff in conjunction with Heritage Planning review the state of the density bank on a semi-annual basis to determine the price per sq.ft. and use this figure for each six month period, beginning January 2005.

E) CHANGES IN LOW INCOME HOUSING STOCK

The program to date has not significantly changed the low income housing stock. The Grand Hotel at 36 Water Street was reviewed by Council and granted an SRA permit as the rooms had not been in use for some time, the City was securing designation of the heritage facades, and the project introduced new commercial live-work use into the area. A second project, 51 W Hastings Street, retained the existing SRA units, with guaranteed low rents for some of the units for a period of 10 years. The Pennsylvania Hotel, at 412 Carrall Street also proposes to convert SRA units to self-contained units, retaining 44 units of low income housing stock. The latter two projects will improve the existing low income accommodation in the area.

F) EXISTING ZONING, DISCRETIONARY REVIEW

Council asked staff to report back on how many projects were proceeding under current zoning, without applying for heritage incentives. Currently, there are two new development projects proceeding on vacant sites in Chinatown under the existing zoning. This is a positive indication of confidence in the area's future.

G) VOLUME

Council asked staff to report back on program take-up and the volume of projects, and whether the introduction of a competitive process for eligibility was necessary. To date, staff believe the number of applications does not warrant a competitive process. Staff are able to respond to development enquiries and undertake development application reviews. The program has recently expanded to include the Victory Square area and additional staff resources were secured for this purpose.

H) AREAWAYS

Several projects and proposals have come forward which include the historic areaways that extend under the city sidewalk, and many applicants have requested that the City consider retaining the areaway in some form. An inter-departmental staff team is working on this multi-faceted issue and is developing key design and other parameters for staff to use when reviewing areaways, before making decisions on a particular course of action. One particular project, 540 Beatty Street, once completed, will illustrate a unique approach involving a

special sidewalk treatment and allowing for the retention of the glass prism blocks lit from underneath.

I) PROPERTY VALUE INPUT

The program calls for the use of assessed value as the property value input in determining the shortfall costs. Applicants have stated they have difficulties with using the assessed value as in many cases it is significantly less than the purchase price and is not representative of the market value of property in these historic areas.

Staff reviewed this issue, and note that in situations where a property has not changed hands for a long period of time, the assessed value can be significantly different than the market value. In these cases, staff suggest that applicants be given the option of using a third party appraisal to establish land value, using the parameters as stated below. This modification requires revising Council policy as outlined in Appendix A.

In establishing the land value, the applicant use the lesser of:

- a.) Assessed value plus 25%; or
- b.) Recent appealed assessed value; or
- c.) Purchase price within 3 years of the date of application.

In situations where the building has not changed hands in 3 years it is further recommended that an owner be given the option to have an appraisal done on the following terms:

1. The applicant provides the name of four appraisers and the City chooses one;
2. Both parties agree on the Terms of Reference (these should become standardized with time);
3. The City hires and manages the appraiser;
4. The applicant can choose to provide initial empirical information directly to the appraiser, after which all communications are between the City and the appraiser;
5. The applicant pays for the appraisal upon presentation of an invoice from the City, and does not recoup this cost in the shortfall cost analysis (this will discourage all but those who feel strongly that the assessment plus 25% is still insufficient);
6. The appraiser provides the final appraisal to the City, which forms the value input.

Staff believe this modification will address the difficulty applicants are experiencing with the difference between assessed value and the sales prices of property in the area.

CONCLUSION

In the year and a half since the implementation of the HBRP, the City has awarded heritage incentives to 9 projects, with 8 applications underway and 8 proposals under development. The program has already made a significant contribution to revitalizing the physical infrastructure in this part of the city, increasing the availability of housing and introducing new uses to this economically depressed area. These nine projects provide a range of rental, strata, single room accommodation, and commercial live-work units, increasing housing options in the eastern part of downtown. Recent applications also include upgrading existing

buildings with office, retail and restaurant uses, bringing new life to the heritage precincts. Revitalization efforts are already beginning to have an impact, and the program is working. Some minor modifications to improve program implementation are recommended. Staff are also recommending the City urge the Federal Government to reconsider its decision to exclude strata-titled projects from their Historic Places Initiative, Commercial Heritage Incentive Fund grant.

* * * * *

Heritage Building Rehabilitation Program Policies and Procedures

1. Shortfall Costs Calculation

The following section regarding the property value figure:

- *where, up to March 15, 2004, the input for the property value figure to be included in the pro forma will be the assessed value published by BC Assessment Authority + 20%. Applications received after March 15, 2004 will use the assessed value published by the BC Assessment Authority.*

Will be revised and replaced by:

In establishing the land value, the applicant use the lesser of:

- d.) Assessed value plus 25%; or*
- e.) Recent appealed assessed value; or*
- f.) Purchase price within 3 years of the date of application.*

In situations where the building has not changed hands in 3 years it is further recommended that an owner be given the option to have an appraisal done on the following terms:

- 7. The applicant provides the name of four appraisers and the City chooses one (or the reverse);*
- 8. Both parties agree on the Terms of Reference (however these should become standardized with time);*
- 9. The City hires and manages the appraiser;*
- 10. The applicant can choose to provide initial empirical information directly to the appraiser. After which all communications are between the City and the appraiser;*
- 11. The applicant pays for the appraisal upon presentation of an invoice from the City, and does not recoup this cost in the shortfall cost analysis (this will discourage all but those who feel strongly that the assessment plus 25% is still insufficient);*
- 12. The appraiser provides the final appraisal to the City, which forms the value input.*