



Committee of the Whole Report For the Meeting of January 7, 2021

To: Committee of the Whole **Date:** December 22, 2020
From: Karen Hoese, Director, Sustainable Planning and Community Development
Subject: Tax Incentive Program Application No. 00031 for 727 Yates Street

RECOMMENDATIONS

- “1. That Council instruct the City Solicitor to prepare a Tax Exemption Bylaw for 727 Yates Street for 9.08% of assessed value for 10 years, pursuant to Section 225 of the *Community Charter*, with the following conditions:
 - a. that the tax exemption take effect no earlier than 2022, after the expiry of the tax exemption for 719, 721-725 Yates Street, approved under bylaw 18-062
 - b. that a covenant identifying the tax exemption be registered on the title of the property and any possible future strata titles
 - c. that the final costs of seismic upgrading be verified by the Victoria Civic Heritage Trust.
2. That Council authorize amendments to the front façade rehabilitation strategy approved under Heritage Alteration Permit with Variances No. 00008, in accordance with Drawing H.1 by Studio One Architecture Inc., date stamped November 30, 2020.”

LEGISLATIVE AUTHORITY

In accordance with Section 225 of the *Community Charter*, Council may exempt protected heritage property from taxation under Section 197(1)(a) to the extent provided in the bylaw and subject to conditions established by the exemption agreement.

EXECUTIVE SUMMARY

The purpose of this report is to present Council with information, analysis and recommendations regarding an application for a ten-year partial tax exemption under the City's Tax Incentive Program to assist in the seismic upgrading of the heritage-designated building known as the Hall Block at 727 Yates Street. In 2018, Council approved the comprehensive renovation of the Hall Block (HAV No. 00008) to convert it into a mixed-use building with ground floor retail and an addition containing 11 residential suites. The approved project will conserve the majority of the Hall Block and includes a seismic upgrade that will achieve 100% seismic resistance under the 2018 BC Building Code. In addition to the seismic upgrade, the approved project will restore the front façade by removing the orange paint and reinstating the historic ground floor storefront of the building.

The total project budget is \$3,016,276 and the cost of seismic upgrading is estimated at \$309,711. The total value of the proposed property tax exemption over 10 years is less than the cost to seismically upgrade the building based on either current or projected property taxes after the renovation.

BACKGROUND

The Hall Block is a two-storey masonry building designed by architect John Teague and constructed in 1897 for developer Dr. F. W. Hall. John Teague is a significant local architect who also designed City Hall and the Masonic Temple at the corner of Fisgard and Douglas Streets. The building is one of the oldest surviving structures on Yates Street and an important contributor to the integrity of the historic streetscape. The two-storey portion of the building occupies the north half of the property, and a one-storey extension occupies the rear portion.

The Hall Block is situated on a consolidated lot that also includes the street addresses of 719 and 721-725 Yates Street and contains another two separate heritage buildings that received a tax exemption in 2012. This tax exemption is set to expire at the end of 2021. To avoid overlap, staff are recommending that the proposed tax exemption for 727 Yates Street only take effect in 2022, after the expiry of the tax exemption for 719 and 721-725 Yates Street. Staff also recommend that the tax exemption apply only to the floor space within the envelope of the Hall Block. Based on consultation with BC Assessment and the City's Finance Department, staff have calculated that this floor space represents 9.08% of the assessed value of the consolidated property.

The Tax Incentive Program (TIP) began in March 1998 to provide tax exemptions of up to 10 years to assist the owners of heritage-designated buildings with the high cost of seismic upgrading. Initially, the program was focused on accelerating the conversion of underused or vacant upper storeys of downtown heritage buildings to residential uses; however, the program was expanded to include non-residential rehabilitation projects on a case by case basis provided an independent financial analysis was carried out. The TIP has led directly to the creation of 699 residential units in 43 rehabilitated heritage buildings and attracted \$292 million in private investment primarily to the downtown.

Proposed Seismic Upgrade

The project is designed to 100% of the seismic design requirements of the 2018 BC Building Code.

The proposed seismic upgrade will remove the floor and roof structures of the Hall Block and replace them with a reinforced concrete transfer structure at the second level and new wood framing above. For the ground floor structure, seismic resistance will be provided by new concrete rigid frames in an east-west direction and concrete block shear walls in a north-south direction. Above the second storey, the building would be wood framed, with seismic resistance created through shear walls in east-west and north-south directions. The foundation of the building will also be replaced with a concrete foundation.

Heritage Alteration Permit with Variance No. 00008

The approved Heritage Alteration Permit authorized the rehabilitation of the Hall Block and construction of an addition at the rear of the property that extends over its roof. The addition is five-storeys tall at the rear, but terraces down towards the front of the property to mitigate visual impacts to the Hall Block. The development conserves the front and side walls of the Hall Block but replaces the building's interior with new concrete floor slabs and new construction to meet

the requirements of the 2018 BC Building Code. The third storey of the addition is almost entirely concealed beneath the parapet wall of the Hall Block, so the upper levels of the addition appear as a two-storey rooftop addition, with each level set progressively further back from the street. The application was granted variances to eliminate parking and reduce the east side yard setback. Once constructed, the building will contain 11 one-bedroom units.

The consolidation of 727 Yates Street with 719-725 Yates Street was undertaken to enable the renovated Hall Block to share the elevator, fire exit stair and long-term bicycle parking of the Churchill Building, which was renovated in 2012 by the same developer.

ANALYSIS

Staff recommend that Council consider supporting the project by approving the proposed tax exemption since it will contribute to the City's strategic objectives for the Core Business District, which include the conservation and enhancement of significant historic buildings.

The proposed tax exemption is consistent with the following policies:

Official Community Plan

The proposal to grant the project a tax exemption is generally consistent with the *Official Community Plan* (OCP), which states in Section 18: Emergency Management: *there is a 32% likelihood of a damaging earthquake event in the City before 2054*. Such a disaster is likely to require the demolition and extensive reconstruction of buildings and structures. As such, the OCP contains many policies urging the City's decision makers to prepare for such an event and incentivize the seismic upgrading of existing buildings. The proposal is consistent with policies under Section 8 - Placemaking: Urban Design and Heritage:

- 8.6 *Conserve and enhance the heritage value, character and special features of areas, districts, streetscapes, cultural landscapes and individual properties throughout the city.*
- 8.43 *Encourage high quality architecture, landscape and urban design to enhance the visual identity and appearance of the City*
- 8.50 *Encourage new development to avoid the demolition of heritage property, or one or more of its façades.*
- 8.51 *Continue to give consideration to tools available under legislation to protect or conserve heritage property including, but not limited to: heritage designation bylaws.*

The proposal is consistent with policies under Section 14: Economy of the *Official Community Plan* including the following:

- 14.33 *Continue to invest in the heritage character of the Downtown and other neighbourhoods through incentives for rehabilitation and seismic upgrades.*

The recommended option is consistent with Section 18: Emergency Management of the *Official Community Plan*, including:

- 18.16 *Continue incentives for seismic upgrades to owners of designated heritage property and consider incentives for non-heritage properties.*

Downtown Core Area Plan (DCAP)

The conservation of the building through designation, seismic upgrading and other restorative measures is consistent with Goal 4 of the DCAP:

4. *To ensure excellence in building types and design within the Downtown Core Area by:*

4.2. *Recognizing historic buildings for their value and benefit to the Downtown Core Area, and encouraging their rehabilitation, seismic upgrading and integration with new development.*

It is consistent with the following policies under Chapter 7 - Heritage:

7.26. *Encourage owners of property with heritage value or character in the Downtown Core Area, particularly landmarks or those in the Historic Commercial District and Inner Harbour District, to upgrade the seismic conditions of buildings and structures.*

7.29. *Continue and enhance incentives for heritage conservation such as, tax incentives, parking variances and other zoning variances, where broadly consistent with the policies for each District of the Downtown Core Area that are provided in this Plan.*

7.30. *Maintain and develop financial incentives for building rehabilitation, particularly seismic upgrading, for eligible heritage-designated commercial, institutional, industrial and residential property in the Downtown Core Area.*

Standards and Guidelines for the Conservation of Historic Places in Canada

The proposal is consistent with the *Standards and Guidelines for the Conservation of Historic Places in Canada* (the Standards and Guidelines). The applicant proposes to preserve and restore all character-defining elements on the primary elevations.

Resource Impacts

The project has a total construction cost of \$3,016,276 of which the cost of seismic upgrading is estimated at \$309,711.

The formula to determine how many years the tax exemption will apply is the rate of the current year's property tax (\$20,325.69 for 727 Yates Street alone) multiplied by the number of years required to reach an amount equal to or less than the estimated cost of seismic upgrading, up to a maximum of 10 years. The applicant has requested the full term of 10 years because the cost of the seismic upgrade (\$309,711) will exceed the cumulative value of a tax exemption for 100% of the assessed value for 10 years, which is \$203,256 (\$20,325.69 x 10).

$$\text{Cost of Seismic Upgrading} = \$309,711 > \$203,256 (\$20,325.69 \times 10)$$

Moreover, the tax exemption is limited to the remaining floor area inside the conserved portions of the Hall Block, which will be reduced in size after the new addition is constructed. The area in the Hall Block includes 1240 square feet of retail space on the ground floor and four one-bedroom residential units on levels two and three. Working with BC Assessment, staff determined that the assessed value of these areas will equal \$1,418,909, which would be subject to \$11,535 in annual taxes if the tax exemption did not apply. Of the \$11,535 in exempt annual taxes, the City's portion would be \$7,866.

The assessed value of the Hall Block alone (\$1,418,909) represents only 9.08% of the assessed value of the total consolidated property (\$15,628,537). This means the tax exemption is worth \$11,535 per year in property taxes or \$115,351 total over 10 years. Of the \$115,351 total, the City's portion would be \$78,656. This is less than the \$309,711 cost of seismic upgrading.

Over the 10-year period, the City will collect taxes on the remainder of the project, which will have an estimated assessed value of \$2,090,591. Given that the assessed value of the taxable portions of the project exceeds the current assessed value of the property, there will not be any decrease in present tax revenue to the City if the tax exemption is granted.

Victoria Civic Heritage Trust

The Victoria Civic Heritage Trust reviewed the application at their November 6, 2020 meeting. The Trust recommended that Council consider supporting a tax exemption for the heritage building floor area in relation to the total gross floor area of the consolidated property.

The board also recommended that the applicant undertake the following revisions prior to approval, to the satisfaction of the Senior Heritage Planner:

1. *Work with the project heritage consultant and Vintage Woodworks regarding appropriate historic detailing of the storefront design;*
2. *Submit to the City of Victoria the necessary engineering detail for the seismic upgrading of the parapet wall on the Yates Street building front; and*
3. *Confirm the method and details to make the main floor accessible*

The applicant submitted the attached Drawing H.1., which included refinements to the proportions of the transom window and storefront glazing. In staff's opinion, the refinements bring the storefront design into closer alignment with the architect's original plans for the building. The applicant has revised the building section to show a horizontal steel beam that will help restrain the parapet in a seismic event. The architect has also included a notation confirming that the main entrance of the building will be accessible to persons with disabilities and include an automatic door operator.

Accessibility

The main entrance of the building will be fully accessible to persons with disabilities. Upper storeys of the building can be accessed by the elevator in the adjacent Churchill Building, which also has an accessible entrance.

CONCLUSION

The proposed tax exemption will facilitate the rehabilitation and seismic upgrading of a building by a significant local architect, contributing to the historic integrity of Yates Street. The project advances the City's goals of enhancing heritage sites in the Core Business District while simultaneously providing additional residential units. Staff therefore recommend that Council consider supporting the application.

ALTERNATE MOTION

That Council decline Tax Incentive Program Application No. 00031 for 727 Yates Street.

Respectfully submitted,

John O'Reilly
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Report accepted and recommended by the City Manager

List of Attachments

- Attachment A: Subject Map
- Attachment B: Aerial Map
- Attachment C: Photos
- Attachment D: Architectural Plans, dated October 7, 2020
- Attachment E: Architectural Plan H.1, dated November 30, 2020
- Attachment F: Hall Block Conservation Plan
- Attachment G: Letter from Victoria Civic Heritage Trust, dated November 6, 2020
- Attachment H: Letter from Primex Investments Ltd. date stamped October 7, 2020
- Attachment I: Seismic Upgrading Strategy by BMZ Structural Engineers, dated September 22, 2020.