



Committee of the Whole Report For the Meeting of February 16, 2023

To: Committee of the Whole **Date:** December 30, 2022
From: Karen Hoese, Director, Sustainable Planning and Community Development
Subject: Tax Incentive Program Application No. 00032 for 1050 Pandora Avenue

RECOMMENDATIONS

That Council decline Tax Incentive Program Application No. 00032 for 1050 Pandora Avenue.

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 (TIP) to assist in the seismic upgrading of the heritage-designated building historically called the Parkway Apartments Building (later Wellburn's Market) at 1050 Pandora Avenue.

In December 2020, Council approved the comprehensive rehabilitation of the Parkway Apartments Building to convert it into a mixed-use building with ground floor commercial and residential uses above. The development conserves the main elevations of the heritage building and just under 50% of the building structure and adds a four- and six-storey addition.

The following factors were considered in assessing this application:

- The applicant initiated construction on this project in January 2021, which is at odds with the Victoria Civic Heritage Trust (VCHT) policy that states, "no retroactive funding".
- Request for retroactive consideration has occurred in the past and as a result, Council passed a motion on May 25, 2017, that "*reaffirms the City's Tax Incentive Program Policy that states City Council approval of the tax exemption must occur prior to the commencement of any work on the proposed project.*"
- Despite being contrary to the above noted policy, the heritage building would be seismically upgraded to achieve 100% seismic resistance under the 2018 BC Building Code. The development preserves virtually all intact character-defining elements on the primary elevations and reinstates a wood storefront that replicates the proportions of the original and reintroduces entrances and glazing that had been closed off over the years.

The applicant also proposes to restore the wood transom window across the whole frontage.

- Although not the focus of this TIP application, the actual development, now under construction, is consistent with:
 - the *Official Community Plan, 2012* (OCP) which envisions the area transforming into a mid- and high-rise area and supports new development to avoid the demolition of heritage property, of one or more of its facades
 - the *Downtown Core Area Plan, 2011* (DCAP) which supports new development that conserves and enhances the form, character, and features of heritage property
 - the *Standards and Guidelines for the Conservation of Historic Places in Canada* (2010) which encourages new additions that achieve visual compatibility through a balance between imitation and pointed contrast
 - numerous other City policies related to City building including the *Housing Strategy, 2016-2025* by providing 104 units of rental housing.

Given the complexity and the circumstances of this application, an Alternate Motion has been provided for Council's consideration. If Council approves this TIP Application, the total value of the proposed property tax exemption over ten years is \$1,594,680, which is less than the cost to seismically upgrade the building based on either current or projected property taxes after the renovation. The total estimated project budget is \$33,328,783 and the cost of seismic upgrading is estimated at \$1,692,119.56 which exceeds the total value of the tax exemption.

In recent months, City staff and representatives from the VCHT have been working together to resolve a number of issues associated with the TIP. These include:

- challenges associated with projects that add density and/or underground parking and only retain a portion of the original heritage structure
- incomplete and inaccurate submissions
- escalating construction costs
- tension between an applicant's urgency to initiate the work in advance of TIP approval and the need for the City and the VCHT to ensure that proposed seismic upgrades are compatible with *Standards and Guidelines for the Conservation of Historic Places in Canada* (2010) and offer best value for money.

While the project at 1050 Pandora Avenue is characterized by a number of these challenges, further detail on these issues and possible solutions will be explored more broadly in a future report to Council.

BACKGROUND

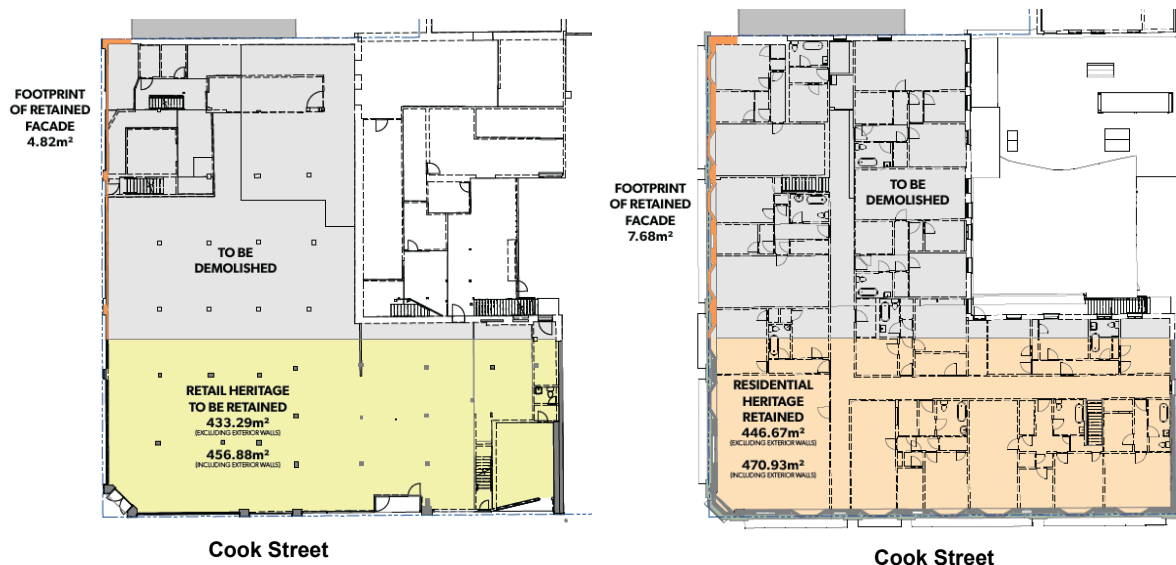
The Parkway Apartments Building is a two-storey, Edwardian-era mixed-use building designed by architect William Ridgway Wilson, in 1911. A full description of the historic place is included in the attached Conservation Plan. It is significant for its association with the pre-WW1 real estate boom in Victoria and for its architectural details including white glazed bricks, pressed metal cornices, regular fenestration, and chamfered corner entry. One of the earliest tenants of the building was Wellburn's Market on the ground floor. The building is a distinctive landmark in the North Park neighbourhood and an important contributor to both the Cook and Pandora streetscapes.

On December 10, 2020, City Council approved the heritage designation of the building, the rezoning of the site and a heritage alteration permit (HAP No.00016), authorizing the comprehensive redevelopment of the property with a four- and six-storey addition to the

Parkway Apartments Building. The development includes 104 rental apartment units, conserves the street-facing elevations of the heritage building and 49.5% of the heritage building structure. The other 50.5% of the existing structure was removed to enable the underground parking and the new building. Other key details of the already approved development include:

- conserves the ground floor with seven commercial units
- creation of a residential courtyard on the interior of the site accessed by a walkway from Cook Street between the conserved heritage building and the new four-storey building
- provision of 154 long-term bicycle parking spaces and 18 short-term bicycle parking spaces
- provision of 44 underground parking spaces.

The recommended tax exemption is based on the assessed value of the retail areas and residential units in the portion of the heritage building where interior structure is being retained (See Attachment D - Portions of the Building where Structure is retained). The exempt areas are located within 13.12 metres of the Cook Street façade and include 433 square metres of retail space on the ground floor, and seven residential units on the second storey totaling 446 square metres. Based on consultation with BC Assessment and the City's Finance Department, staff have calculated that this floor space represents 10.7% of the estimated assessed value of the property after the development is fully constructed.



*Conserved areas of building highlighted in yellow and orange.
The left image is the ground floor, and the right image is the second storey.*

The City's TIP began in March 1998 to provide tax exemptions of up to ten years to assist 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 reinvigorate buildings and the Downtown with residential uses. The TIP has led directly to the creation of 710 residential units in 44 rehabilitated heritage buildings and attracted \$295 million in private investment primarily to the downtown.

Victoria Civic Heritage Trust Review

The Victoria Civic Heritage Trust (VCHT) reviewed the application at their July 5, 2021, meeting. The VCHT recommended that Council decline the proposed tax exemption. Noting in their Letter of Recommendation, dated July 8, 2021 (Appendix H):

“Recommend to Council to decline a tax exemption for the property at 1050 Pandora Avenue (1911 Parkway Apartments). Supporting documentation to be submitted to City Council with the recommendation, outlining the concerns and issues identified by the VCHT Board of Directors, and the Architectural Conservation Committee

1. *The application does not sufficiently meet the intent of the Tax Incentive Program with respect to the amount of conservation and the absence of a strong rationale for the significant amount of demolition proposed.*
2. *The absence of a professional seismic assessment of the building in advance of the structural design.*
3. *The applicant did not make a case for why they did not consider the full retention of the heritage building.*
4. *Inconsistencies between the architectural and structural drawings submitted with the application and the plans approved by Council, which have significant implications for the structural and seismic design and the costing information submitted by the applicant.*
5. *Discrepancies between the proposed work and the Conservation Plan and the design and plans approved by Council at the public hearing on 10 December 2020.*
6. *More clarification is required on technical aspects of the seismic upgrading design:*
 - *Whether the green roof and planters are to be deleted as they still show on the drawings, which affects seismic design loads. If the green roof is removed, clarification of the impact on gravity versus seismic loads for the roof, and presumed reduction in costs.*
 - *Whether the moment frame proposed on Cook Street is to make up for the modification or the demolition of 50% or more of the heritage building.*
 - *How much of the floor and wall framing upgrades are related to new gravity loads instead of seismic upgrading of the original building.*
 - *Whether the north wall intervention is related to underground parking.*
 - *Resolution of different seismic design approaches and mixed ductility levels.*
 - *Whether the storefront assemblies will be constructed of wood or aluminum.”*

One of the primary concerns for the VCHT is that, based on their policy, this application is not eligible for the tax incentive: *“Note that the tax exemption will not be given retroactively, and work must not commence before approval is given.”* To add, Council passed a Motion on May 25, 2017, *“That Council reaffirms the City’s Tax Incentive Program Policy that states City Council approval of the tax exemption must occur prior to the commencement of any work on the proposed project.”* In this case, the applicant has moved forward with the construction of the project without getting approval first.

Another concern of VCHT is that the conservation of 49.5% of the original building structure does not meet the Tax Incentive Program’s intent which, “is to assist the preservation, rehabilitation and seismic upgrade of designated heritage buildings”, and that the removal of 50.5% of the interior and structure to construct underground parking is not justified.

Since the TIP program was initiated, seismic requirements for new buildings have increased substantially, particularly in the 2018 BC Building Code. Applicants consistently tell staff that these increased requirements have made seismic upgrades far more costly than in the past and have made it more difficult to preserve building interiors. However, the TIP program information

states that, “eligible seismic upgrading costs [are] specific to the projects which convert existing vacant or underutilized upper storey(s) to residential uses.” And that the cost of the architectural conservation is not considered in the tax exemption formulas where we have façade-only retention. Therefore, the alternate motion for this TIP application is to exempt only those portions of the Parkway Apartments building where interior structure is being conserved and areas of the building where only the heritage façade is being conserved will still be taxable.

This application is characterized by a number of challenges, which City staff and VCHT have been reviewing and working to resolve, on a more general level. To summarize, some of the challenging aspects associated with this particular application are:

- historic building retention
- significant added density and underground parking which blurs the degree to which seismic interventions are necessary for heritage protection verses necessary to enable new additions
- complexity of application and challenges associated with timeliness
- ineligible based on VCHT policies
- incomplete application submissions

These issues and circumstances are not unique to this project and a separate report along with a presentation by the VCHT will be brought to Council in the near future; however, there is still the need to advance TIP applications for consideration ahead of this other work.

Proposed Seismic Upgrade

The project is designed to 100% of the seismic design requirements of the 2018 BC Building Code. A detailed description of the seismic upgrade strategy is attached to the report (Attachment K: Seismic Upgrading Strategy by Sorensen Trilogy dated November 23, 2021). The intent of the upgrade is to correct lateral force deficiencies. The following are some of the strategies proposed:

- The brick masonry walls will be mortar repaired and repointed as required.
- The existing brick walls will be seismically anchored to the new/existing structure to resist seismic loads. New framing will be installed behind the brick framing.
- The brick parapet will be anchored to the roof framing system using steel brackets.
- The existing façade along the south end of the building will be underpinned.
- Pad footings in the existing building and around the building perimeter will be upgraded.
- The existing pad footings will be lowered in several areas to ensure bearing on competent soil and not to undermine adjacent footings. New concrete piers will also be required.
- A new concrete curb will be installed around the perimeter of the existing building remaining to replace the existing masonry/wood curbs that are inadequate.

The structure of the building would also be upgraded by reinforcing wood beams with steel channels, improving column connections, adding a two-storey steel moment frame and new wood shear walls with drag struts. The historic building structure will also be connected to the new building on the west side to provide seismic stability in two directions.

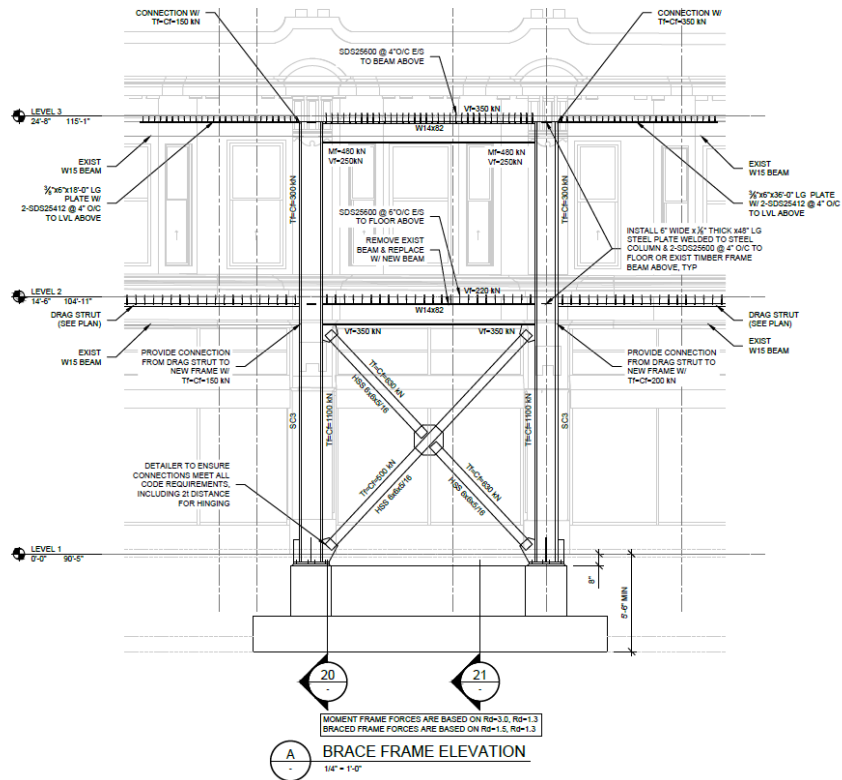


Diagram of planned brace frame

ANALYSIS

Although the staff recommendation is to decline the application because of the 2017 Council motion confirming Council's commitment that applications will not be accepted after commencement of work, there are a number of aspects of this proposal that are positive and consistent with other City of Victoria approved policy, which are outlined below.

Official Community Plan

The proposal to grant the project a tax exemption is generally consistent with the *Official Community Plan, 2012* (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, 2012* (OCP) 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, 2012* (OCP), 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, 2011 (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* (2010) (Standards and Guidelines). The applicant proposes to preserve and retain virtually all intact character-defining elements on the primary elevations, rehabilitate the building by constructing a compatible addition to the heritage building and provide a new storefront that replicates the proportions of the original and reinstates missing entrances and glazing. The applicant also proposes to restore the wood transom window across the whole frontage. The conservation approach is primarily rehabilitation; however, it also includes a significant amount of preservation and restoration. Rehabilitation is defined in the Standards and Guidelines as the sensitive adaptation of an historic place for a continuing or compatible contemporary use while protecting its heritage value.

Staff included a full review of the application's general compliance with the Standards and Guidelines in the original staff report for Heritage Alteration Permit No. 00016. The Heritage

Advisory Panel recommended that Council support the project at their October 8, 2019, meeting. While this information is provided in Attachment M, the design of the building is not a consideration as part of this TIP Application.

Other Policy Considerations

While the analysis above provides a recap of the development's consistency with heritage related policy, it is also worth noting that the project advances several other City goals related to the provision of rental housing, sustainable mobility, and place-making.

Resource Impacts

Since the application's initial submission, the project has moved forward with construction in order to stay on schedule to deliver the much-needed rental housing. Meanwhile, construction costs have increased and the cost estimate from the applicant's construction company has also increased. A new updated estimate was provided, and the total estimated construction cost is valued at \$33,328,782.75, with the seismic upgrade of the heritage building estimated to be \$1,692,118.56.

The formula to determine how many years the tax exemption should apply to the property is the rate of the current year's property tax (\$159,468) 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 (\$1,692,118.56) will exceed the cumulative value of the current years property tax, for 10 years, which is \$1,594,680 (\$159,468 x 10).

$$\text{Cost of Seismic Upgrading} = \$1,692,118.56 > \$1,594,680 (\$159,468 \times 10)$$

The tax exemption is limited to the remaining original floor area inside the conserved portions of the Parkway Apartments building. The conserved portions of the heritage building include 461.7 square metres of retail space on the ground floor, and seven residential units on the second storey totalling 478.6 square metres, together totalling 940.3 square metres. Working with *BC Assessment*, it was determined that the assessed value of these areas alone will equal \$4,198,000. The entire project would have an estimated total assessed value of \$39,188,000. It is estimated that the tax-exempt portions of the building would be subject to \$43,728 in annual taxes if the tax exemption did not apply. Of the \$43,728 in exempt annual taxes, the City's portion would be \$27,795 and other agencies' portions would total \$15,932. The total estimated value of the tax exemption over 10 years after the project is completed is \$437,280.

The assessed value of the tax-exempt portions of the development (\$4,198,000) represents only 10.7% of the assessed value of the total (\$39,188,000). Over the 10-year period, the City will collect taxes on the remainder of the project, which will generate an estimated \$192,456 in yearly tax revenue. Given that the assessed value of the taxable portions of the project (34,990,000) exceed the current assessed value of the property (\$9,602,000), there will not be any decrease in present tax revenue to the City if the tax exemption is granted.

Accessibility

The rehabilitated entrances of the building will be fully accessible to persons with disabilities. The upper storeys of the building can be accessed by the elevator.

CONCLUSION

This application has been complicated for a number of reasons, including the applicant not submitting the required information early in the process and initiating construction prior to approval, which is contrary to VCHT's policies as well as Council's resolution on May 25, 2017, which reaffirmed "*the City's Tax Incentive Program Policy that states City Council approval of the tax exemption must occur prior to the commencement of any work on the proposed project.*" On this basis, the recommendation is to decline the Tax Incentive Program application.

However, the proposed tax exemption would facilitate the rehabilitation and seismic upgrading of a notable heritage building designed by a significant local architect, contributing to the historic integrity of Pandora Avenue and Cook Street. The project advances the City's goals of enhancing heritage sites in the Core Business District while simultaneously providing additional residential rental units. An alternate motion is provided below, should Council wish to consider providing a tax exemption for this project.

ALTERNATE MOTION

1. That Council authorize the City to enter into a tax exemption agreement (the "Agreement"), with contents satisfactory to the Director of Sustainable Planning and Community Development and form satisfactory to the City Solicitor regarding a possible tax exemption for 1050 Pandora Avenue, on the following terms and conditions:
 - a. 10.7% of assessed value of property for 10 years.
 - 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.
 - d. That the tax exemption does not apply in a calendar year during any part of which any residential dwelling unit is not used for residential purposes.
2. That Council instruct the City Solicitor to prepare a tax exemption bylaw pursuant to section 225 of the *Community Charter* for 1050 Pandora Avenue, providing for an exemption of 10.7 % of assessed value for 10 years if the conditions of the Agreement are fulfilled.

Respectfully submitted,

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Susanne Thompson
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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: Portions of the Building where Structure is retained
- Attachment E: Architectural Plans, dated December 10, 2021
- Attachment F: Heritage Conservation Plan for Parkway Apartments by Donald Luxton and Associates Inc., dated July 2019
- Attachment G: Letter of Support from Donald Luxton, dated June 10, 2022
- Attachment H: Letter and Report from Victoria Civic Heritage Trust, dated July 8, 2021
- Attachment I: Letter from Primex Investments Ltd. Date stamped December 21, 2021
- Attachment J: Letter from Primex Investments Ltd. Date stamped June 21, 2022
- Attachment K: Seismic Upgrading Strategy by Sorensen Trilogy dated November 23, 2021
- Attachment L: Motion from Council, May 25, 2017 – TIP00027 – 506 Fort Street
- Attachment M: HAP PLUC Report, November 29, 2019 – 1050-1058 Pandora Ave and 1508-1518 Cook Street