



## **Committee of the Whole Report For the Meeting of July 18, 2024**

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**To:** Committee of the Whole    **Date:** July 4, 2024  
**From:** Karen Hoese, Director, Sustainable Planning and Community Development  
**Subject:** Tax Incentive Program Application No. 000033 for 2659 Douglas Street

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### **RECOMMENDATION**

That Council decline the Tax Incentive Program Application No. 000033 for 2659 Douglas Street.

### **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 an update on the findings of the third-party review and information, analysis and recommendation regarding an application for a tax exemption under the City's Tax Incentive Program (TIP) to assist in the seismic upgrading of the heritage-designated building historically called the Scott Building, at 2659 Douglas Street.

In August 2020, Council approved the comprehensive rehabilitation of the Scott Building to convert it into a mixed-use building with ground floor commercial and residential uses above. The development conserves the two street facing facades, adds a one-storey rooftop addition and includes a new six-storey structure to the east of the existing building.

On July 6, 2023, Council approved an interim process to progress specific in-stream TIP applications, including one for 2659 Douglas Street, with the caveat that the applicant engages a third-party consultant to review the seismic design strategy for the historic building and the cost estimates for this work. Council also reaffirmed the City's existing Tax Incentive Program eligibility criteria.

The following factors were considered in assessing the TIP application:

- Consistency with the Tax Incentive Program policy and criteria
- The third-party review analysed the retention and structural design strategy and provided an assessment on the determined costs for the seismic work of the historic building.
- The cost of seismic upgrading of the heritage building is estimated at \$2,520,992 which exceeds the total value of the tax exemption.

- A full 10-year tax exemption is eligible based on the seismic costs, and for 39.46% of the overall development.
- The total value of the proposed property tax exemption over ten years is \$1,384,595 which is less than the cost to seismically upgrade the building based on either current or projected property taxes after the renovation.

This application does not sufficiently meet the policies and criteria of the Tax Incentive Program and therefore it is recommended that Council decline this application. However, given the complexity and the circumstances of this application, an alternate motion to approve a tax exemption has been provided for Council's consideration.

## **BACKGROUND**

### **Historical Context**

In Victoria's Burnside neighborhood, the Scott Building is a three-storey steel and timber structure with masonry cladding of brick and terra-cotta and is an impressive Classical Revival-Style block. Constructed in 1912, the scale, detailing, and materials of the Edwardian-era building stands in contrast to its present-day surroundings. Built during Victoria's economic boom, for Robert Scott, and designed by the noteworthy architect, Lord Wilfrid Hargreaves, the block is located in what was once Victoria's Centre of resource-based industries. It contained commercial businesses on the ground floor and residential space on the upper two floors: thus, filling the immediate community's growing need for locally based amenities and accommodation. For a complete and detailed description of the heritage value associated with this building, see the Conservation Plan, by Donald Luxton & Associates, Attachment F.

### **Development Context**

In August 2020, Council approved the comprehensive rehabilitation of the Scott Building to convert it into a mixed-use building with an addition, and with ground floor commercial and secured rental residential uses above. In addition, the development includes a six-storey.... The entire development includes 146 rental units.

The major proposed interventions of the overall project for the Scott Building include:

- retention of Scott Building's primary (street) façades and partial rehabilitation of a small portion of its secondary (non-street) façades
- preservation of retained character-defining elements that are intact, and the in-kind repair of deteriorated elements
- rehabilitation of upper floor fenestration of primary façades
- rehabilitation of Hillside Avenue and Douglas Street storefronts including the reinstatement of sections of the brick wall at ground level of Hillside Avenue
- rehabilitation of chamfered storefront with pass-through at Douglas Street and Hillside Avenue corner of building
- seismic upgrading of the retained facades and parapets
- addition of modern extensions to the east and south
- addition of a single floor above the roof of the existing historic building set back from the parapet
- rehabilitation of the site through the construction of a new six-storey structure to the east of the existing building.

The proposal conserves two street-facing facades and approximately 30% of the interior structure. The other 70% of the heritage building was removed to enable the new building development. The ground floor structure, up to the exterior walls was not retained, but was replaced completely and designed with ground level commercial units.

### **Tax Incentive Program**

On July 6, 2023 Council approved an interim process to progress specific in-stream TIP applications, including one for 2659 Douglas Street, as follows:

*That Council confirm that despite being inconsistent with the above noted parameters, that current in stream proposals having already received all necessary Council development approvals, and where a complete Tax Incentive Program application has been submitted before December 31, 2023, will be brought forward for consideration by Council after being processed by City staff and Victoria Civic Heritage Trust. To take advantage of this opportunity, applicants will be required to engage a third-party structural engineer as well as any necessary supporting professionals, paid for by the applicant but reporting to the City, to conduct a seismic review of:*

- a. the design strategy*
- b. budgeted costs*
- c. any changes that are proposed during construction*
- d. the project at completion, prior to the tax incentive coming into effect, to verify all work was completed in accordance with the approval.*

Council also reaffirmed the City's existing Tax Incentive Program eligibility criteria. The June 22, 2023 Committee of the Whole report on the TIP briefing and the July 6, 2023, Council minutes are attached to this report for reference.

### **ANALYSIS**

Consistent with the TIP policy, the potential tax exemption is based on the assessed values of the residential units in the portion of the heritage building where interior structure is being retained, (see plans below, Figure 1 and 2). The tax-exempt areas are located within the red area, shown below along the Hillside Avenue and Douglas Street façades and along the South facing facade which includes 14 partial units on the second storey and 14 partial units on the third storey. Based on the calculations provided by BC Assessment and the City's Finance Department, the floor space represents 39.46% of the estimated assessed value of the property after the development is fully constructed.

The area calculations show that of the three historic levels that could be eligible, only 30% has been retained. However, as the ground level retail space is a façade-only retention, it is not eligible for tax exemption. The second and third floors have been retained up to 43%, (see Figure 1 and 2).

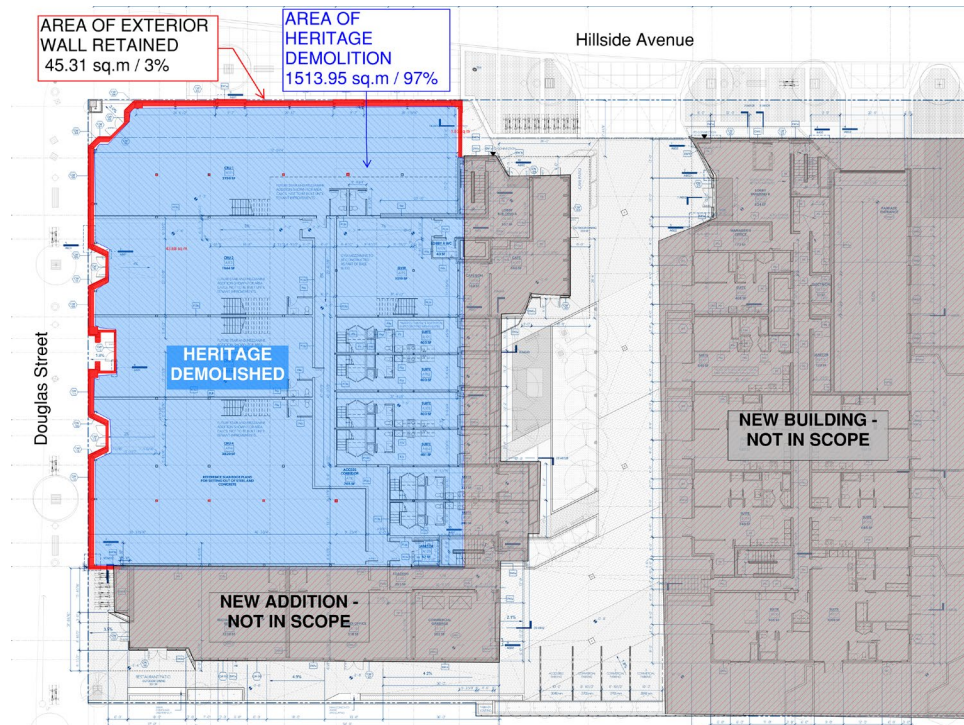


Figure 1: Ground floor heritage retention (red), demolition (blue), and not in scope (grey).

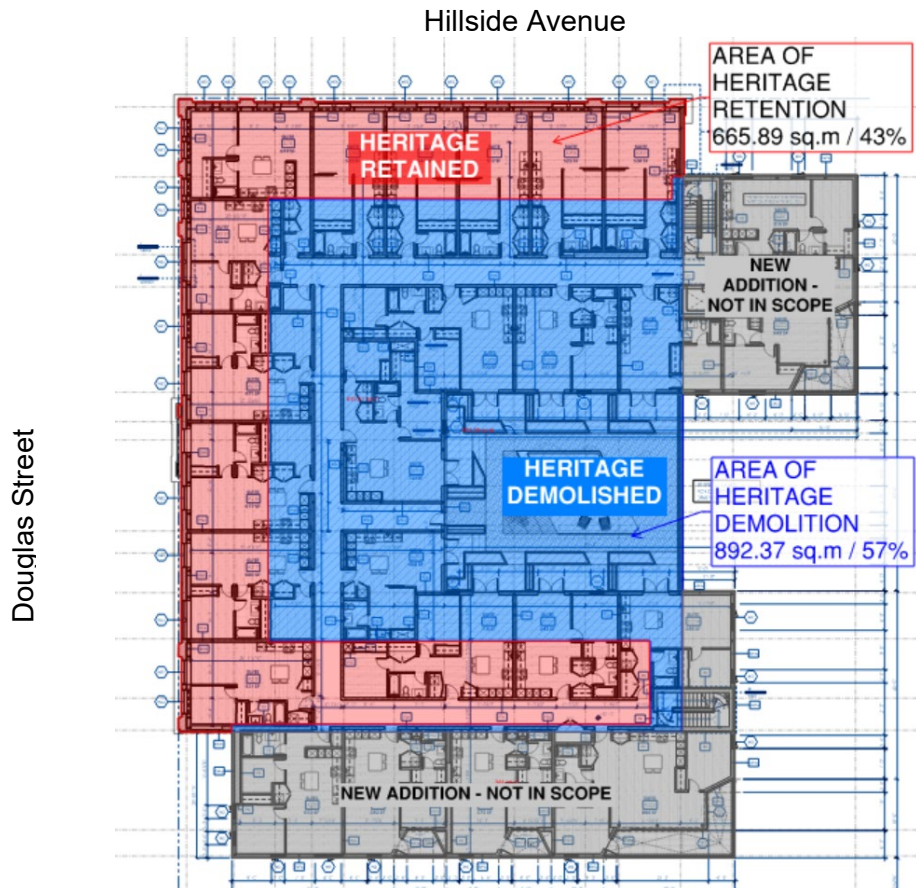


Figure 2: 2nd and 3rd floor heritage retention (red), demolition (blue) and not in scope, (grey).

## Victoria Civic Heritage Trust

This application does not meet the Tax Incentive Program policies and criteria, therefore the Victoria Civic Heritage Trust (VCHT) has not reviewed this application.

### Third-Party Review

A third-party review of the seismic strategy of the heritage structure and the related costs was carried out by Glotman Simpson Consultant Engineering. Such an assessment would normally be required prior to approvals and before any construction begins, to ensure that the structural design strategy retains as much of the historic fabric as possible. Since this project is well underway in terms of demolition and construction, the consultant was limited in their review to what was in progress and was unable to comment on design improvements to retain more of the historic structure.

#### *Historic Retention and Seismic Upgrade*

The third-party review assessed the structural design of the seismic upgrade of the historic building and has described the strategy with detailed drawings in their report. To summarize, the new development has retained the following heritage structure:

- Douglas Street and Hillside Street façade framing, including parapets and cornices
- roughly 50% of second, third and roof level framing, including existing joists, steel and timber beams, and diagonal ship-lap deck sheathing.

The following heritage structure has been demolished:

- remaining east and south mass brick walls
- roof slab framing and supporting stud walls at the second storey
- remaining 50% of second, third and roof level framing
- ground level foundations including concrete spread footings and slab-on-grade.

For a detailed description of the structural design strategy for the remaining heritage fabric, see Attachment K.

#### *Costs*

The consultant then divided the relevant costs into direct and indirect costs. They reviewed the costs provided by the quantity surveyor, Beacon Construction Consultants, and the contractor, Summit Brooke Construction. See Attachment K for the full report and the associated appendices, including plans, and cost estimate breakdowns.

**Direct Costs:** The direct costs are those that are considered 100% of the costs associated with the restraint of the heritage framing and that can be claimed as part of the TIP application. The two estimates provided by Beacon Construction Consultants and Summit Brooke Construction are \$747,710 and \$2,049,294, respectively.

**Indirect Costs:** In an effort to quantify the costs associated with the seismic structure required to restrain what is remaining of the heritage building, the consultant analyzed the structure to find a percentage that could count towards the eligible costs, and determined that 21% of the costs associated with the wood frame shear walls, diaphragms and concrete shear walls, diaphragm reinforcing and concrete footings supporting the shear walls can be claimed as part of the TIP application. The two estimates for total indirect costs provided by Beacon and Summit Brooke are \$1,010,748 and \$471,699 respectively.

**Total Costs:** Combining the direct and indirect costs provided by Beacon and Summit results in estimates of total cost of \$2,156,477 and \$2,520,992, respectively.

Tax Incentive Program Eligibility Criteria

As per the Council motion, approved on July 6, 2023, the TIP Eligibility Criteria were confirmed as follows, and the chart below shows which criteria the application meets and does not meet.

ELIGIBILITY CRITERIA	ASSESSMENT
a. The building must be Heritage Designated.	YES
b. Eligible alterations are limited to seismic upgrading work, associated with retaining and conserving existing heritage fabric.	YES Confirmed by third party review
c. Construction must not commence until the TIP Application has been advanced to Council for consideration (some strip-out work may be permitted in specific cases). Retroactive applications will not be accepted.	Submitted retroactively per Council motion
d. Proposals must retain internal structure and exterior façades of the heritage building to the highest level possible unless proven in a seismic assessment to be the only viable option for seismic upgrading and/or adaptive reuse and be verified as being necessary by an independent peer review.	NO Due to prior demolition unable to be verified through a seismic assessment
e. Rooftop additions must be sensitively located and smaller in scale than the existing building and are limited to 1 – 2 storeys.	YES
f. Excavation below the original building foundations is not permitted unless verified as required as part of a structural assessment.	NO Due to prior demolition unable to be verified as part of structural assessment
g. For Residential Use TIP Applications, buildings must reuse/repurpose existing upper floors for residential use, with commercial on the ground floor. Eligible costs are limited to seismic upgrade work	YES Confirmed by third party review
h. All applications must submit a seismic assessment of the heritage building with cost estimates for the seismic upgrade strategy and clearly separated out eligible heritage costs from any new construction and/or new development costs early in the process	Submitted retroactively by third party per Council motion
i. Applications not meeting the above criteria will be considered ineligible and will not be accepted. Where an application has been accepted and its status changes to make it ineligible, application processing will be stopped.	Not Eligible

Given that the information needed to assess the heritage building was not provided until after the permit drawing stage and the commencement of significant demolition and construction, it is challenging to verify the extent of heritage demolition that could have been supported. However, given the low retention of the heritage structure, it is recommended that the application does not meet the eligibility criteria set out for the City’s Heritage Tax Incentive Program.

## Resource Impacts

Since the application's initial submission, in order to stay on schedule, the project has moved forward with construction to deliver much needed rental housing. Meanwhile, construction costs have increased. An estimate was provided, and the total estimated construction cost is valued at \$59,625,561 with the seismic upgrade of the heritage building, as reported by the third-party consultant, is estimated to be \$2,520,992.

To determine the term of the exemption, the seismic costs are divided by the property tax and rounded down to the nearest whole number:

$$\begin{aligned} & \$2,520,992 / \$177,190 = 14.23 \\ & \text{Term} = 10 \text{ years maximum} \end{aligned}$$

The tax exemption is limited to the remaining original floor area inside the conserved portions of the Scott building. The conserved portions of the heritage building include 14 residential units on the second storey and 14 residential units on the third storey, totaling 1331.78 square metres. The retail area located on the ground level is not eligible as it is façade-only retention.

Working with *BC Assessment*, it was determined that the assessed value of these areas will equal \$29,201,000. The entire project would have an estimated total assessed value of \$74,000,000.

It is estimated that the tax-exempt portions of the building would be subject to \$138,460 in annual taxes if the tax exemption did not apply. Of the \$138,460 in exempt annual taxes, the City's portion would be \$89,265 and other agencies' portions would total \$49,195. The total estimated value of the tax exemption over the allowable ten years after the project is completed is \$1,384,595.

The assessed value of the tax-exempt portions of the development (\$29,201,000) represents 39.46% of the assessed value of the total (\$74,000,000).

Over the ten-year period, the taxable portion of the property (\$44,799,000) would be subject to \$287,930 in annual taxes with the City's portion of \$186,800 and other agencies' portion of \$101,130. Given that the estimated assessed value of the taxable portions of the project (\$44,799,000) exceeds the 2022 assessed value of the property (10,995,000), there will not be any decrease in tax revenue to the City if the tax exemption is granted.

## CONCLUSION

Although the development proposal meets many City policies and housing goals, the analysis as indicated above shows that the application for the TIP does not sufficiently meet the eligibility criteria and City heritage policy. In addition, the low retention of the heritage structure was not justified through the seismic and structural assessments that should have occurred much earlier in the TIP process to support the heritage upgrade strategy. Therefore, the recommendation is to decline the Tax Incentive Program application for 2659 Douglas Street.

## ALTERNATE MOTION

That Council approve Tax Incentive Program Application No. 000033 for 2659 Douglas Street.

1. That Council instruct the Director of Sustainable Planning and Community Development to prepare a heritage tax exemption bylaw to exempt 665.89 square meters (7,168 square feet) of residential area on the second story and exempt 665.89 square meters (7,168 square feet) of residential area on the third storey of the assessed value of the property at 2659 Douglas Street for a period of ten years.
2. That, first, second and third readings of the heritage tax exemption bylaw be considered by Council.
3. That subject to approval of first three readings, the applicant execute an exemption agreement with contents to the satisfaction of the Director of Sustainable Planning and Community Development and form satisfactory to the City Solicitor prior to adoption of the bylaw that contains the following conditions:
  - a. the final costs of seismic upgrading must be verified by a third-party consultant to the satisfaction of the Director of Sustainable Planning and Community Development; and
  - b. 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.
4. That the above recommendations be adopted on the condition that they create no legal rights for the applicant or any other person, or obligation on the part of the City or its officials, and any expenditure of funds is at the risk of the person making the expenditure.

Respectfully submitted,

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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 February 23, 2021
- Attachment E: Heritage Conservation Plan for Scott Building by Donald Luxton and Associates Inc., dated August 2019
- Attachment F: Letter from Primex Investments Ltd. Received July 12, 2022
- Attachment G: Seismic Upgrading Strategy by Equilibrium, dated June 06, 2022
- Attachment H: TIP Briefing Report, June 22, 2023
- Attachment I: Council Motion from Council, June 22, 2023
- Attachment J: TIP Third-Party Structural Assessment, Dec 4, 2023