



## **Committee of the Whole Report For the Meeting of July 25, 2024**

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**To:** Committee of the Whole **Date:** July 11, 2024  
**From:** Karen Hoese, Director, Sustainable Planning and Community Development  
**Subject:** Tax Incentive Program Application No. 00037 for 1314-1318 Wharf Street

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### **RECOMMENDATIONS**

1. That Council instruct the Director of Sustainable Planning and Community Development to prepare a heritage tax exemption bylaw to exempt 957.2 square meters (10,303 SF) of retail space on the main and lower levels of the assessed value of the property at 1314-1318 Wharf Street for a period of ten years if the conditions of the tax exemption are fulfilled.
2. That Council authorize an exemption agreement with contents to the satisfaction of the Director of Sustainable Planning and Community Development and form satisfactory to the City Solicitor 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
3. 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.

### **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 tax exemption under the City's Heritage Tax Incentive Program (TIP) for non-residential buildings to assist in the seismic upgrading, rehabilitation and restoration of the heritage-designated buildings, historically called the Caire & Grancini Warehouse and the Fraser Warehouse, also known as the Northern Junk Buildings, at 1314-1318 Wharf Street.

Many factors were considered in assessing this application, including the following:

- Tax Incentive Program criteria
- the third-party review of historic retention and cost associated with seismic upgrade of heritage fabric
- the total value of the proposed property tax exemption over ten years is \$411,680 which is less than the cost to seismically upgrade the building
- BC Assessment valuation
- independent consultant evaluation of the applicant's proforma for the project, which indicates the tax exemption is necessary to maintain the project's financial viability.

It is recommended that Council approve this application because it meets the majority of the TIP criteria. However, an alternate motion to decline the tax exemption has been provided for Council's consideration.

## BACKGROUND

The Northern Junk buildings are a set of two modest 19<sup>th</sup> century vernacular brick and stone commercial warehouse buildings located along Victoria's Inner Harbour within the context of Old Town. Due to the sloping topography of the site, the buildings present as one storey fronting Wharf Street and two storeys facing the water. A full description of the historic place, including the Statements of Significance for each are included in the attached Conservation Plans, dated August 2019.

These two buildings have sat vacant and unused since 1978, however, on August 5, 2021, Council approved the comprehensive rehabilitation and restoration of the Northern Junk buildings with side and rooftop additions, to convert them into mixed-use buildings with commercial use at the ground floor levels, and residential uses above. The proposed development was to conserve all facades of each of the heritage buildings, the majority of the interior building structure and add a four-storey addition. As the application does not meet all of the TIP criteria, specifically the four-storey addition, the Victoria Civic Heritage Trust (VCHT) has not reviewed this application.

On July 6, 2023 Council approved an interim process to progress specific in-stream TIP applications that do not meet the current criteria for the TIP, with 1314-1318 Wharf Street being one of them:

*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

There are many positive aspects of this proposal that align with City policy. To summarize some of the main points, the *Official Community Plan* (OCP) speaks to the need to prepare for a seismic event by incentivizing the seismic upgrading of existing buildings. The OCP encourages retention and conservation of streets, the character of neighborhoods and the heritage value of buildings and places, or special features. The conservation of buildings through designation, seismic upgrading and other restorative measures is also consistent with goals outlined in the *Downtown Core Area Plan*.

However, the new addition is inconsistent with the *Old Town Design Guidelines* in terms of height, scale, massing, number of stories, and setbacks of rooftop additions to street-facing facades as well as the Tax Incentive Program, which limits eligible projects to a maximum of two storeys for new additions to heritage buildings.

This application falls under the Tax Incentive Program for non-residential buildings, which would allow for exemption of only those portions of the Northern Junk buildings where interior structure is being conserved for non-residential use.

### Third-Party Review

The third-party review was carried out by Glotman Simpson Consultant Engineering. The consultant reviewed the vacant buildings and the plans to analyze the applicant's design strategy for seismically upgrading the retained portions of the buildings for the purpose of assessing historic retention and the associated costs, see figures 1 and 2 for diagrams showing retention plans.

### *Historic Retention and Seismic Upgrade*

The third-party reviewer looked at the structural design for the seismic upgrade and describes the strategy with detailed drawings in their report. The new development proposes to retain the following heritage structure:

- all exterior façades, including the wall framing for both structures, parapets and cornices
- interior masonry bearing wall for 1316-1318 Wharf Street.

The following heritage structure is proposed to be demolished:

- wood roof framing, including wood truss joists and shiplap decking for both buildings
- wood floor framing, including 2x joists, dropped heavy timber beams and posts and shiplap decking for both buildings.

The following items have been proposed for reuse:

- heavy timber beams and posts from 1316-1318 Wharf Street. to be repurposed and used as strong-back lateral wall supports for the west exterior walls, contingent on material condition
- reuse of floor sheathing and other miscellaneous wood framing for secondary non-structural architectural elements, contingent on material condition.

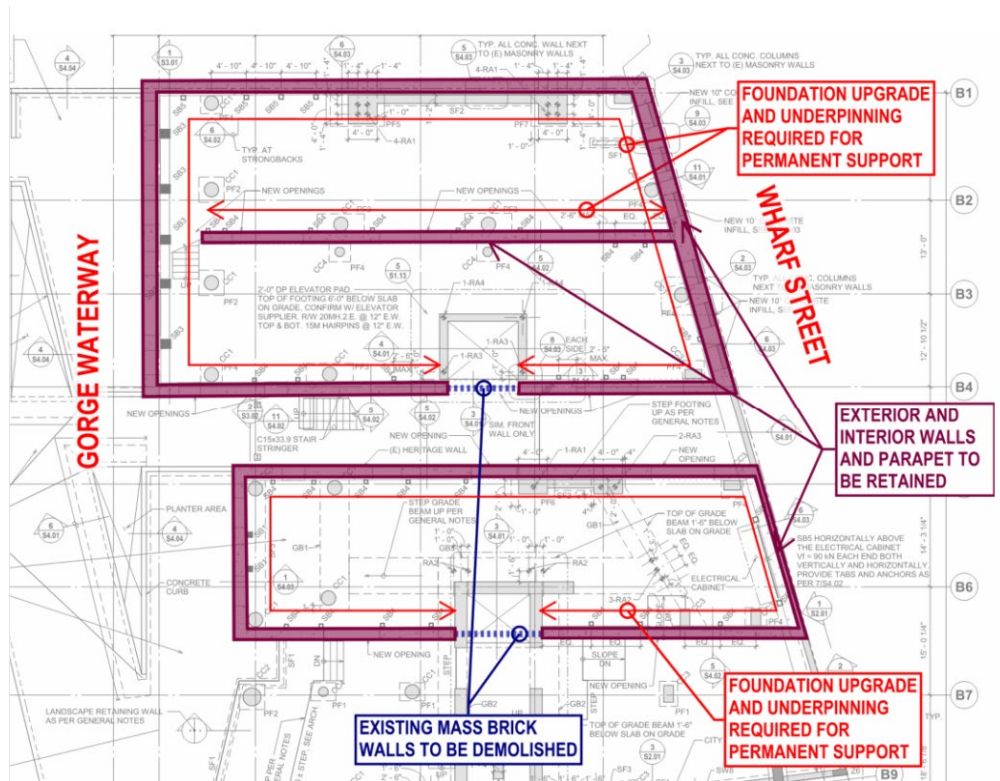


Figure 1: Harbour Side / Basement Level Heritage Retention Plan (proposed by developer)

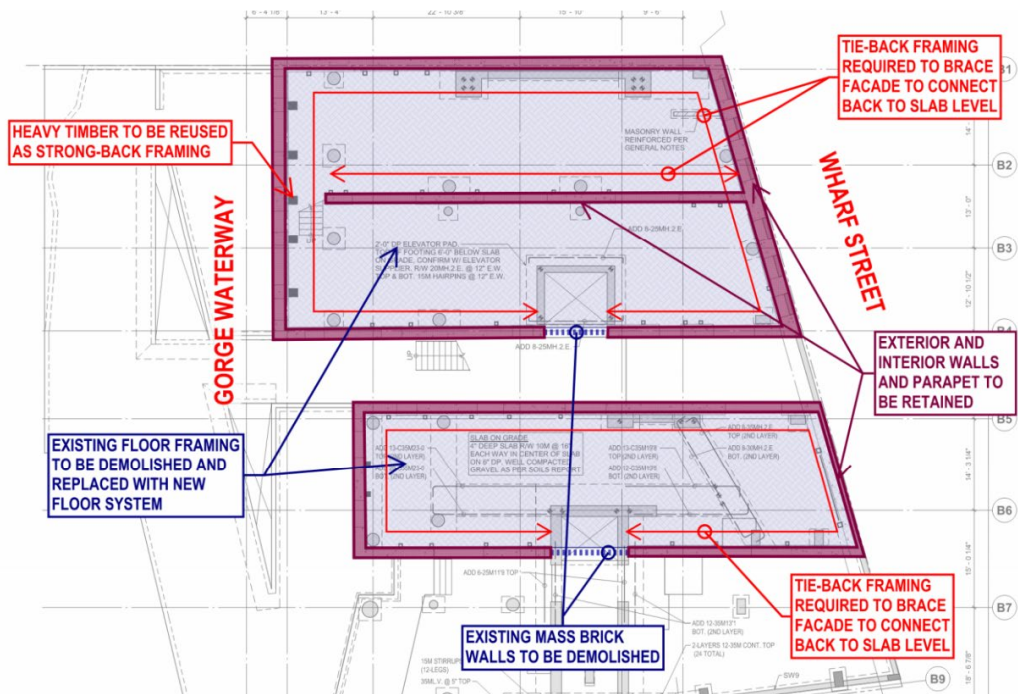


Figure 2: Ground Level Street-Facing Heritage Retention Plan (proposed by developer)

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

The consultant then divided the relevant costs into direct and indirect costs. They reviewed the costs provided in June 2023, by the quantity surveyor, and the quotes received by two contractors. See appendix 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.

	Contractor Quote - Low Bid	Contractor Quote – 2 <sup>nd</sup> Bid	Quantity Surveyor
Direct Costs	\$2,265,398	\$2,914,584	\$3,133,529

### *Indirect Costs*

In an effort to quantify the costs associated with the lateral support of the heritage framing, the consultant determined that the weight of the retained heritage framing (including brick façade) could be compared to the overall weight of the southern portion of the project, with the weight being directly related to the seismic force to be resisted. They calculated that the retained heritage framing consists of roughly 14.6% of the overall weight. To this end, 14.6% of the costs associated with the wood frame shear walls and diaphragms and concrete shear walls, diaphragm reinforcing and concrete footings supporting the shear walls can be claimed as part of the TIP application.

	Contractor Quote - Low Bid	Contractor Quote – 2 <sup>nd</sup> Bid	Quantity Surveyor
Indirect Costs	\$765,779	\$888,184	\$1,206,314

### *Total Costs (Direct + Indirect)*

The following is a summary of the total cost for both contractor quotes and the quantity surveyor's estimate:

Contractor Quote - Low Bid	Contractor Quote - Second Bid	Quantity Surveyor
\$3,031,177	\$3,802,775	<b>\$4,339,843*</b>

*\*The highest estimate has been used for the purpose of the TIP calculations*

### Tax Incentive Program Eligibility Criteria

As per the Council motion from June 22, 2023, the TIP Eligibility Criteria was confirmed as follows, and the chart below shows which criteria the application meets and does not meet.

ELIGIBILITY CRITERIA	1314-1318 Wharf
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 Cost estimates reviewed by Third Party
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.	YES
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 <b>and/or adaptive reuse</b> and be verified as being necessary by an independent peer review.	YES Some internal structure is replaced due to its weathered and deteriorated state, therefore justified.



e. Rooftop additions must be sensitively located and smaller in scale than the existing building and are limited to 1 – 2 storeys	NO Approved addition is four-storeys
f. Excavation below the original building foundations is not permitted unless verified as required as part of a structural assessment.	YES Excavation to underpin existing foundations as well as provide head height for adaptive reuse is allowed.
g. For Non-Residential Use TIP Applications. Eligible costs are limited to seismic and other building conservation upgrade work, but limited to the historic building only, not the addition.	YES
h. All applications must submit a seismic assessment of the heritage building with cost estimates for the seismic upgrade strategy and clearly separate out eligible heritage costs from any new construction and/or new development costs.	YES
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.	Meets majority of criteria except e.

As indicated above, the analysis shows that the application meets all but one of the TIP eligibility criteria that apply to this application.

### Proforma

As a requirement of the TIP for Non-Residential applications, the City retained an independent financial consultant to evaluate the applicant's pro-forma. The consultant concluded that without the tax exemption, the project would not be financially feasible.

### **Resource Impacts**

Consistent with the TIP, the potential tax exemption is based on the assessed value of the retail areas in the portion of the heritage building where interior structure is being retained. The exempt area includes 957.2m<sup>2</sup> of retail space on the basement and ground floors. Based on consultation with BC Assessment, this floor space will represent 5.69% of the estimated assessed value of the property after the development is fully constructed.

Total estimated construction cost for the entire development is valued at \$36,832,000, with the seismic upgrade of the heritage building, as reported by the third-party consultant, estimated to be \$4,339,843.

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

$$\begin{aligned} \text{Seismic Cost} / \text{property tax} &= \text{Tax Exemption Term (to a maximum of 10 years)} \\ \$4,339,843 / \$83,905 &= 51.72 \\ \text{Term} &= 10 \text{ years} \end{aligned}$$

The tax exemption is limited to the original floor area inside the conserved portions of the Northern Junk buildings, which equals 957.2 m<sup>2</sup> (10,303 sf). The conserved portions of the heritage buildings will be used for retail / commercial uses.

Working with *BC Assessment*, it was determined that the assessed value of these areas alone will equal \$2,335,000. The entire project would have an estimated total assessed value of \$41,028,000.

It is estimated that the tax-exempt portions of the building would be subject to \$41,168 in annual taxes, if the tax exemption did not apply. Of the \$41,168 in exempt annual taxes, the City's portion would be \$26,250 and other agencies' portions would total \$14,918.

The total estimated value of the tax exemption over the maximum ten years after the project is completed is  $(\$41,168 \times 10 =) \$411,680$ .

The assessed value of the tax-exempt portions of the development (\$2,335,000) represents only 5.69% of the assessed value of the total (\$41,028,000). Over the ten-year period, the taxable portion of the property (\$38,693,000) would be subject to \$183,467 in annual taxes with the City's portion of \$118,281 and other agencies' portion of \$65,186.

Given that the estimated assessed value of the taxable portions of the project (\$38,693,000) exceeds the 2024 assessed value of the property (\$4,768,700), there will not be any shifting in tax burden to non-exempt taxpayers if the tax exemption is granted.

## CONCLUSION

The application sufficiently meets the TIP criteria as the applicant has made significant efforts to meet most of the criteria for conserving the historic fabric. In addition, through the third-party review and site inspections before starting construction, it was verified that the heritage structure proposed to be demolished is justified. Although the height of the additions exceeds the TIP criteria by two storeys, this application does meet the intent of the program and supports the conservation and repurposing of these significant heritage buildings. Therefore, the recommendation is to approve the TIP application for 1314–1318 Wharf Street.

## ALTERNATE MOTION

That Council decline Tax Incentive Program Application No. 00037 for 1314-1318 Wharf Street.

Respectfully submitted,

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Sustainable Planning and Community  
Development Department

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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 April 9<sup>th</sup>, 2023
- Attachment E: Conservation Plan for 1314 Wharf St. by Donald Luxton and Associates Inc., dated August 2019
- Attachment F: Conservation Plan for 1316-1318 Wharf St. by Donald Luxton and Associates Inc., dated August 2019
- Attachment G: Seismic Assessment Report, dated October 5, 2022
- Attachment H: Heritage Tax Incentive Program booklet, dated June 13, 2023
- Attachment I: Council Motion, July 6<sup>th</sup>, 2023
- Attachment J: TIP Third-Party Structural Assessment, Dec 8, 2023
- Attachment K: Committee of the Whole TIP Briefing Report, June 22, 2023