



Committee of the Whole Report For the Meeting of February 1, 2018

To: Committee of the Whole **Date:** January 19, 2018
From: Jonathan Tinney, Director, Sustainable Planning and Community Development
Subject: Tax Incentive Program Application No. 00028 for 727-729 Johnson Street

RECOMMENDATION

That Council instruct the City Solicitor to prepare a Tax Exemption Bylaw for 727-729 Johnson Street for 10 years, pursuant to Section 392 of the *Local Government Act*, subject to the building receiving Heritage Designation, with the following conditions:

1. That a covenant identifying the tax exemption be registered on the title to the property and any possible future strata titles.
2. That the final costs of seismic upgrading be verified by the Victoria Civic Heritage Trust.

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 10-year tax exemption under the City's Tax Incentive Program to assist in the rehabilitation of the heritage building at 727-729 Johnson Street (Garesché Stables & Offices). The application is for a rehabilitation project to create commercial use on the ground floor and 30 residential units on four upper storey floors (two existing floors plus two new floors set back from the existing facade) with a variety of one and two bedroom purpose built rental apartments.

BACKGROUND

The application is to assist the rehabilitation project involving the conversion of a heritage building to residential use. The estimated cost of the total project is \$5,723,800. The cost of seismic upgrading is estimated to be \$1,053,616.60.

A Heritage Designation Application was unanimously supported by Council on September 10, 2015, subject to the applicant undertaking the following steps:

1. Development of a conservation plan that details the restoration/rehabilitation work
2. Obtaining appropriate permits to undertake the restoration/rehabilitation of the Johnson Street façade
3. Undertaking the restoration/rehabilitation in accordance with the *Standards and Guidelines for the Conservation of Historic Places in Canada*
4. Revising the Heritage Designation Application No. 000153 to reflect restoration/rehabilitation work undertaken that reinstates its architectural integrity for Council's consideration of the revised application for heritage designation.

A Development Permit Application, concurrent with a Rezoning Application, to restore the existing building and to add a two-storey rooftop addition which is stepped back from the front and rear elevations was reviewed by the Heritage Advisory Panel at its meeting on June 14, 2016. On April 13, 2017, Council adopted a Zoning Regulation Bylaw, Amendment Bylaw and a Housing Agreement Bylaw, and approved a Development Permit for the construction of a two-storey addition to the existing building and converting the office building to ground floor retail and residential above.

The Heritage Tax Incentive Program Application was reviewed by the Victoria Civic Heritage Trust at its meeting on December 4, 2017, and was recommended for approval (see attached letter, dated December 5, 2017).

ISSUES

In March 1998, City Council approved the Tax Incentive Program to provide tax exemptions of up to 10 years to assist heritage building owners with the high cost of seismic upgrading which was affecting the economic viability of converting the upper floors of heritage buildings to residential use. Not including the current project, the program has created 694 new residential units in 43 rehabilitated heritage buildings and attracted \$228 million in private investment in the Downtown Core.

Applications for the Tax Incentive Program require a building to be heritage designated. However, the conditions of Council's support for Heritage Designation Application No. 000153 for 727-729 Johnson Street carried on September 10, 2015, requires all restoration/rehabilitation work to be completed and the Heritage Designation Application revised to reflect the work undertaken for Council's consideration. The recommendation provided for Council's consideration has been worded to ensure that heritage designation would either occur before or concurrently with the granting of a tax exemption.

ANALYSIS

Staff recommend for Council's consideration that the project is worthy of support as it contributes to the City's strategic objectives of strengthening the Downtown Core with additional residential development; assisting in the preservation and rehabilitation of heritage buildings; and improving public safety through the seismic upgrading of this unreinforced masonry building, and when rehabilitated, will advance City policy through the revitalization of these key properties in the Downtown Core.

The proposed exemption is consistent with the following policies.

Official Community Plan

8 Placemaking - Urban Design and Heritage

Goals:

8 (B) Victoria's cultural and natural heritage resources are protected and celebrated.

Broad Objectives:

8 (j) That heritage property is conserved as resources with value for present and future generations.

8 (l) That heritage and cultural values are identified, celebrated, and retained through community engagement.

City Form:

8.6 Conserve and enhance the heritage value, character and special features of areas, districts, streetscapes, cultural landscapes and individual properties throughout the City.

8.52 Continue to enable and support heritage conservation through incentives and allowances including, but not limited to: property tax reductions; grants; bonus density provision; and, zoning variances.

8.54 Continue to work with senior government, community and business partners to identify, protect and conserve property of heritage value.

13 Housing and Homelessness

Housing Diversity:

13.18 Continue to develop incentives to support the rehabilitation and conversion of designated commercial, institutional and industrial designated heritage buildings to residential or residential mixed uses.

14 Economy

Tourism and Visitor Services:

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

Downtown Core Area Plan

7 Heritage

Objectives:

1. Retain, protect and improve real property with aesthetic, historic, scientific, cultural, social or spiritual value and heritage character as a benefit to the public.

5. City of Victoria support for the conservation and celebration of properties with heritage value is maintained and enhanced.

Areas and Districts - Policies and Actions:

- 7.7. Continue to support the conversion of the upper storeys of heritage-designated property from non-residential uses to residential uses in strategic locations within the Downtown Core Area that serve to support the policies of this Plan.

Buildings and Sites - Policies and Actions:

- 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.

Heritage Incentives - Policies and Actions:

- 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
- 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.

9 Community Vitality

Diversity and Inclusion:

- 9.6. Expand the use of heritage revitalization agreements and incentive programs to upgrade and revitalize heritage buildings for market and non-market housing.

Emergency Preparedness:

- 9.17. Continue to support the seismic upgrading and rehabilitation of heritage buildings through heritage revitalization incentive programs.

Resource Impacts

The building rehabilitation will create 30 new residential units on four upper storey floors (two existing floors plus two new floors set back from the existing facade) with a variety of one and two bedroom purpose built rental apartments. The estimated cost of the project is estimated at \$5,723,800. The existing total 2017 property tax is \$26,427.80 (municipal portion \$16,020.60).

The Victoria Civic Heritage trust reviewed the structural engineering and other technical details of the proposal on December 4, 2017 and has recommended that Council approve the tax exemption.

BC Assessment reviewed the proposed plans and estimates the revised property assessment and the City of Victoria's Finance Department estimates the taxes following rehabilitation and seismic upgrading to be as follows:

	Assessment	Total Annual Tax	Taxes - Municipal	Taxes - Other Agencies	Total Tax
Current	\$1,888,000	\$26,427.80	\$16,020.60	\$10,407.20	\$26,427.80
Proposed	\$5,750,000	\$45,322.28	\$28,520.67	\$16,801.61	\$45,322.28

The value of a ten year tax exemption for 727 Johnson Street at the 2017 property tax rate is \$264,278.00 (\$26,427.80 x 10 years). The formula to determine the term of the tax exemption is based on the rate of the current year's property tax multiplied by the number of years (to a maximum of 10) to arrive at a value that is less than the estimated cost of seismic upgrading.

Cost of seismic upgrading = \$1,053,616.60 > \$264,278.00 (\$26,427.80 x 10 years)

Based on the above formula, 727 Johnson Street is eligible for the maximum ten year tax exemption as the cost of seismic upgrading exceeds the value of existing property taxes multiplied by the maximum number of ten years.

Upon completion, BC Assessment estimates the value of the property will increase from \$1,888,000 (2017) to \$5,750,000. Based on the 2017 tax rates, the estimated value of the tax exemption will be \$453,222.80 (\$45,322.28 x 10) over the 10 year period which is still less than the estimated cost of \$1,053,616.60 for seismic upgrading.

The City will redistribute the tax exemption to non-exempt taxpayers over the 10 year period. Although the exemption will reallocate the tax revenue, the City will receive additional tax revenue at the expiry of the 10 year term.

The net impact of additional residents living downtown and their support for downtown businesses will also be a positive economic benefit.

CONCLUSIONS

As the project benefits the Downtown Core, improves the seismic resistance of a hazardous structure, and rehabilitates a heritage building, it is recommended for Council's consideration that the project be approved.

ALTERNATE MOTION

That Council decline Tax Incentive Program Application No. 00028 at 727-729 Johnson Street.

Respectfully submitted,



Merinda Conley
Senior Heritage Planner
Development Services



Jonathan Tinney
Director
Sustainable Planning and Community Development



Susanne Thompson
Director
Finance

Report accepted and recommended by the City Manager:

Jocelyn Kenney
Date: *Jan 25, 2018*

List of Attachments

- Attachment A: Subject Map
- Attachment B: Photos
- Attachment C: Site Plans of proposed project, date stamped December 7, 2017
- Attachment D: Letter from the Victoria Civic Heritage Trust, dated December 5, 2017
- Attachment E: Analysis by BC Assessment Authority.