



## **Committee of the Whole Report For the Meeting of February 22, 2018**

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**To:** Committee of the Whole **Date:** February 7, 2018  
**From:** Jonathan Tinney, Director, Sustainable Planning and Community Development  
**Subject:** Tax Incentive Program Application No. 00029 for 816 Government Street / 811-813 Wharf Street

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### **RECOMMENDATION**

That Council instruct the City Solicitor to prepare a Tax Exemption Bylaw for 816 Government Street / 811-813 Wharf Street for 51.59% of assessed value for 10 years, pursuant to Section 392 of the *Local Government Act* 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 816 Government Street / 811-813 Wharf Street (Post Office & Custom House). The application is based on the rehabilitation and seismic upgrading of the existing Customs House (1914) heritage-designated building that is eligible for a tax exemption, as well as construction of a new building wing to replace the 1957 Federal Building that does not qualify for a tax exemption. The estimated cost of the total project, including the new addition and interior improvements, is \$28,190,000.00. The cost of seismic upgrading is estimated to be \$6,524,950.00.

This Tax Incentive Program Application is unusual as it has the original building plus a substantial addition. In the past, City practice has been to give a percentage exemption based on the footprint of the original building. The three precedents are 536-538 Herald Street, where a substantial portion of the rear was destroyed by fire and a new addition added (40% exemption); 1600 Quadra Street (The Palladian) where there was a rear addition (87%

exemption); and 1610 Store Street, where there was a rear addition (38.05% exemption). Analysis of the proposed project has determined that the existing building footprint area in relation to the total building footprint area equals 51.59%.

## BACKGROUND

The existing buildings located on the consolidated property of 816 Government Street / 811-813 Wharf Street consist of the heritage-designated 1914 Customs House and the modern 1957 Federal Building, which has since been re-clad with faux details to mimic its historic context. Both buildings have been vacant for several years. The application is to assist the rehabilitation and seismic upgrading project involving the conversion of a heritage building to residential use. The applicant has secured the necessary approvals, including a Rezoning, a Heritage Alteration Permit, a Heritage Revitalization Agreement and a Housing Agreement.

City Council adopted the following Bylaws on September 10, 2015:

- Zoning Regulation Bylaw No. 15-048 to create and rezone the property to the CA-CH Zone, Central Area Customs House District, to permit increased density in exchange for heritage conservation measures, and to allow for an increase in the height of buildings in this zone
- Heritage Designation Bylaw No. 15-059 to designate the exterior of the building known as the Customs House as protected heritage property
- Heritage Revitalization Bylaw No. 15-057 for the purpose of authorizing a Heritage Revitalization Agreement between the City and the owner of the lands for the rehabilitation of the building known as the Post Office and Customs House Extensions with respect to redevelopment of the lands to meet the *Standards and Guidelines for the Conservation of Historic Places in Canada*, and conservation of the exterior and seismic upgrading of the Customs House
- Housing Agreement Bylaw No. 15-058.

On September 10, 2015, Council approved a Heritage Alteration Permit Application for 816 Government Street / 811-813 Wharf Street to permit the rehabilitation of the building known as the Post Office and Customs House Extensions, to permit the redevelopment of the remainder of the lands with a new mixed-use, commercial and residential building and to vary the regulations under the CA-CH Zone, Central Area Customs House District, of the Zoning Regulation Bylaw by increasing the maximum allowed height from 17.70m to 27.84m.

The project will rehabilitate and convert the upper three floors of the historic four-storey Customs House (1914) building to contain approximately 22 units, and one new floor with an additional three residential units on the fifth floor roof level, plus one unit also accessible from the new building on the same level. The proposal provides ground level commercial / retail space, with residential parking, storage and bike lockers located in the basement levels.

The development involves the demolition of the existing modern 1957 Federal Building to be replaced with a new concrete building wing with floor levels designed to align and connect with the Customs House building. The new building wing will contain approximately 32 residential units on the upper six floors, and ground level retail / commercial space, with parking, storage, elevators and stairs located in the basement level.

For older unreinforced masonry (URM) buildings that undergo a change of use or occupancy, the City of Victoria generally requires the seismic design's lateral load resistance for life safety to achieve a standard equal to 70% of the seismic force level specified in the 2012 British Columbia Building Code. The proposed seismic design exceeds this standard with seismic



upgrades and restraint to the heritage façade that will meet 100% of the 2012 British Columbia Building Code seismic and wind forces.

The Heritage Tax Incentive Program Application was reviewed by the Victoria Civic Heritage Trust at its meeting on January 15, 2018, and was recommended for approval (see attached letter, dated January 16, 2018).

In March 1998, City Council approved the Tax Incentive Program to provide tax exemptions of up to 10 years to assist heritage-designated 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.

## **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 (URM) 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.

#### **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.

### 9 Community Vitality

#### Emergency Preparedness:

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

## Resource Impacts

The project will rehabilitate and convert the upper three floors of the historic four-storey Customs House (1914) building to contain approximately 22 residential units, and add one new floor with an additional three residential units on the fifth floor roof level, plus one unit also accessible from the new building on the same level. The new building wing will contain approximately 32 residential units on the upper six floors. The estimated cost of the total project, including the new addition and interior improvements, is \$28,190,000. The cost of seismic upgrading is estimated to be \$6,524,950. The current 2017 property tax rate on the consolidated property is \$283,120.43.

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) required to meet the estimated cost of seismic upgrading. The term requested is 10 years as the total tax incentive is estimated at \$2,831,204.30 (\$283,120.43 x 10) which is less than the estimated seismic upgrading costs of \$6,524,950.

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
Current	\$13,790,000	\$283,120.43	\$180,073.26	\$103,047.17
Proposed	\$141,600,000	\$1,051,149.19	\$656,117.52	\$395,031.67



The value of a 10-year tax exemption for 816 Government Street / 811-813 Wharf Street at the 2017 property tax rate is estimated at \$ 2,831,204.30 (\$283,120.43 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 = \$6,524,950.00 > \$2,831,204.30 (\$283,120.43 x 10)

Based on the above formula, 816 Government Street / 811-813 Wharf Street is eligible for the maximum 10-year tax exemption as the cost of seismic upgrading exceeds the value of existing property taxes multiplied by the maximum number of ten years.

However, the proposed project includes the existing Customs House heritage building, as well as a new building to replace the 1957 Federal Building that does not qualify for a tax exemption. The amount of the tax exemption only applicable to the heritage portion of the project is calculated as a percentage of the area of the building footprint of the Customs House building in relation to the total building footprint. Analysis of the proposed project has determined that the existing building footprint area of the Customs House in relation to the total building footprint area equals 51.59%. Therefore, the project would only be eligible to receive a tax exemption up to 51.59% of the total annual tax for the consolidated property over ten years.

Upon completion, BC Assessment estimates the value of the property will increase from \$13,790,000 (2017) to \$141,600,000. Based on the estimated 2017 tax rate, and the estimated 2018 general municipal tax after the project is complete, the estimated value of the tax exemption will be \$5,422,878.67 (\$1,051,149.19 x 10 x .5159) over the 10 year period which is still less than the estimated cost of \$6,524,950 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. 00029 for 816 Government Street / 811-813 Wharf 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:

  
Date: Feb 15, 2018

**List of Attachments**

- Attachment A: Subject Map
- Attachment B: Photos
- Attachment C: Site Plans of proposed project, date stamped January 17, 2018
- Attachment D: Letter from the Victoria Civic Heritage Trust, dated January 16, 2018
- Attachment E: Analysis by BC Assessment Authority
- Attachment F: City of Victoria 2017 and 2018 Tax Summary provided by Finance Department.