



Committee of the Whole Report For the Meeting of April 4, 2024

To: Committee of the Whole **Date:** March 21, 2024
From: Karen Hoese, Director, Sustainable Planning and Community Development
Subject: Update on Tax Incentive Program Application No. 00032 for 1050 Pandora Avenue

RECOMMENDATION

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 an update on the findings of the third-party review, and information, analysis, and recommendations regarding an application for partial tax exemption under the City's Heritage 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 proposed development was to conserve the two main elevations of the heritage building and at minimum 50% of the building structure and add a four- and six-storey addition.

In February 2023, Council referred this TIP application back to COTW pending receipt of the briefing of the Heritage Tax Incentive Program, which was provided June 22, 2023. At that meeting Council reaffirmed the City's existing TIP eligibility criteria and approved an interim process to progress specific in-stream TIP applications, 1050 Pandora being one of them.

The applicant has since secured a third-party consultant, who has produced a report that provides the City with an assessment of the seismic design and associated cost estimates. Many factors were considered in assessing this application, as presented in the report, dated February 16, 2023, and attached as Appendix R for reference, including the following:

- The applicant-initiated construction on this project in January 2021, which is at odds with the *Tax Incentive Policy* and program eligibility criteria, and Council motion that states, “no retroactive funding”.
- 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 retained portions of the heritage building, which proved the low retention of heritage and related costs.
- Although the applicant is seeking the maximum tax exemption term (ten years), the project is potentially eligible for a three-year term, which is calculated by dividing the estimated cost of seismically upgrading the retained portions of the heritage building (\$566,250.65) by the property tax value (\$159,468.00). The total value of the proposed property tax exemption over three years is \$132,939 (\$44,313 x 3).

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

The Parkway Apartments Building is a two-storey, Edwardian-era mixed-use building designed by architect William Ridgway Wilson in 1911. 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, which occupied 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. A full description of the historic place is included in the attached Conservation Plan.

On December 10, 2020, 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. For more information on the project-related content, refer to the Committee of the Whole (COTW) report, dated February 16, 2023.

At the Heritage and Tax Incentive Briefing held at COTW June 2023, Council approved an interim process to progress specific in-stream TIP applications, 1050 Pandora being one of them, with the caveat that the applicant engages a third-party consultant to review the seismic design strategy as it relates to the seismic upgrade of the historic building and review the cost estimates for this work. At the same time, Council also reaffirmed the City’s existing TIP eligibility criteria. The previous staff reports and the July 6, 2023 Council meeting minutes are attached to this report for reference.

Consistent with the Tax Incentive Program (TIP), the potential 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 879m² of exempt area is located within 13.12 metres of the Cook Street façade and includes 433.29m² of retail space on the ground floor, and seven residential units on the second storey totaling 446m². Based on consultation with BC Assessment, this floor space will represent 10.83% of the estimated assessed value of the property after the development is fully constructed.

The consultant reviewed both the onsite construction and the drawings provided to analyze the applicant’s design strategy for the seismic upgrade. This included what they proposed to retain, for the purpose of assessing historic retention, and the costs associated with the proposed upgrade of what is retained.

Historic Retention and Seismic Upgrade

The third-party review looked at the structural design for the seismic upgrade of the historic building and has described the strategy with detailed drawings in their report. To summarize what has been retained and demolished is as follows:

The new development has retained the following heritage structure:

- Cook Street and Pandora Avenue façade framing, including parapets and cornices
- roughly 50% of the second storey framing, including solid 2x8 vertically stacked slab and heavy timber dropped beams and posts.

The following heritage structure has been demolished:

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

As noted above more structure has been removed than initially proposed, and less than 50% remains. For a detailed description of the structural design strategy for the remaining heritage fabric, see attachment Q.

The consultant then divided the relevant costs into direct and indirect costs. They reviewed the costs provided in 2021, by the quantity surveyor, Beacon Construction Consultants, and the contractor, Summit Brooke Construction. See Appendix Q 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.

	Beacon	Summit Brooke
Direct Construction Costs	\$300,027.55	\$346,226.10

*applicants are required to provide two estimate quotes

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 18% of the overall weight. To this end, 18% 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.

	Beacon	Summit Brooke
Construction Costs	\$309,539.60	\$1,156,405.00
General Requirements / Contractor Fees	\$65,003.32	\$82,620.25
Indirect Costs Total	$(\$309,539.60 + \$65,003.32) \times 18\%$ = \$67,417.72	$\$1,156,405.00 + \$82,620.25 \times 18\%$ = \$223,024.55

Total Costs (Direct + Indirect)

The following is a summary of the total cost for both the quantity surveyor's and Summit Brook's estimates:

	Beacon	Summit Brooke
TOTAL ELIGIBLE COSTS	$\$300,027.55 + \$67,417.72$ = \$367,445.27	$\$346,226.10 + \$223,024.55$ = \$566,250.65

*the higher cost estimate is used in 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	1050 PANDORA
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 3 rd 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.	NO
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
e. Rooftop additions must be sensitively located and smaller in scale than the existing building and are limited to 1 – 2 storeys.	NO
f. Excavation below the original building foundations is not permitted unless verified as required as part of a structural assessment.	NO
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
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.	NO
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.	NO LONGER ELIGIBLE

As indicated above, the analysis shows that the application does not meet the eligibility criteria set out for the City's Heritage Tax Incentive Program.

Other Policy Considerations

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

As discussed in more detail in the initial report and through the heritage and TIP briefing, seismic requirements for new buildings have increased substantially, particularly in the 2018 BC Building Code, and then expected to update again in 2025. Seismic upgrades have become far more costly than in the past and have made it more difficult to preserve building interiors. However, the TIP program policy states that, "*eligible seismic upgrading costs [are] specific to the projects which convert existing vacant or underutilized upper storey(s) to residential uses*"; therefore, the cost of the architectural conservation is not considered in the tax exemption formulas where we have façade-only retention.

While the application does not align with the reaffirmed TIP policies, an alternate motion has been provided. The alternate motion would allow for the exemption, only for those portions of the Parkway Apartments building where interior structure is being conserved, and the areas of the building where only the heritage façade is being conserved will still be taxable.

Resource Impacts

Since the application's initial submission, the project has moved forward with construction in order to stay on schedule to deliver much-needed rental housing. Meanwhile, construction costs have increased and the cost estimate from the applicant's construction company has also increased. The total estimated construction cost is valued at \$33,328,782.75, with the seismic upgrade of the heritage building, as reported by the third-party consultant, estimated to be \$566,250.65.

To determine the term of the exemption, the seismic costs (\$566,250.65) are divided by the 2022 property tax value (\$159,468) and rounded down to the nearest whole number:

$$\begin{aligned} \$566,250.65 / \$159,468 &= 3.55 \\ \text{Term} &= 3 \text{ years} \end{aligned}$$

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 433.29m² of retail space on the ground floor, and seven dwellings (446m² of residential space) on the second storey, together totalling 879.3m².

While working with BC Assessment, it was determined that the assessed value of the conserved areas of the building will equal \$4,332,000. The entire project would have an estimated total assessed value of \$39,984,000.

It is estimated that the conserved areas of the building would be subject to \$44,313 in annual taxes if the tax exemption did not apply. Of the \$44,313 in exempt annual taxes, the City's portion would be \$28,580 and other agencies' portions would total \$15,733. The total estimated value of the tax exemption over the allowable three years after the project is completed is (\$44,313 x 3) \$132,939.

The assessed value of the tax-exempt portions of the development (\$4,332,000) represents 10.83% of the assessed value of the total (\$39,984,000).

Over the three-year period, the taxable portion of the property (\$35,652,000) would be subject to \$191,823 in annual taxes with the City's portion of \$123,645 and other agencies' portion of \$68,178. Given that the estimated assessed value of the taxable portions of the project (\$35,652,000) exceeds the 2022 assessed value of the property (\$9,602,000), 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 application is not consistent with the intent of the Tax Incentive Program, the established TIP eligibility criteria and the VCHT's policies. In addition, through the third-party review, it was verified that more structure was removed than initially discussed, and the lack of retention was not justified through a seismic assessment that should have occurred at a much earlier stage in the TIP process. Therefore, the recommendation is to decline the Tax Incentive Program application for 1050 Pandora Avenue.

ALTERNATE MOTION

1. That Council instruct the Director of Sustainable Planning and Community Development to prepare a heritage tax exemption bylaw to exempt 433.29 square metres (4,664sf) of retail space and seven residential units on the second story of the assessed value of the property at 1050 Pandora Avenue for a period of three years.
2. That, after public notice, first second and third reading 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: Portions of the Building where Structure is retained
- Attachment E: Architectural Plans, dated December 21, 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
- Attachment N: 1050 Pandora TIP Application No. 00032, Council Motion February 16, 2023
- Attachment O: TIP Briefing Report, June 22, 2023
- Attachment P: Council Motion, July 6, 2023
- Attachment Q: TIP Third-Party Structural Assessment, December 8, 2023
- Attachment R: COTW Report for TIP No.00032, for 1050 Pandora, dated February 16, 2023