

FEDERAL REHABILITATION TAX INCENTIVES FOR HERITAGE PROPERTIES IN CANADA

A brief submitted to the Federal Standing Committee on Finance

City of Victoria
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Introduction

The City of Victoria urgently requests the standing committee on Finance of the Government of Canada to support the introduction of a Federal Rehabilitation Tax Incentive for Heritage Properties in Canada. It has been documented by the Federal Government's own Department of Canadian Heritage that 20 percent of Canada's pre-1920 heritage buildings have been demolished over the past 30 years.

Our heritage buildings are a vital and integral part of our national identity as Canadians. Over the past one hundred years of building this country, the aspirations of our forefathers were reflected in the enduring and magnificent works of architecture created in towns and cities from sea to sea. Canadian heritage buildings encompass a vast range of structures including not only spectacular architectural monuments such as Toronto City Hall, Chateau Frontenac in Quebec City, or the Marine Building in Vancouver; but the numerous simple commercial, religious, industrial, and residential structures which define the character of neighbourhoods of cities across Canada. However, the continuing pressures of urbanization are still resulting in the demolition of our national heritage.

Victoria's Commitment

Much of Victoria's lasting charm and character stem from its unique collection of well-preserved historic buildings, many of which date back to the earliest days of settlement in British Columbia. These superb examples of turn-of-the-century architecture create a sense of pride in the community and are one of the major attractions of Victoria's \$1 billion tourist industry. The City of Victoria is committed to the preservation of its heritage, and in 2001, was awarded the Prince of Wales Prize by the Heritage Canada Foundation for its "sustained, continuing development of its heritage programs and its efforts to make historic preservation part of its overall planning strategy".

This includes a major financial commitment from a municipality with a population of 78,057 (2006). The City of Victoria, through a combination of heritage grant programs and tax exemptions, committed \$1.7 million in 2008 to programs to encourage the rehabilitation of heritage buildings. The City works in partnership with an arms-length non-profit agency, the Victoria Civic Heritage Trust, which grants funds to commercial and institutional heritage building owners through its Building Incentive Program. Since its inception in 1989, this program has leveraged over \$72 million in private investment in 80 commercial heritage buildings through \$2,734,586 in Building Incentive Program Grants provided through City of Victoria Capital contributions.

The City of Victoria also offers 10-year tax exemptions through its Tax Incentive Program to assist downtown heritage building owners to convert their vacant or underutilized upper stories to residential apartments. Since its inception in 1998, this program has resulted in the rehabilitation of 19 heritage buildings, created 457 new residential units and attracted \$170 million in private sector investment. The success of this program is proof that tax incentives can be an effective government mechanism for stimulating private sector investment in heritage rehabilitation.

Despite the success of these programs, recent dramatic increases in the cost of construction and the cost of real estate have undermined the economic viability of rehabilitation, in spite of these assistance programs.

In 2007, the City of Victoria engaged Coriolis Consulting Corporation of Vancouver to undertake a study to examine the economics of rehabilitating heritage buildings in downtown Victoria.

Despite recent successful adaptive reuse projects, there had been an increasing number of reports from the development industry of difficulties due to the rapid escalation of both construction costs and land prices. This \$60,000.00 study was funded jointly by the Real Estate Foundation of BC, the Provincial Heritage Branch, and the Government of Canada's Western Economic Diversification Program. The study concluded that if acquisition costs or construction costs were too high, City incentives are no longer enough to tip the balance, and rehabilitation is no longer economically viable. The consultant suggests that the only mechanism which can address the significant shortfall is a program of transferable bonus density, similar to the City of Vancouver. One of the pro-forma case studies examined by the consultant, included the Duck Block as a potential residential conversion, which showed a potential loss of \$2.5 million out of a \$5.8 million rehabilitation cost.

This study is conclusive independent proof of the urgent need for Federal Rehabilitation Tax Incentives for Heritage buildings across Canada. The City of Victoria and other municipalities have been bearing the financial burden of preserving our country's heritage and urgently need the assistance of the Government of Canada.

The rehabilitation and re-use of heritage buildings in the core of our cities contributes to urban revitalization, makes more efficient use of existing City infrastructure and counteracts urban sprawl, all of which are positive measures in the effort to address issues of climate change. Further, rehabilitation conserves resources by reducing the 10 million tons of demolition and construction waste that Canada sends to landfills every year. From an environmental point of view, the embodied energy of existing buildings is one of the most compelling arguments for supporting their rehabilitation. According to studies in the U.S. by the Advisory Council on Historic Preservation, "80 billion BTUS of energy are embodied in a typical 50,000 square foot commercial building. That's the equivalent of 640,000 gallons of gasoline. If you tear the building down, all that energy is wasted". Recent Australian research has indicated that the embodied energy of existing building stock is the equivalent of ten years of total national energy consumption.¹ Another recent study "Life Cycle Assessment in Heritage Buildings" carried out by the Heritage Branch of the Province of B.C. and the Faculty of Engineering, University of Victoria, concluded that, comparing the energy costs of a heritage house with a hypothetical new house, it was determined that the Hypothetical House consumed more energy in its construction, and consequently, had a higher environmental cost than the Original House.²

In the spring of 2008, the City of Victoria received applications to demolish two key heritage buildings in the heart of its Old Town Area - the Janion Hotel and Morley's Soda Water Factory. While the City has enacted temporary heritage protection measures for these buildings, it highlights the threat to our architectural heritage, and the struggle of municipalities to find economically viable solutions to ensure their preservation.

The Government of Canada needs to emulate the spectacular and positive results that the United States has achieved with its US Historic Rehabilitation Tax Credit Program which has resulted in over 32,000 historic properties rehabilitated by the private sector, and over \$36 billion in private investment in historic buildings.

In October 2000 and March 2007, Victoria City Council wrote to the Minister of Finance to endorse this concept. The City of Victoria urges the standing committee on Finance to support the establishment of a Federal Rehabilitation Tax Incentive for heritage properties in Canada to stop the continued destruction of our national heritage.

- ¹ Sue Balderstone, Inherit. Heritage Council of Victoria, Auckland, Australia Heritage Council Magazine. Recognizing the Embodied Energy in Heritage Buildings, May 2004.
- ² Dian Ross. Life Cycle Assessment of Heritage Buildings, Heritage Branch, Province of British Columbia, and Faculty of Engineering, University of Victoria, 2007.

