FINANCE AND ADMINISTRATION COMMITTEE

Tuesday, August 5, 2014
4:00 PM

Henry Baker Hall, Main Floor, City Hall

Public Agenda
Finance and Administration Committee
Tuesday, August 5, 2014

Approval of Public Agenda

Minutes of the meeting held on July 8, 2014

FA14-19 City of Regina Heritage Building Rehabilitation Program

Recommendation

1. RECEIVE and FILE the consultant's report entitled "Incentives for Heritage Building Upgrades in Regina" (Appendix A).
2. APPROVE the Heritage Incentive Policy in the form set out in Appendix C to replace the Municipal Incentive Policy for the Preservation of Heritage Properties and direct the Administration to report back on a Bonus Density policy by Q4 of 2015.
3. REMOVE items CR01-254 and FA03-31 from the Finance and Administration Committee's list of outstanding items.

FA14-20 Lawson Aquatic Centre Improvements

Recommendation

1. Approve the allocation of up to $271,500 in funding from the Asset Revitalization Reserve (ARR) for the Lawson Aquatic Centre (LAC) improvements.
2. That this report be forwarded to the August 25, 2014, City Council Meeting for approval.

FA14-21 Judith Veresuk: City of Regina Heritage Building Rehabilitation Program

Adjournment

AT REGINA, SASKATCHEWAN, TUESDAY, JULY 8, 2014

AT A MEETING OF THE FINANCE AND ADMINISTRATION COMMITTEE
HELD IN PUBLIC SESSION

AT 4:00 PM

These are considered a draft rendering of the official minutes. Official minutes can be obtained through the Office of the City Clerk once approved.

Present:	Councillor Wade Murray, in the Chair Councillor, Shawn Fraser Councillor, Bob Hawkins Councillor Terry Hincks
Regrets:	Councillor Bryon Burnett
Also in Attendance:	Committee Assistant, Ashley Thompson Solicitor, Mark Yemen Chief Financial Officer, Ed Archer Director, Facilities Management Services, Karen Gasmo

Approval of Public Agenda

Councillor Bob Hawkins moved, AND IT WAS RESOLVED, that the agenda for this meeting be approved, as submitted.

Adoptions of Minutes

Councillor Shawn Fraser moved, AND IT WAS RESOLVED, that the minutes for the meeting held on June 10, 2014 be adopted, as circulated.

Administration Reports

FA14-18 Renovations to Building A at City Yard - 4th Avenue

Recommendation

1. That the renovations to Building A, consistent with implementing contemporary asset lifecycle management practices, be approved and funded as follows:
   a. $175,000 from the General Utility Reserve;
   b. $340,000 from the Solid Waste Reserve; and
   c. $610,000 from the Asset Revitalization Reserve.

2. That this report be forwarded to the July 28, 2014 City Council Meeting for approval.

Councillor Terry Hincks moved, AND IT WAS RESOLVED, that the recommendations contained in the report be concurred in.

Adjournment

Councillor Bob Hawkins moved, AND IT WAS RESOLVED, that the meeting adjourn.

The meeting adjourned at 4:25 p.m.

Chairperson

Secretary

August 5, 2014

To: Members,
Finance and Administration Committee

Re: City of Regina Heritage Building Rehabilitation Program

RECOMMENDATION

1. RECEIVE and FILE the consultant's report entitled "Incentives for Heritage Building Upgrades in Regina" (Appendix A).
2. APPROVE the Heritage Incentive Policy in the form set out in Appendix C to replace the Municipal Incentive Policy for the Preservation of Heritage Properties and direct the Administration to report back on a Bonus Density policy by Q4 of 2015.
3. REMOVE items CR01-254 and FA03-31 from the Finance and Administration Committee's list of outstanding items.

CONCLUSION

The City of Regina has established a broad program of regulatory tools and financial incentives to promote the rehabilitation of its significant collection of heritage buildings in the city. Nonetheless, there were an increasing number of reports from the development industry that escalating land and construction costs were rendering rehabilitation projects uneconomic, despite the provision of incentives.

In 2011, the City commissioned Coriolis Consulting Limited to undertake an investigation of the current development costs for heritage building rehabilitation in Regina, and to analyze the effectiveness of the City's existing financial incentive program.

The study concludes that incentives provided under the current heritage incentive policy are not in alignment with current market conditions. Increasing construction costs and escalating land values in the current market are making it challenging to achieve a competitive rate of return without an incentive, which threatens buildings that are considered to have heritage value.

Therefore, the Administration is recommending an amendment to the Municipal Incentive Policy for the Preservation of Heritage Properties (Appendix C) including most notably a ten-year property tax exemption. It is also recommended that a Bonus Density policy be brought before Council as tax exemption is not always enough of an incentive to counteract the pressure of property assembly in the Downtown. Protection of our built heritage is in alignment with policy direction to build complete communities in *Design Regina: The Official Community Plan Bylaw No. 2013-48.*

This report is provided in response to the original motion and the referral. As such, CR01-254 and FA03-31 may be removed from the list of outstanding items.

BACKGROUND

The Municipal Incentive Policy for the Preservation of Heritage Properties was established by City Council in 1991 and last amended in 2001. In 2001, Council passed a motion to amend the policy but only as it applies to property tax exemption for downtown properties. Council also passed referral motion (CR01-254) requesting the Administration prepare a report to Finance and Administration and Municipal Heritage Advisory Committees on another policy amendment to address increasing construction costs for properties outside of the downtown area.

In 2003, the Administration reported on the increase in construction costs. While it was not recommended that increases in property tax exemption outside the downtown area be tied to increases in construction costs, the recommended policy amendment to increase the property tax exemption was further delayed through motion (FA03-31) calling for the completion of an update to the *Heritage Holding Bylaw*[1]. The motion was passed due to a concern that an update to the Bylaw would result in listing several hundred properties with designation potential. If designated, a significant number of properties would then be eligible for property tax exemption with unknown economic and budgetary impacts to the City.

In 2007, Council amended the *Heritage Holding Bylaw* to add fifteen properties to those listed under this bylaw (CR07-95). However, this did not resolve the original motions (CR01-254 and FA03-31). The report to Finance and Administration remained a lower priority item as resources were dedicated to other initiatives including the Regina Downtown Neighbourhood Plan and *Design Regina: The Official Community Plan Bylaw No. 2013-48*. This report responds to these two motions and concerns about the financial viability of heritage building rehabilitation and the City's own financial sustainability.

As market conditions had changed since 2001, the City engaged Coriolis Consulting in 2011 to investigate current development costs for rehabilitation and the effectiveness of the existing Heritage Building Rehabilitation Program. Coriolis is a Vancouver consulting firm specializing in real estate analysis, urban planning and policy, development approvals and processes and financial modelling. The comprehensive review of the Program was initiated in view of the factors affecting heritage building rehabilitation projects. Reports from the development industry had shown that changing market conditions in Regina were making these projects less financially attractive, which poses a threat to the city's stock of buildings with heritage value. Increasing construction costs and escalating land values were increasing the challenges.

The report entitled "Incentives for Heritage Building Upgrades in Regina" (Appendix A) is the culmination of a year-long project to evaluate issues facing rehabilitation and to research and develop recommendations to address these issues. A cross-section of the Administration and a stakeholder group, including developers, a commercial real estate advisor, architects and property owners were involved in preparing the report. The report outlines the planning context for rehabilitation, a financial analysis of heritage building upgrades, and several recommendations to positively impact the viability of rehabilitation. The following report is meant to address outstanding items (CR01-254) and (FA03-31) and provide the Committee and Council with recommendations on financial policies for heritage building rehabilitation.

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[1] "A Bylaw of the City of Regina To Deny a permit for the Alteration or Demolition of Properties that the Council of the City of Regina may wish to Designate as Municipal Heritage Properties" – Bylaw No. 8912

DISCUSSION

The Administration analyzed the consultant's report (Appendix A) and provided a summary of the analysis in Appendix B. The summary in Appendix B outlines the consultant's recommendations and the Administration's response along with an action plan and timing indicating when implementation or further analysis will occur. The Administration's analysis led to the amended Heritage Incentive Policy that is provided in Appendix C. The recommended amendments to the policy are described below.

RECOMMENDATION #1 – Increase the length of property tax exemption to ten years

The current Heritage Building Rehabilitation Program provides property tax exemption to designated properties up to a maximum of fifty per cent of the eligible project costs, or for a certain number of years (eight years downtown and five years elsewhere), or to a cap ($250,000 downtown and $150,000 elsewhere); whichever is least.

Eligible project costs have included the rehabilitation of architecturally significant exteriors, structural stabilization, improvements required to meet the National Building Code or City of Regina bylaws including the repair and upgrade of mechanical and electrical systems, improvements to energy efficiency, rehabilitation of architecturally significant interiors (non-cosmetic), and professional architectural or engineering services. All work is evaluated on the basis of its importance to the rehabilitation of key character-defining elements and its ability to meet national standards for heritage conservation practice.

As shown in the table below, the recommended amendment to the Municipal Incentive Policy for the Preservation of Heritage Properties would increase the length of the exemption to ten years and remove the limitation on its monetary value. While *The Cities Act, 2002* only allows exemptions for five years, *The Heritage Property Act* enables a City to exceed the exemption limits under *The Cities Act, 2002* for designated heritage properties only.

	Current*	**Proposed ***
Outside of the Downtown		
# of years	5 years or	10 years
maximum value	$150,000	n/a
Inside the Downtown		
# of years	8 years or	10 years
maximum value	$250,000	n/a

* The property tax exemption is limited to 50% of eligible project costs

The consultant conducted a pro forma analysis of three case studies and concluded that rehabilitation projects are attractive with an exemption, but it is necessary to increase the length of the exemption to ten years to ensure the projects remain viable. Rehabilitation is economically viable but only if improvements allow the building to achieve a higher return on investment assisted by an exemption. Without an increased incentive, increasing construction costs and land values are making it challenging for these projects to achieve a competitive rate of return. Rehabilitation projects are different than new construction in that they need to meet the requirements of the National Building Code and City of Regina bylaws as well as the national *Standards and Guidelines for the Conservation of Historic Places in Canada.*

Heritage Properties located outside of the downtown:

The current 5-year period of exemption for properties has not changed since the Program started in 1991 despite inflation and escalating construction costs. Based on the consultant's pro forma analysis of projects involving a warehouse and an apartment, ten years of exemption is recommended in order to encourage projects that will materially improve the quality, lifetime, marketability, and value of a building. It will ensure a larger project results in the same rate of return as a smaller project. The current $150,000 cap can also be removed as most 10-year exemptions would be less than or close to $150,000 and most of the 5-year exemptions under the current policy were already significantly less than $150,000. The exemption would remain limited to 50 per cent of total project costs and these costs are further limited to building size.

Heritage Properties located within the downtown:

The current eight year exemption has not changed since 2001. The consultant conducted a pro forma analysis using a commercial building as a typical representation of the sixteen downtown heritage buildings that remain to be upgraded. Similarly, a 10 year exemption is recommended to encourage larger rehabilitation projects and ensure a similar rate of return. The current cap of $250,000 can also be removed as the 10 year exemption would be approximately $250,000 for most of the sixteen aforementioned buildings. The 10 year exemption would remain limited to 50 per cent of total project costs and these costs are further limited to building size.

Two of the sixteen buildings would generate larger exemptions due to their size, which is larger than the average size of 32,000 square feet. The Administration expects to receive an application from the owner of one of these buildings, the former Saskatchewan Wheat Pool building, in 2014. Viterra Inc. is currently occupying the building and they are anxious to proceed. Based on the 2014 property taxes and assuming a five per cent increase year over year for ten years the total taxes would be approximately $1,200,000 of which the City's share is $680,000.

Financial Analysis:

The financial analysis indicates that the City can achieve a net fiscal gain over the long term by forgoing short term tax revenue as a means of incentivizing retention and rehabilitation. In the last five years, the City's portion of the total taxes exempted under the Heritage Building Rehabilitation Program has been approximately $77,000 each year. The policy amendment is anticipated to result in twice as many exemptions to a cost of approximately $150,000 each year.

The Administration expects the City will award twice as many exemptions to a total up to four exemptions each year (i.e. $150,000 each year). This is twice the number of annual exemptions that have been awarded by the City since 1991 but less than the annual national average of six. In five years, the Administration expects the exemptions to return the annual average of two.

Correspondingly, the City has designated two heritage buildings each year on average since 1991. As mentioned earlier, a building must be designated as heritage in order to become eligible for an exemption. In recent years, each designation has been directly due to the availability of an exemption under this Program. Therefore, with each exemption more buildings will be retained and designated, which positions the City to facilitate demolition alternatives.

The total estimated cost implication for the first ten years would be approximately $1,100,000-$1,500,000. However, the revenue is only foregone temporarily.

Rehabilitation with an exemption leads to higher rents than rents without the exemption. The projects result in higher property values and therefore higher property tax revenues (after the period of exemption) that will exceed the initial cost of the exemption. The Assessment, Taxation and Real Estate Department conducted an analysis which estimates that 10 years of exemption would be paid back to the City in less than 20 years.

RECOMMENDATION #2 – Increase Cash Grants to $50,000

The current Program also grants up to $25,000 for rehabilitation projects. Cash grants differ from tax exemption in that they are only awarded to non tax-paying organizations (e.g. churches). Similar to the tax exemption, the property must be designated as heritage. The recommendation is to increase the cash value of the grant to a maximum of $50,000 per year as the value has not changed since 1991 despite inflation and escalating construction costs. As the increase only benefits non tax-paying organizations, only 10-15 heritage buildings would be eligible.

The City has only awarded three grants to a total of $43,000 since 1991. By comparison, the national annual average of a heritage grant program is approximately $56,000. In the last four years, two applications submitted by churches were not brought forward to the Finance and Administration Committee because a budget had not been allocated. While the Finance and Administration Committee receives a budget earmarked for Other Economic & Promotional Initiatives, it is not intended to be used for the heritage grants. A budget for these grants had not been established under the Community Investments Grant Program. Ongoing funding for the grants will be requested through the budget process. If the funding is not allocated, then the Administration will bring forward an amendment to remove reference to grants in the policy.

RECOMMENDATION #3 – Establish a Bonus Density Policy

A bonus density policy will be developed as part of the comprehensive Zoning Bylaw update in order to address the increasing challenges with rehabilitation in the downtown area. Challenges occur when a heritage property becomes more valuable for redevelopment than for rehabilitation, especially if the property can be included in an assembly. Many of the larger heritage buildings have been rehabilitated leaving a number of smaller heritage buildings with assembly potential as part of a larger redevelopment site. In order to address this issue the City has two options:

1. <u>On-Site Bonus Density:</u>
   If the heritage building is designated[2] and its property assembled with an adjacent vacant property, then the heritage building's unused density (under existing zoning) would be incorporated into the new part of the development, allowing the retention of the building without loss of development potential. This is akin to transferring "air rights" from one part of an assembled site to another and would be at the developer's discretion. The property might retain its value if (a) it is assembled, (b) the unused density can be physically accommodated within the overall project or (c) the financial performance of the overall project is attractive. However, it is possible that the value of the property is reduced if assembly and redevelopment including retention of the building is not as attractive to the developer as redevelopment without the building. Note also that this approach to retaining property value (inclusion in an assembly and redevelopment) will not apply to properties for which assembly is not possible.

[2] The City has the legal power to designate a property as Municipal Heritage Property without compensation for any loss in value. The owner might object to such designation, but it is allowed under the legislation.

2. Transferable Bonus Density:
   If the heritage property is not assembled with an adjacent property, the City could grant transferable bonus density. The transferable density would be transferred to a development site in the downtown in exchange for an amenity contribution. The developer of new construction buys unused density from the owner of the heritage building, as long the owner of the heritage building enters an agreement with the City of Regina to upgrade the building. In this option the heritage property would be too small to allow both new development and retention of the heritage building. The bonus would only be useful if it is transferrable from the heritage property to another property. Unfortunately, as described in the consultant's report, this option isn't as viable as on-site bonus density as it would be challenging to sell transferrable density to sites elsewhere in downtown.

RECOMMENDATION #4 – Program improvements

Several improvements to the Heritage Building Rehabilitation Program will be introduced including an application fee, requirement of a Conservation Plan and financial evidence indicating the need for the incentive, and a minimum $20,000 project value. The Program changes will be announced by contacting the owners of all heritage properties.

RECOMMENDATION IMPLICATIONS

Financial Implications

The City's share of foregone revenue from heritage property exemptions currently equates to approximately $77,000 per year. If the policy is amended and ten years of property tax exemption is provided, then the Administration anticipates an increase in property tax exemption applications from two to four per year. The City's share of foregone revenue from heritage property exemptions would then equate to approximately $150,000 per year. In five years, it is expected that the number of applications may return back to the average of two per year.

The revenue is only foregone temporarily. Upon completion of the 10 year exemption, the City would regain its lost revenue in less than 20 years. Upgrading heritage buildings with an exemption leads to higher rents than rents without the exemption. This results in higher property values and therefore higher property tax revenues that exceed the initial cost of the exemption.

The City Planning and Development Division plans to request an ongoing budget allocation to establish a source of funding for the cash grants provided under the Heritage Building Rehabilitation Program.

Environmental Implications

None with respect to this report.

Policy and/or Strategic Implications

The updated Program will ensure the implementation of policy in *Design Regina: The Official Community Plan No. 2013-48* as it pertains to the development of complete neighbourhoods and the rehabilitation of heritage buildings.

The Program has already resulted in increased property tax revenues from upgraded heritage buildings, increased revenue for owners, the conversion of vacant and underutilized buildings and the non-fiscal benefits of heritage rehabilitation. The updated Program is expected to result in twice the number of heritage designations and heritage building rehabilitation projects on an annual basis and these projects will follow national standards for rehabilitation without placing an onerous commitment on the owners.

The updated Program will also be aligned with the Cultural Heritage Management Strategy, which is currently in its final draft.

Policy 10.5 of *Design Regina: The Official Community Plan No. 2013-48* provides direction to "encourage owners to protect historic places through good stewardship and by voluntarily designating their property as a Municipal Heritage Property." A historic place is defined in *Design Regina* as a building that has been recognized by City Council for its heritage value. Policy direction is also provided in section D8 Culture, policy 10.4 of *Design Regina* to protect, conserve and maintain historic places and to leverage and expand funding, financial incentives and other means of support to advance the conservation of historic places.

The Program addresses two Community Priorities of the Corporate Strategic Plan 2014-2017 by developing complete neighbourhoods and embracing built heritage. In keeping with the Strategic Directions of effectively managing growth and improving financial viability, the City can achieve a net fiscal gain over the long term by forgoing short term tax revenue as a means of incentivizing the retention and upgrade of heritage buildings.

<u>Other Implications</u>

None with respect to this report.

<u>Accessibility Implications</u>

None with respect to this report.

<u>COMMUNICATIONS</u>

As directed by the motion of referral from FA03-31, this report will be forwarded to the Municipal Heritage Advisory Committee for consideration. A copy of this report with Administration's recommendations will be provided to stakeholders as part of the City's typical process of distributing a Finance and Administration report. If Council concurs with the recommendations of this report, a communications plan will be developed to encourage owners of heritage properties to apply under the new program.

<u>DELEGATED AUTHORITY</u>

This report is provided in response to the Finance and Administration Committee's motion of referral from FA03-31 and Council's original motion from CR01-254. In 2001, Council passed a motion (CR01-254) requesting a report on changes to the Municipal Incentive Policy for the Preservation of Heritage Properties in order to address the challenges facing heritage buildings outside of the downtown.

If Council concurs with the recommendations of this report, then CR01-254 and FA03-31 may be removed from the list of outstanding items.

The disposition of this report requires City Council approval.

Respectfully submitted,

Fred Searle, Manager
Current Planning

Respectfully submitted,

Jason Carlston, Executive Director
City Planning & Development

Report prepared by:
Liberty Brears, Policy Analyst

Incentives for Heritage Building Upgrades in Regina

Final Report
January 2013

Prepared for:
City of Regina

By:
Coriolis Consulting Corp.

Table of Contents

1.0 Introduction

1.1 Background and Objectives

The City of Regina has an existing program for providing financial incentives for the upgrade of heritage buildings. The program consists of property tax exemptions and small capital grants for eligible properties. Since the program was initiated in 1991, 33 heritage building upgrade projects have obtained financial assistance in the form of property tax exemptions. An additional 6 properties were given property tax exemptions prior to the 1991 policy, so a total of 39 properties have received heritage property tax incentives from the City.

While the existing programs have been successful in assisting some important heritage projects, there are some important heritage buildings that have not yet obtained assistance or been upgraded. The City wants to evaluate the incentive program and determine whether it is sufficiently attractive to continue to encourage heritage upgrade projects. The interest in evaluating the program has been prompted by several factors:

- Some members of the local development community have suggested that changing market conditions in Regina are making heritage rehabilitation projects less financially attractive, such that the existing incentives are not sufficient to make projects viable.
- Some significant heritage buildings have not yet been upgraded; the City wants to know whether changes to its incentive program might generate more interest in upgrading these buildings.
- Some heritage upgrade projects have proceeded without applying for the City's incentives, suggesting that either the incentives were not needed for these buildings or that some property owners have reservations about using the City's program.

The City retained Coriolis Consulting Corp. to evaluate the existing incentive program, determine whether there is a case to be made for changing the City's incentive programs, and suggest steps the City could take to encourage investment in important heritage properties that have not yet been upgraded.

1.2 Study Area

The City makes heritage incentives available throughout the community. However, there are three areas that contain significant concentrations of important heritage buildings:

- Downtown.
- Centre Square, which is a mainly multifamily residential neighbourhood immediately south of Downtown.
- The Warehouse District, across the rail yard to the north of Downtown.

These three areas comprise the study area for this project. While these areas contain some single detached residences, the study focuses on larger buildings suitable for multifamily residential, office, retail, or light industrial use. These are the kinds of properties that are of greatest interest to the development and investment community and that are potentially at risk of redevelopment because of the opportunity for higher density development inherent in existing zoning.

This study only examines private buildings. Government buildings (municipal, provincial, federal) are not eligible for the City's property tax incentive program.

1.3 Approach

We have approached the analysis in these main steps:

1. We start by describing the planning and regulatory context for urban development and heritage building retention in the study area. We examine existing and proposed planning policy and zoning, in order to understand how heritage building retention fits into the City's overall policies regarding development in Downtown, Centre Square, and the Warehouse District.
2. We then describe the nature of the City's powers under provincial legislation with regard to designating heritage properties and providing incentives for heritage building upgrades.
3. Then we describe the City's existing heritage incentive programs and we evaluate the experience to date. We examine the properties that have used the programs and the properties that have not yet used the programs to see if there are any significant patterns.
4. We then use three case study properties to evaluate the market and financial forces that influence whether a heritage building is likely to be maintained as is, upgraded, or demolished for redevelopment. We examine the role that the City's heritage incentives can play in influencing the financial performance of retention versus redevelopment. We use these case studies to make some general observations about whether there is a need to consider revisions to the City's incentive program.
5. Lastly, we suggest some changes to the City's incentive approach, for use in those cases in which existing incentives may not be sufficient to encourage retention and upgrade of important heritage buildings.

1.4 Documentation

Our work is presented in two documents. This document contains our detailed analysis and recommendations. A companion document contains the Attachments.

1.5 Professional Disclaimer

This document may contain estimates and forecasts of future growth and urban development prospects, estimates of the financial performance of possible future urban development projects, opinions regarding the likelihood of approval of development projects, and recommendations regarding development strategy or municipal policy. All such estimates, forecasts, opinions, and recommendations are based in part on forecasts and assumptions regarding population change, economic growth, policy, market conditions, development costs and other variables. The assumptions, estimates, forecasts, opinions, and recommendations are based on interpreting past trends, gauging current conditions, and making judgments about the future. As with all judgments concerning future trends and events, however, there is uncertainty and risk that conditions change or unanticipated circumstances occur such that actual events turn out differently than as anticipated in this document, which is intended to be used as a reasonable indicator of potential outcomes rather than as a precise prediction of future events.

Nothing contained in this report, express or implied, shall confer rights or remedies upon, or create any contractual relationship with, or cause of action in favor of, any third party relying upon this document.

In no event shall Coriolis Consulting Corp. be liable to the City of Regina or any third party for any indirect, incidental, special, or consequential damages whatsoever, including lost revenues or profits.

2.0 Planning Context

2.1 Regina Development Plan

The Regina Development Plan sets out broad policy directions for planning, land use, and urban development in the City.

Section 3.3 in Part A of the Plan lists general objectives including:

- Promote downtown as the key element of City life.
- Encourage revitalization and redevelopment in inner City neighbourhoods.
- Facilitate economic development that will expand and diversify the tax base.
- Identify and conserve heritage resources.

These objectives point to a possible significant heritage resource challenge in the central part of City: the core area that includes Downtown, Centre Square, and the Warehouse District is expected to see new commercial and residential development that adds vitality, employment, housing, and tax base, but it is also the area that contains many of the City's important heritage buildings, which the City hopes to conserve. Many of the existing heritage buildings are constructed at a low density compared to what is allowed under existing zoning, so retaining the buildings versus redeveloping the sites can involve trade-offs in terms of property value and development capacity (and therefore the ability to accommodate residential and employment growth).

Some of the housing policies in the Plan create interesting trade-offs with regard to heritage properties. In particular, Section 7.19 calls for encouraging new high density housing in Downtown and Section 7.20 calls for new housing construction in inner city neighbourhoods, but Section 7.20 also encourages the retention and renovation of affordable rental housing. Some of the older residential heritage properties provide rental housing. Redevelopment of a property to accommodate higher density would result in the loss of the heritage building and would replace affordable rental units with new, more expensive units (probably condominium). On the other hand, upgrading a heritage building would retain the historic asset, but will put upward pressure on rent rates or result in conversion to condominium units that will be less affordable than the existing rental stock.

The Plan includes policies regarding the retention and upgrade of heritage buildings, including:

- Section 8.1 calls for "encouraging the maintenance, preservation, and adaptive reuse of heritage resources."
- Section 8.1 calls for developing a municipal incentives policy and financial incentives program to encourage restoration of designated heritage properties.
- Section 8.3 calls for a "program of monetary and non-monetary incentives…to encourage the sensitive rehabilitation of significant heritage properties" and for the possibility of "rezoning heritage sites…on a case-by-case basis when it is determined that rezoning…will assist in restoration, re-use and/or rehabilitation."
- Section 8.5 calls for investigating the feasibility of designating several areas as Heritage Conservation Districts including parts of Downtown and the Dewdney Avenue – Warehouse District.

The Plan contains a variety of policies regarding Downtown, particularly with regard to reinforcing Downtown as the business, entertainment, cultural, and government heart of the City and encouraging high density residential and office development in the central part of the City.

The Plan also contains policies regarding the Warehouse District. The Plan encourages the development of a unique commercial area (including arts, entertainment, specialty retail), a unique residential living environment (particularly in historic warehouse buildings), and a mix of commercial and industrial uses. The Plan encourages the adaptive re-use of historic buildings and encourages new development to be sensitive to the area's historic character. The Plan proposes that a capital works program be initiated to implement sidewalk enhancements along Dewdney Avenue to improve the pedestrian realm, consistent with the historic character of the area, but there is little evidence of any public realm upgrading in the area so far.

The Plan contains policies regarding the Centre Square neighbourhood (which is called the "Transitional Area" in the Plan). The Plan notes concerns in this area including the lack of maintenance and resulting deterioration of existing housing, the under-utilization of land appropriate for residential infill development, encroachment of commercial uses in residential areas, and encroachment of high-rise development into low-rise areas. The Plan articulates the objectives of maintaining the area as a mainly residential neighbourhood, improving the quality of the neighbourhood, providing a variety of housing forms and tenures, and maintaining housing affordability.

2.2 Existing Zoning

2.2.1 Downtown

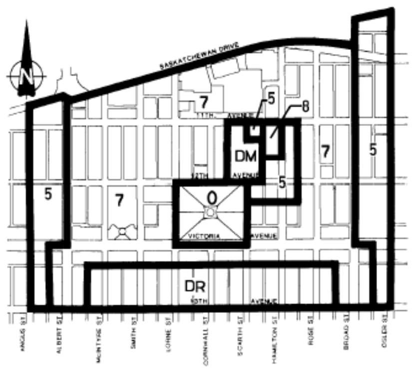
Existing zoning in Downtown allows a wide range of uses, including retail, office, and residential. The zoning also allows relatively high density throughout the entire core, with most sites designated for FAR in the 5 to 7 range and one small area (DM) designated with no upper limit on density when an appropriate package of community amenities is provided (see Exhibit 1). Based on discussion with City planners, we understand that the approach to determining community amenity contributions in Downtown can be characterized as follows:

- Community amenity contributions are negotiated on a site-by-site basis.
- The City does not use financial analysis to determine the financial ability of a proposed high density project to support amenity contributions. Consequently, the City may not know if it has optimized the amenity contribution from any given project. (In such negotiations, developers will certainly let the City know if the City is seeking "too much" in the way of amenities, but developers do not typically volunteer the opinion that the City could be asking for a larger amenity contribution).

The existing zoning also allows considerable building height in the core area, with heights in the 20 to 40 storey range in some areas and no height limit in most of the core.

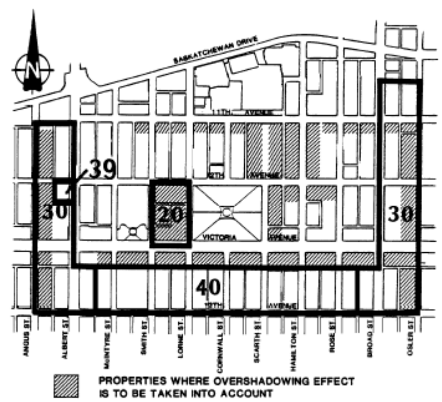
Exhibit 1: Existing Zoning (Downtown)

FAR



- DR = max 8.5 hotel or residential; max 2.0 commercial only
- DM = unlimited, providing development contributes to amenity in manner acceptable to Council

Height



- Not restricted except as shown on map.
- Council may provide height-related conditions.
- Council may establish max height to mitigate wind/ sun/ shadow conditions for pedestrians.
- All developments > 20m shall be subject to simulated wind study model.
- Various design guidelines may affect height.

2.2.2 Warehouse District

The Dewdney Avenue section of the Warehouse District has attracted most of the interest in heritage building re-purposing so far (from warehouse to retail/office or to retail/residential), in large part because of the quality of the buildings and because multi-storey warehouse-type buildings are no longer of much interest to light industrial uses. The zoning in this area (WH) permits retail, wholesale, some light industrial, residential, office, services and entertainment. Residential use is only permitted in reconstructed buildings; assuming there is a market for loft-type residential units in this area, this zoning favours rehabilitation over redevelopment. Office is a discretionary use, so this could also favour rehabilitation if discretionary approval is used to encourage retention of heritage buildings. Ground floor retail with upper floor office or residential can be more financially attractive than warehouse use for multi-storey heritage buildings, so the effective use of this zoning is one of the main levers the City can use to protect historic buildings in this area. Allowable site coverage (90%) and density (FAR 4) are very high, but maximum height is only 15 meters so redevelopment in this area would be in 3 or 4 storey buildings with large floor plates. New buildings of this type would probably not be financially viable for warehouse or light industrial use, creating an incentive to retain the existing structures for residential or office re-purposing, rather than demolition for new development that under current zoning would not be able to contain residential and may not be approved for office use.

2.2.3 Centre Square

Centre Square is a large residential area immediately south of Downtown. It also called (in City bylaws) the Transitional Area. Much of the land in this area is zoned Transitional Area Residential Zone (TAR). This zone is intended to accommodate a variety of residential uses near Downtown while maintaining the existing character of the neighbourhood. Permitted uses include ground-oriented multifamily. High density apartment is a discretionary use. Allowable density varies throughout this area. The maximum density is FAR 7.5, but some areas are designated with maximum density of FAR 3.1, 3.3, or 3.5.

2.3 Proposed Downtown Planning and Zoning

City Council has recently approved a new downtown concept plan, called the Regina Downtown Neighbourhood Plan (RDNP). This is a land use and urban design concept plan, intended to form the basis for a future bylaw that will amend the portions of the Regina Development Plan that apply to Downtown. However, a new bylaw has not yet been adopted, so in the interim the City is using the RDNP as a guide in development planning and approvals in Downtown.

The RDNP is a comprehensive plan dealing with all aspects of land use, urban design, heritage, and development approvals in Downtown. There are a few elements in the RDNP that stand out as having significant implications for heritage building conservation and restoration in the core (see Exhibit 2 for relevant extracts):

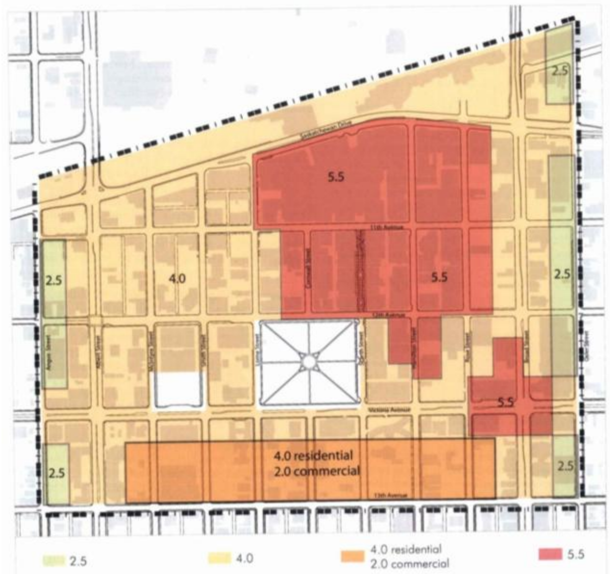
- The RDNP notes in Section 6.1 that the City's past efforts have "protected some of the most significant remaining heritage buildings" in the Heritage Conservation District but that "Regina has continued to lose buildings of heritage value outside of the District at an alarming rate." The Plan notes that the current situation in Downtown is that heritage buildings are "scattered throughout Downtown in a non-continuous environment". The Plan articulates the view that "there is a need to conserve what remains and to ensure that new development evolves in a manner that is compatible with existing heritage resources".
- In Section 6.5, the RDNP recommends the expansion of the Victoria Park Heritage Conservation District, to include significant heritage buildings outside the current boundary. The RDNP also recommends strong enforcement of the existing heritage guidelines for the District. In addition, the RDNP suggests new, detailed urban design, architectural, and heritage guidelines to protect and enhance the heritage values of the buildings and the area.
- The RDNP contains reductions in the outright allowable density and height of new development in various parts of Downtown. However, the Plan also recommends granting height increases and density increases (after the initial reductions) in exchange for community amenity contributions. As stated in the Plan, "Density permissions should be lowered. The primary goal is to ensure that new development fills in under-used or vacant sites, rather than concentrating significant development on only a few sites. Furthermore, development alternatives and incentives become more viable in a restrictive development context where the City can gain public amenities in exchange for bonuses on height and density". In effect, the RDNP creates significant reductions in the outright allowable height and density in much of the core in order to have more control over project design and to create an opportunity to achieve community amenities by granting bonus density and height increases on a discretionary basis. The RDNP also designates a portion of Downtown as the Central Business District within which height and

density are “unlimited” provided projects contain a minimum of 25% office floor area. The Plan suggests that new developments in this Central Business District should make a cash contribution ($4 per square foot of floor area) for office space above the podium level, but we understand from the City that if implemented this cash contribution may be confined to new office floor space above the density allowed in the existing zoning bylaw (because the City may not have the legal authority to require a contribution for development that is allowed under zoning). The aim of this unlimited density area is to “reinforce the CBD by creating an incentive for larger office development in the CBD, where it is most desired”. It is important to note that the proposed mechanisms for granting additional height and density apply to areas that overlap with the Heritage Conservation District and apply to sites that are occupied with significant heritage buildings. This is an important factor in evaluating the potential future of heritage sites in this area: creating mechanisms to achieve significant height and density increases at relatively low rezoning or amenity cost can put upward pressure on the value of land for redevelopment, creating conditions in which property occupied by heritage buildings is more valuable in a redevelopment scenario than in a retain/refurbish scenario unless the heritage buildings are protected by designation.

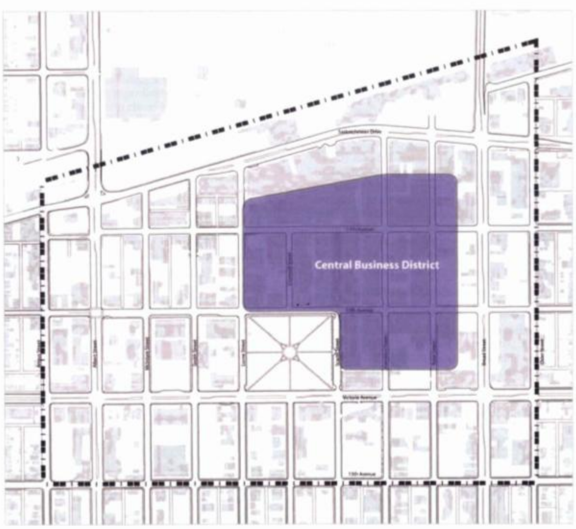
Implementation of the RDNP will require adoption of a bylaw to amend the Regina Development Plan and will require amendments to the zoning bylaw. We understand that the City plans to work on these bylaw amendments in 2012.

Exhibit 2: Extracts from the RDNP

Map 12. Height Permission

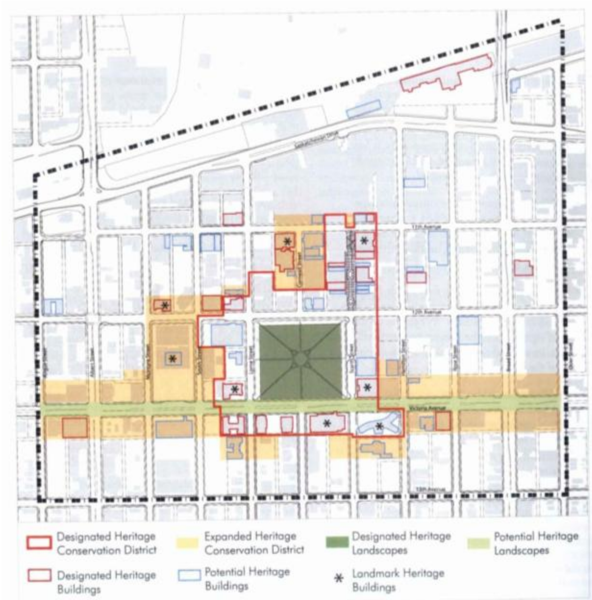


Map 13. Density



Map 14. Boundaries of the Central Business District

The Central Businesses District (CBD) was created to concentrate Class A office development within the core of Downtown. This responds to the desire of prospective tenants to be within an identified CBD. It therefore creates a more desirable condition to market Regina for Class A office, contributing to economic growth and development in Downtown Regina. Within the CBD, office buildings are permitted unlimited height and density, provided that they contain, in perpetuity, a minimum of 25% gross square feet of office space.



Map 15. Heritage Conservation District Expansion

2.4 Planning Proposals for Warehouse District or Centre Square

We are not aware of any new planning or zoning initiatives in the Warehouse District or Centre Square.

3.0 Heritage Regulation in Regina

This section summarizes the City of Regina's current approach to regulating heritage properties.

The *Saskatchewan Heritage Property Act* provides municipalities with the authority to establish and implement policies aimed at heritage building preservation. The Act enables municipalities to:

- Designate a property as Municipal Heritage Property or designate properties within a defined Heritage Conservation District. Such designation is registered on title and protects the property from unauthorized changes or demolition.
- Create incentives to encourage conservation of heritage resources. Properties must be designated as Municipal Heritage Property to be eligible for financial assistance from the Saskatchewan Heritage Foundation or financial incentives offered by local governments.

The Act enables municipalities to provide grants, loans, tax relief or other forms of assistance with regard to heritage properties. The *Saskatchewan Cities Act* allows municipalities to exempt properties from property taxation for not more than 5 years, but the *Heritage Property Act* includes a "notwithstanding" clause (Part III, Section 28, a.) that allows municipalities to exceed this 5 year limit in providing tax relief for heritage properties.

The Act also enables municipalities to deny issuance of a permit for alteration or demolition, for up to 60 days, for a property that Council may wish to designate as a heritage property.

The Act states (part VI, Section 75) that "no property is deemed to be injuriously affected or to suffer any diminution in value and no person is deemed to suffer any damages by reason of the adoption of a municipal or provincial designation of heritage property." This means that no compensation is legally required pursuant to a heritage designation which, interestingly, is very different than provincial legislation in BC and Alberta. In BC, the *Local Government Act* (Section 969) requires municipalities to compensate the owner of a designated heritage property if the designation causes a reduction in the market value of the property. The *Alberta Historical Resources Act* enables municipalities to designate a property as a historic resource, but requires that the local government pay compensation if the heritage designation decreases the economic value of a building or land. See Attachment 3 for an overview of heritage related legislation in Saskatchewan, Alberta, and BC.

The absence of a requirement to compensate for heritage designation is, in theory, an advantage for the City of Regina in heritage resource management, as it allows designation of a heritage property without necessarily creating a financial liability for the municipality. However, while designation can prevent demolition or control alterations, it cannot compel an owner to do anything constructive to maintain or upgrade the property. As well, there can be political opposition to designations that cause significant negative economic impact without any offsetting benefits being provided to property owners. While designation without compensation or incentives may be appropriate in some circumstances, in general it is more effective to secure cooperation and investment on the part of owners who are willing participants in a heritage designation.

The *Saskatchewan Heritage Property Act* also allows municipalities to create Heritage Conservation Districts. Such districts result in the designation of all properties, as a means of controlling demolition of heritage assets and influencing the design of any redevelopment. The City has created the Victoria Park

Heritage Conservation District in part of Downtown (see Exhibits 3 and 4). It has not created Heritage Conservation Districts in the Warehouse District or Centre Square.

When the City designates a property as a Municipal Heritage Property, it adopts a bylaw that explains the reasons and objectives for the designation, identifies all or portions of the building as being subject to the designation, and notes that any changes to the designated part of the property (including demolition or alteration) are subject to the approval of the City.

Exhibit 3: Victoria Park Heritage Conservation District

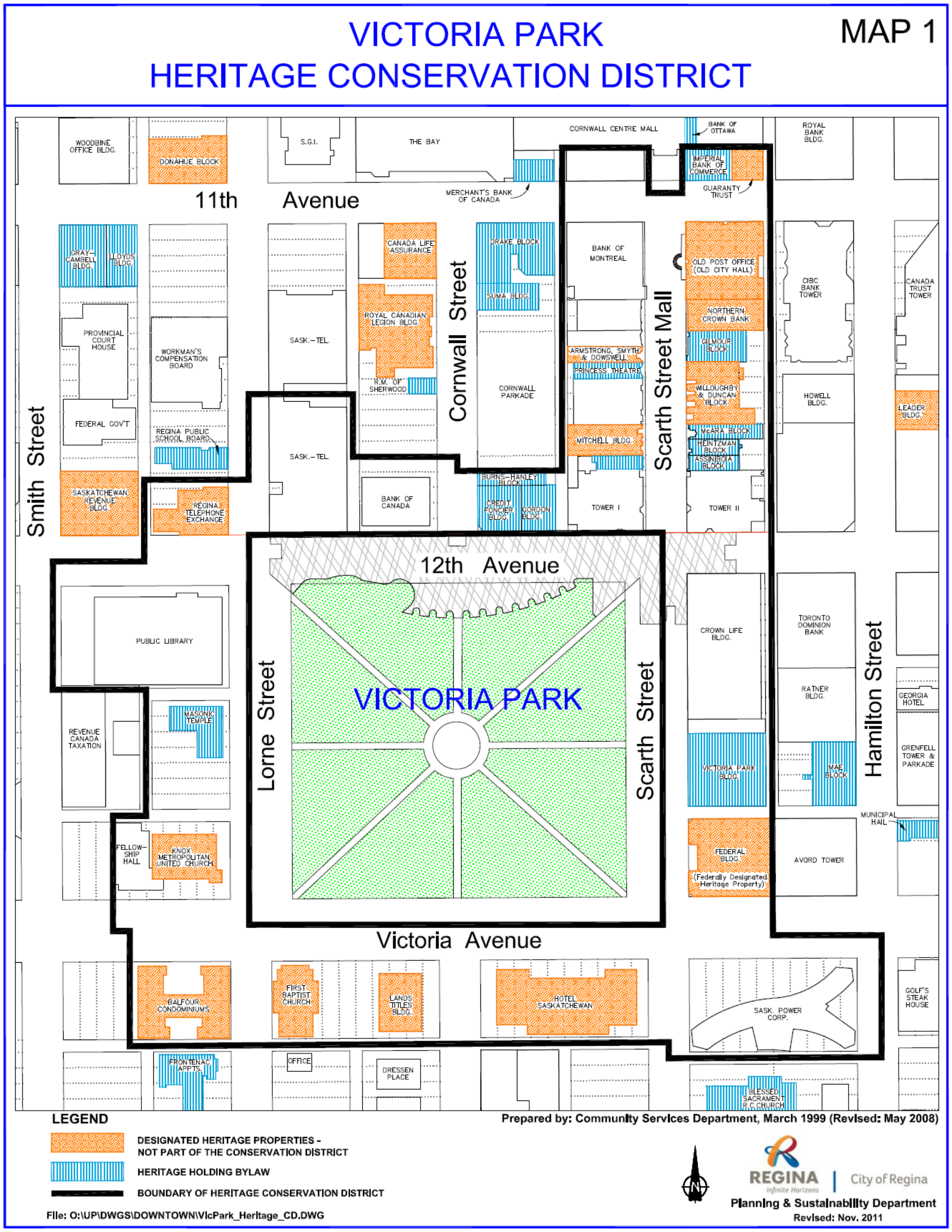
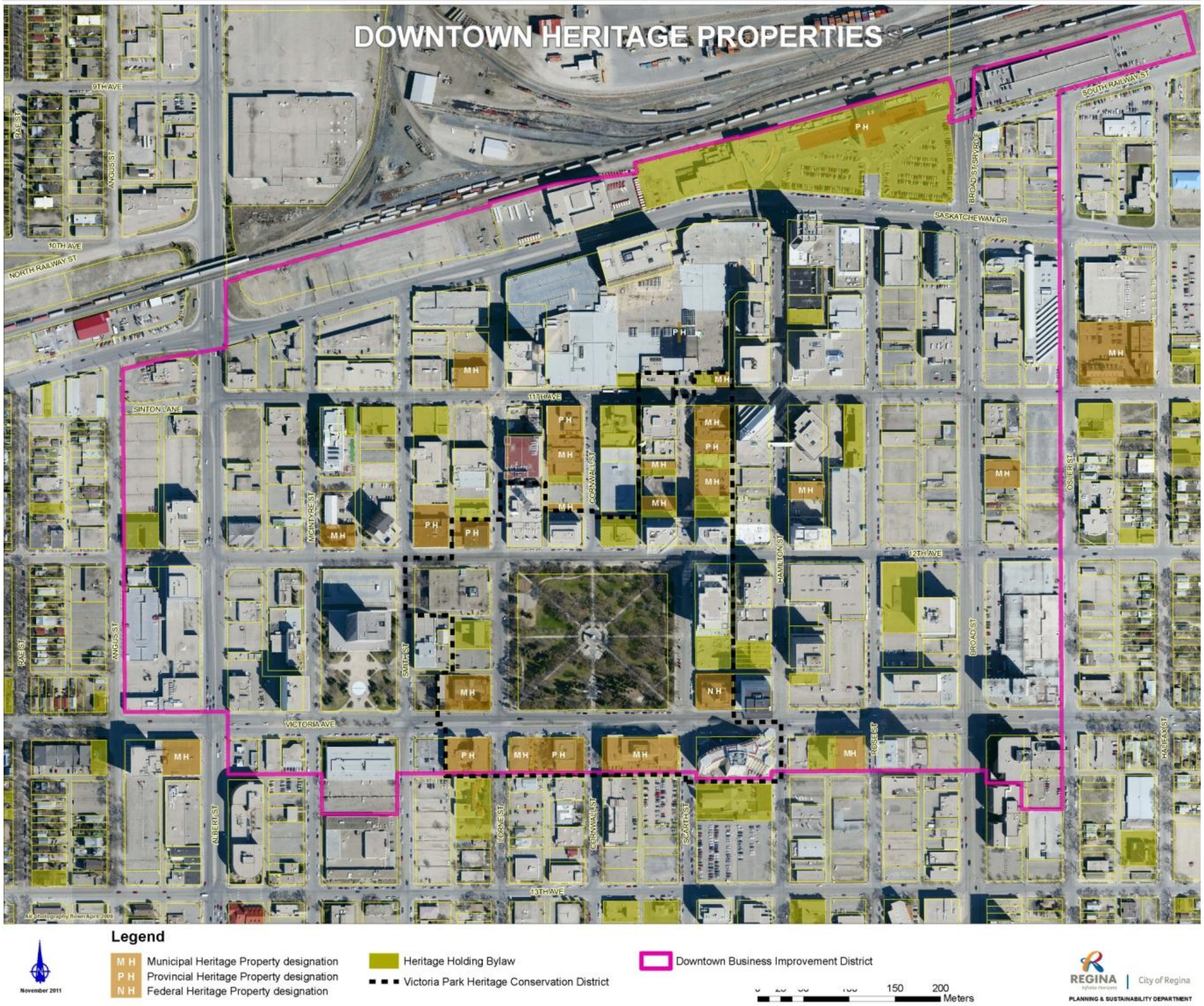


Exhibit 4 shows the Victoria Park Heritage Conservation District and also shows that there are several important heritage buildings outside the district.

Exhibit 4: Downtown Heritage Properties



The City of Regina also has a Heritage Holding Bylaw, which identifies properties of heritage interest that are not yet designated. This bylaw essentially puts owners on notice that their property has heritage value and that the City may delay granting permits for demolition or renovation while considering whether to designate the property as Municipal Heritage Property.

4.0 Review of the City's Existing Heritage Incentive Programs

4.1 Existing Incentive Programs

In 1991 the City adopted a Municipal Incentive Policy for the Preservation of Heritage Properties. This policy has been amended from time to time. The current incentive policy has two main components:

- A property tax exemption program.
- A capital grant program.

The property tax exemption program is structured as follows (see Exhibit 5a, which is a reproduction of the City's brochure for the program):

- The maximum available property tax exemption is the **lowest** of (a) 50% of the eligible costs of completed upgrade work, which must be substantiated by the provision of receipts, (b) the equivalent of the total property taxes payable over 5 years (up to 8 years in Downtown), or (c) a cap of $150,000 outside of Downtown and a cap of $250,000 in Downtown. In some cases prior to the adoption of the existing Policy, the City authorized property tax exemptions that exceeded this cap; these were cases in which very large, significant heritage buildings were extensively upgraded (such as the large apartment building at 2305 Victoria and the Hotel Saskatchewan).
- The exemption can only be granted once to each eligible property (even if the approved exemption does not use the maximum available funding based on the above calculations).
- The exemption applies to all property taxes (not just the City portion).
- Project costs that qualify for the exemption include costs to comply with building code requirements, costs to upgrade or stabilize the structure, and significant interior and exterior costs that will help to prolong the life and integrity of the building. Strictly cosmetic costs or routine maintenance work are not eligible. There is no minimum cost threshold to access the program, although in practical terms there could be a limit as an owner may not want to use the one-time-only opportunity for a relatively small budget project.
- There is a requirement to submit a detailed design and description of the work. Applicants must also provide evidence of the work completed. However, there is not an obligation to submit a complete long-term strategy for the retention and restoration of the building indicating the total amount of work needed to preserve the building. Applicants must only provide information on the work they are proposing at the time of application. It is noteworthy that this approach is quite different than the approach in some other cities. In Victoria and Vancouver BC, for example, property tax exemptions are only granted for heritage projects that (a) involve a complete upgrade (including seismic upgrade) intended to ensure that the heritage building lasts a long time and to dramatically improve the marketability of the building and (b) demonstrate the need for financial incentive to make the project financially attractive when compared to the financial performance of demolition/redevelopment. The Regina Downtown Neighbourhood Plan proposes that heritage buildings seeking incentives should be required to submit a complete Conservation Plan.

- Applicants are not required to provide evidence that they need the property tax exemption in order for their proposed upgrade to be financially viable.
- The property seeking the tax exemption must be (or become) designated as a Municipal Heritage Property as a condition of receiving the exemption. Designation prohibits the demolition of the building and requires that any alteration be approved by the City, which means that the City can apply guidelines with regard to building materials, colours, and design for any changes to the building.

The direct capital grant program provides a maximum grant of $25,000 (subject to the availability of funds in the City's budget), but only for properties that are exempt from property tax (e.g. schools, churches). Properties eligible for the property tax exemption cannot also receive the cash grant. It is worth noting that most tax-exempt buildings are relatively large, so $25,000 is not a significant amount compared to the cost of a major restoration project.

Heritage upgrade projects are also eligible for capital grants from the Heritage Conservation Grant Program of the Province of Saskatchewan. It is our understanding that these grants are typically less than $100,000, even for large projects undergoing extensive upgrades.

Exhibit 5a: Heritage Incentive Brochure

NEIGHBOURHOOD BUILDING BLOCKS

City of Regina
Heritage Property Incentive

CITY OF REGINA INCENTIVE FOR HERITAGE BUILDINGS

What Incentives are available?

- A tax exemption may be granted to a maximum value equivalent to 50% of eligible work costs ***or*** $150,000 ($250,000 in the downtown), ***or*** the total property taxes payable over 5 years (8 in the downtown) – ***whichever is the least.***
- Subject to the availability of funds, a direct munipal grant is available for heritage properties that are exempt from paying property taxes on an ongoing basis (e.g. churches, etc.). The grant may cover up to 50% of eligible work costs and is limited to a maximum value of $25,000.

What type of work is eligible?

- Façade (exterior) improvements aimed at preserving or restoring original building elements and architectual details.
- Structural stabilization.
- Improvements required to meet National Building Code (NBC) or City of Regina bylaw standards, including the repair or upgrading of mechanical and electrical systems.
- Improvements to the energy efficiency of heritage buildings (e.g. insulation, windows, furnace).
- Restoration of architecturally or historically significant interiors or interior elements.

What is NOT eligible?

- Cosmetic interior work, regular maintenance and new additions to existing heritage buildings.
- Any work completed prior to application for assistance. The work must be approved for assistance by the City prior to being undertaken in order for it to qualify.
- Any property that has not been officially designated as Municipal Heritage Property.

How can I apply?

- Ensure your property is officially designated as a municipal heritage property. You must submit a written application to the City of Regina and receive approval of heritage status before your application for assistance will proceed.
- You must submit a complete application form, including details and costs of restoration work to be undertaken ***before the work begins.***
- The deadline for exemptions is December 31 of every year. Exemptions always begin on January 1 of the year after you apply.
- Application forms and more information about the incentive program are available in the housing section of Regina.ca or at the Planning and Sustainability Department on the 9th Floor of City Hall.

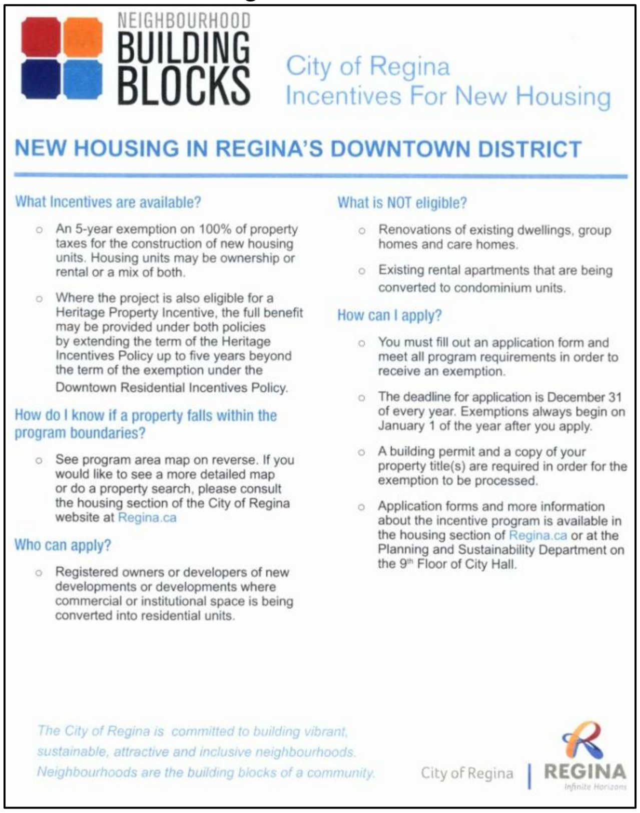
The City of Regina is committed to building vibrant, sustainable, attractive and inclusive neighbourhoods. Neighbourhoods are the building blocks of a community.

City of Regina | REGINA Infinite Horizons

The City also provides property tax exemptions as incentives for other kinds of development, not just to heritage properties:

- The City has a program of providing property tax exemptions to any project that adds new housing units in parts of the City. See Exhibit 5b, which shows the City's brochure for housing incentives in Downtown. Eligible units can be in a new residential development or in the conversion of existing non-residential space (e.g. industrial or office) to residential use. A conversion of a heritage non-residential building to a residential use can be eligible for the heritage property tax exemption and the residential property tax exemption. The majority of Downtown properties that received a housing incentive also received a heritage incentive.

Exhibit 5b: Housing Incentive Brochure



NEIGHBOURHOOD BUILDING BLOCKS

City of Regina
Incentives For New Housing

NEW HOUSING IN REGINA'S DOWNTOWN DISTRICT

What Incentives are available?

- An 5-year exemption on 100% of property taxes for the construction of new housing units. Housing units may be ownership or rental or a mix of both.
- Where the project is also eligible for a Heritage Property Incentive, the full benefit may be provided under both policies by extending the term of the Heritage Incentives Policy up to five years beyond the term of the exemption under the Downtown Residential Incentives Policy.

How do I know if a property falls within the program boundaries?

- See program area map on reverse. If you would like to see a more detailed map or do a property search, please consult the housing section of the City of Regina website at Regina.ca

Who can apply?

- Registered owners or developers of new developments or developments where commercial or institutional space is being converted into residential units.

What is NOT eligible?

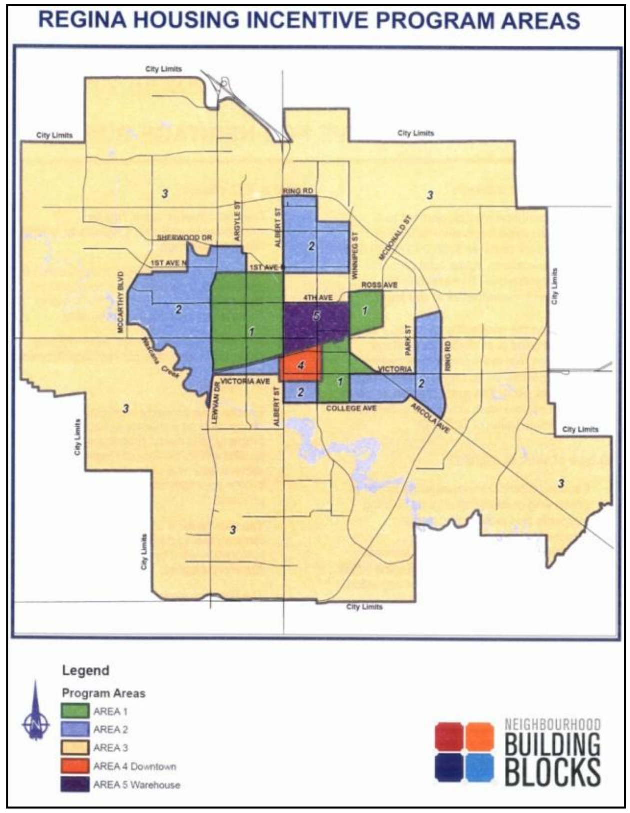
- Renovations of existing dwellings, group homes and care homes.
- Existing rental apartments that are being converted to condominium units.

How can I apply?

- You must fill out an application form and meet all program requirements in order to receive an exemption.
- The deadline for application is December 31 of every year. Exemptions always begin on January 1 of the year after you apply.
- A building permit and a copy of your property title(s) are required in order for the exemption to be processed.
- Application forms and more information about the incentive program is available in the housing section of Regina.ca or at the Planning and Sustainability Department on the 9th Floor of City Hall.

The City of Regina is committed to building vibrant, sustainable, attractive and inclusive neighbourhoods. Neighbourhoods are the building blocks of a community.

City of Regina | REGINA Infinite Horizons

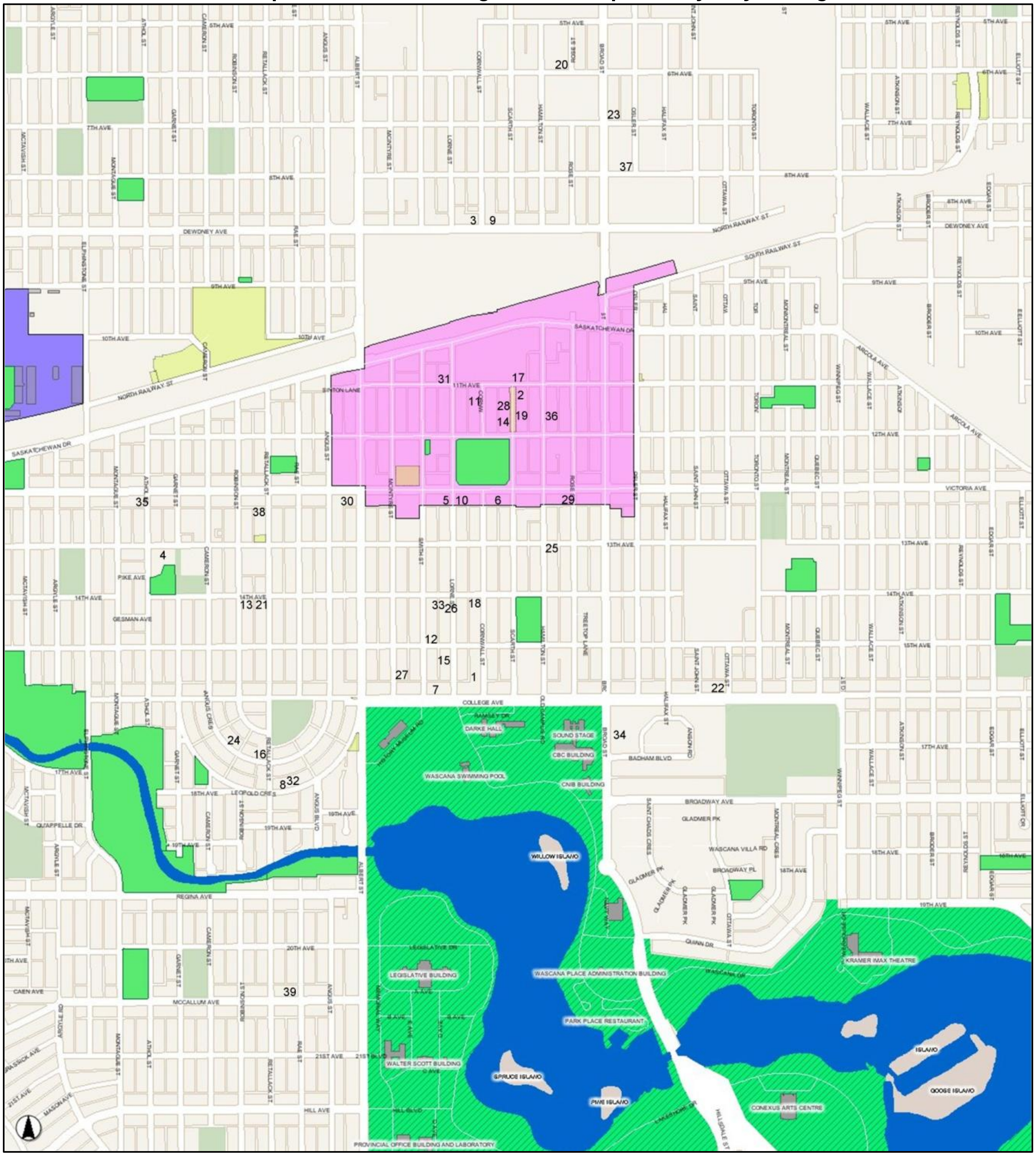


- The City has also granted property tax exemptions to major new office development projects in Downtown, as an incentive to increase the inventory of office space in the core. For various major high quality office projects the City has considered complete or partial exemptions for 3 to 5 years.

4.2 Experience with the City's Property Tax Heritage Incentive Program

The City has granted heritage property tax exemptions to 39 properties, of which 6 were granted exemptions based on policies in place prior to 1991 and 33 were granted exemptions based on the 1991 rules. Attachment 1 contains information and photographs of these properties. The locations of these properties are shown in the map in Exhibit 6.

Exhibit 6: Location of Properties Given Heritage Tax Exemptions by City of Regina



LEGEND

1. Falls Residence/Pink House*
2. Northern Crown Building*
3. Campbell Wilson Strathdee Building*
4. Sacred Heart Academy*
5. Balfour Apartments*
6. Hotel Saskatchewan*
7. Kerr/Bronfman Residence
8. A.J. Hosie Building
9. Ackerman Building
10. First Baptist Church
11. Royal Canadian Legion
12. Clifton Court
13. Beta Apartments
14. Mitchell Building
15. McPherson/Graham Residence
16. T.E. Perrett Residence
17. Western/Guaranty Trust Building
18. Bartleman Apartments
19. Willoughby & Duncan Building
20. W.G. Downing & Company Building
21. Mayfair Apartments
22. Floor Residence
23. John Deere Plow Company Limited
24. Tommy Douglas Residence
25. Qu'Appelle Apartments
26. Duncan Residence
27. Thornton Residence
28. Armstrong Building
29. Motherwell Building
30. Viterra (Sk Weat Pool)
31. Donahue Building
32. Simson Residence
33. Schaab Residence
34. Harding House
35. Albert Cook Row House
36. Leader Building
37. Whitmore Warehouse
38. Mulligan Residence
39. Doll's House

* = initiated prior to adoption of 1991 incentives policy

As shown in Exhibit 6, 12 of these properties are in Downtown, 5 are in the entire Warehouse District (of which 2 are in the Dewdney Warehouse District area), a few are in or near Centre Square, and the rest are scattered.

The properties show a wide variety of uses (residential, office, retail, institutional) and a wide variety of project sizes. The projects also show a wide variety in terms of the nature and cost of the upgrade work, ranging from small projects for specific building elements (e.g. restoring stained glass windows, localized foundation repair, roofing) to complete building upgrade (e.g. full electrical/mechanical upgrade, full exterior upgrade, extensive interior upgrade, and structural work). There do not appear to be any overall patterns in the projects that have applied for exemptions. There is not a strong trend in terms of site size, building size, use, or location. Perhaps the only common trait is that these properties, based on form and character, generally appear to be attractive buildings in core or near-core locations. On the surface, these look like buildings that would be candidates for retention because of their curb appeal.

Exhibit 7 summarizes cost information for some of the upgrade projects.

Exhibit 7: Cost Information for Some of the Properties Given Heritage Tax Exemptions

# in Att. 1	Location	Assessed Parcel/Name	Use	Description of Work	Building Gross Area (m^2)	Building Gross Area (sq. ft.)	Conservation Costs	Conservation Costs/ Building Gross Area (sq. ft.)
9	2128-2132 Dewdney Avenue	n/a	Condo Apartments/ Offices	Upgrading as per NBC; roof and window replacement; masonry repair/brick repointing; professional fees	3765.795	40536	$112,110	$2.77
12	2330 15th Avenue	n/a	Offices	Exterior insulation; mechanical and electrical upgrading; replacement of windows	914.508	9844	$100,000	$10.16
13	2925 14th Avenue	n/a	Condo Apartments	Repair/reconstruction of brick facades and balconies; re-securing of fire escapes; front entrance upgrading; window repairs; re-routing roof drains; structural reinforcement at parkade level; foundation repair and upgrading; professional fees	2662.514	28660	$263,700	$9.20
14	1856 Scarth St.	Plan: 00RA12095 Block: 307 Lot: 47 Mitchell Building	Retail/Offices/ Art Gallery	Interior renovations and comprehensive NBC/Fire Code upgrades, including construction of interior garbage bay.	1,621	17,452	$219,713	$12.59
17	2020 – 11th Ave.	Plan: 99RA09712 Block: Lot: Units #1 - #5 Western/Guaranty Trust	Commercial/ Condo Apartments	Fire Code compliance; upgrading of mechanical/ electrical systems; exterior brick repair/cleaning; roof repair/replacement.	1,429	15,379	$106,649	$6.93
18	2201 – 14th Ave.	Plan: 101310523 Block: Lot: Units #1-#30 Bartleman Apartments	Rental Apartments	Exterior repairs and refinishing; window replacement; roof repair/replacement; mechanical repairs and upgrading; professional fees.	2,576	27,724	$179,019	$6.46
19	1839-1851 Scarth St.	Plan: 101890739 Units #1-22 Willoughby & Duncan Building	Commercial/ Rental Apts	Code compliance for residential conversion; mechanical and electrical upgrading.	3,949	42,505	$472,410	$11.11
20	1150 Rose St.	Plan: 96R47845 Block: Lot: Units #1; #3-7 W.G. Downing & Company Building	Condo Apartments	Mechanical, electrical and Fire Code upgrading; exterior repairs and façade improvements, including window replacement, painting and cleaning, and roof repair/replacement; passenger elevator upgrade.	2,963	31,897	$247,533	$7.76
21	2915 – 14th Ave.	Plan: 98RA28311 Block: 437 Lot: 41 EX S 33' Mayfair Apartments	Apartment Building	Roof replacement, repair and repainting, including vents, skylight removal and extension to south parapet wall. Storm window replacement.	1,996	21,484	$111,477	$5.19
23	1275 Broad St.	Plan: 101634533 Units #1-11; Units #13-28 John Deere Plow Company Limited	Mixed Use	Asbestos removal, construction of new fire-rated exit stairs and stairwell from basement to fifth floor level; mechanical sprinkler and electrical systems upgrades; window replacement; masonry repair, repointing and cleanup; and new roofing and flashing.	8,360	89,987	$300,522	$3.34
25	2105 Hamilton St.	Plan: OLD 33 Block: 410 Lot: 1-3 Qu'Appele Apts	Apartment Building	Replacement of all wood windows with PVC windows.	3,869	41,652	$193,262	$4.64
28	1834 &1836 Scarth St.	Plan: 101866855 Unit: 1 & 2 Armstrong Building	Commercial with residential above	Installation of railings $3991; Replace roof rainwater waste line $1,199; Install new roof $23,005; Install fire alarm pull stations $8,293; Install fire doors and blocking $14,624; Fire exit fencing and stairs $11,872; Fireproofing materials (e.g. ceiling) $13,274; miscellaneous fire code work $482; Install new furnace $7,731; Professional fees $3,021.	183 175	1,967 1,887	$59,805	$15.52
29	1901 Victoria Ave.	Plan: 101952176 Lot: Units #1 - #80 Motherwell Building	Condo Apartments	New middle roof; Window supply and installation; Sandblasting; Painting; Sprinklers; Standpipe; Mechanical room; Fire alarm; Standby generator; Electrical distribution; Electrical upgrade.	11,797	126,989	$615,252	$4.84
31	2300 (2314) 11th Ave.	Plan: 00RA12095 Block: 282 Lot: 29 Donahue Building (we show Douglas in TAS)	Office Building	Fire safety repairs, structural repairs, exterior window ledge repairs, mechanical and electrical system upgrades and professional fees.	4,155	44,725	$510,434	$11.41
35	3305 Victoria Ave.	Plan: 99RA05074 Albert Cook Row House	Row House	Structural repair, façade restoration-brick work; Energy efficient window upgrades.	1,007	10,842	$67,487	$6.22
36	1853 Hamilton St.	Plan: 102012163 Unit: 1 - 12 Leader Building	Condo Apartments, Retail & Office	Full building upgrade. Residential units and interior parkade introduced into a primarily office building. Exterior restoration of terra-cotta cornice, piers and pilasters; rehabilitation of store front using concrete panels similar in appearance to terra-cotta; wood windows replaced in-kind; and lobby restored.	4,478	48,202	$457,988	$9.50
37	1708 8th Avenue	n/a	Condo Apartments	Full building upgrade. Residential units and interior parkade introduced into a primarily office building. Exterior restoration of terra-cotta cornice, piers and pilasters; rehabilitation of store front using concrete panels similar in appearance to terra-cotta; wood windows replaced in-kind; and lobby restored	1805.98	19440	$100,064	$5.15

Exhibit 7 only shows information for projects that are multifamily residential or commercial (i.e. excluding institutional and single detached) for which exemptions were granted based on the 1991 rules and for which some upgrade cost information has been provided. As shown, the reported costs range between about

$60,000 and $615,000. We note that these are not necessarily total actual project costs, as it is only necessary to report costs of $500,000 in order to be eligible for the maximum property tax exemption of $250,000 in Downtown (or total costs of $300,000 to be eligible for the $150,000 cap elsewhere in the City). The indicated costs range between about $3 per square foot and $16 per square foot of gross floor area. The range of costs and work descriptions supports these observations:

- The absence of a minimum level of capital investment to be eligible for an exemption means that the City is in some cases providing incentives for work that may improve the appearance and short-term condition of the building but does not necessarily significantly increase the long-term life or financial viability (through increased rents or higher occupancy, for example) of the building. The requirement for designation means these properties are no longer redevelopment candidates, but the property tax exemption is not necessarily resulting in the long term physical or financial sustainability of the buildings.
- Some owners are using their one-time-only window for a tax exemption for work that does not achieve the maximum possible property tax exemption for their property.

We interviewed some City staff who are involved in administration of the heritage property tax exemption. They indicated that there are some administrative challenges with the way the current program is structured:

- Because of the cap on maximum assistance, it can be difficult for the City and property owners to predict the amount of tax abatement that will incur in the final applicable year of exemption. The $150,000 or $250,000 limit will almost certainly not be equal to a whole number of taxation years, so the final year of exemption will require a partial tax payment that is not predictable in advance of the final year (because taxes vary from year to year). Keeping in mind that the value of the property can change (as a result of the upgrading that earns the tax exemption) and that mill rates can change, it is difficult for a property owner (and the City) to estimate in advance how many years a property will be eligible for tax exemption. It would be much simpler to administer a system in which properties were granted a fixed number of years of tax exemption. It is noteworthy that the City's tax exemption for new residential units is for a fixed number of years, without a dollar cap.
- There is an administrative challenge when a single project is eligible for both a residential property tax exemption and a heritage property tax exemption. The City's practice is to use up the heritage exemption first and then apply the residential exemption, but (for the same reasons noted above) it is difficult to know in advance when the first exemption runs out and the next one kicks in. It would be easier to administer the heritage program with full-year exemptions for a set number of years (as the City does for the housing incentive).

4.3 Significant Heritage Buildings That Have Not Used the City's Incentives

Attachment 2 contains a list of some buildings of heritage significance that have not yet used the City's property tax incentives. This list was compiled by the City. This is not a complete list of un-rehabbed heritage buildings in the City; it is simply a list of buildings in the study area that appear to be in good condition, that are regarded as important heritage buildings, and that have not used the property tax exemption. The purpose of this list is simply to see if there are any obvious patterns that might offer clues as to why these have not taken advantage of the City's property tax exemption.

We have these observations:

- Based on an exterior physical inspection, some of these buildings have had work done on them that would qualify for the City's tax exemption program. The Credit Foncier building (2170 12th Avenue), in Downtown right across from Victoria Park, is an example of a high quality building that has clearly had significant investment in updating but has not applied for a tax exemption.
- These buildings tend to be low-rise (one to three storeys) in parts of Downtown in which allowable height and density under existing zoning are high.

We have not spoken to the owners of these sites, so we do not know why the owners have not sought tax exemption. We can hypothesize several possible reasonable explanations for why these buildings have not used the City's exemption:

- If owners want to retain the buildings for the long term, it is possible that some of them have not wanted to "use up" their one-time-only opportunity on relatively small upgrade projects. They could be waiting until they undertake a large program in order to qualify for the maximum available grant.
- It is possible that some of the owners are not aware of the program.
- It is possible that some owners do not want to compromise their potential for future redevelopment (or sale of the property for redevelopment), or be required to comply with the imposition of design and building materials restrictions by having their properties encumbered by designation as Municipal Heritage Property (which is a requirement of the City's property tax exemption program) or risk some other form of designation, such as Provincial Heritage Property or inclusion in a Heritage Conservation District. The maximum value of the tax exemption ($250,000 in Downtown and $150,000 elsewhere) may be regarded by some owners as insufficient financial compensation for the loss of flexibility and redevelopment potential on properties in which current or future zoning could allow high density redevelopment.

5.0 Financial Analysis of Heritage Upgrades

5.1 Overview of Market Conditions

In order to evaluate the financial significance of the City's property tax exemption incentive program, it is necessary to examine the incentive in the context of typical property owner decisions about upgrading versus redeveloping a property. For this purpose, the City identified three properties to be used as case studies for the analysis of the financial performance of different upgrade or redevelopment options. These are existing heritage buildings that have not yet been materially upgraded, so they afford an opportunity to examine different (hypothetical) scenarios regarding the effectiveness of the existing incentive program. There are not any actual upgrade or redevelopment proposals on the table for these properties; they are simply good sample sites for "experimenting" with different development options.

The analysis of these case studies requires the use of current market information regarding land values, rent rates, sales prices for properties, and development costs. We have assembled the necessary information from a variety of sources, including actual sales transactions, listings, marketing materials for development projects, and information supplied by people involved in the local development community.

Assembling market information has been challenging for several reasons.

First, there have been relatively few sales of vacant redevelopment sites or prospective heritage upgrade properties over the last couple of years.

Second, there appears to have been a sharp increase in land value for some types of development property in Regina over the last year or so. This increase appears to be due to several factors, which in our view include:

- The strength of the Saskatchewan provincial economy.
- Very low office vacancy rate in Regina, which has tended to push up lease rates and, in turn, land values for redevelopment sites.
- The City's mechanism for granting bonus density in Downtown in exchange for community amenities. When a local government grants bonus density for amenities, there are only three possible outcomes with regard to the relationship between the value of the bonus density and the cost of the amenity that must be provided. One possibility is that the value of the density and the cost of the amenity are more or less balanced. In this case, the developer is willing to provide the amenity because of the perceived value of the density, but there is no "extra" land value to the developer. The developer has the opportunity to earn profit on the additional space, but does not earn additional land value due to the extra density because the cost of the amenity provided equals the value of the density. A second possibility is that the cost of the expected amenity exceeds the land value of the extra density; in this case, developers will not be interested in using the bonus density opportunity. The third possibility is the cost of the required amenity package is materially lower than the value of the density. Municipalities sometimes structure their density bonus systems deliberately on this basis, because they want there to be an incentive to developers to acquire extra density, above and beyond the profit inherent in developing the extra space. However, in our experience the land market is very good at capturing the value of under-priced bonus density. If a local government approves density that is worth (say) $20 per square foot buildable in exchange for amenities that only cost $5 per square foot buildable, the $15 per

square foot buildable difference will not necessarily accrue to the developer as an incentive. In a competitive market, the difference allows developers to bid up the price of redevelopment land, so the "under-priced" bonus density has the effect of putting upward pressure on the value of development property. This could be contributing to the escalation in land values in Downtown Regina.

- The City's willingness to grant property tax exemptions for new residential development and new high density office development in Downtown could also put upward pressure on land values. Reduced taxes create an opportunity for increased developer revenue, which can in part be translated into increased ability to pay for land.

The third difficulty in assembling data on costs and revenues associated with heritage upgrades is that not many of these heritage upgrade projects have involved complete refurbishments. Many involve small upgrades and improvements that do not necessarily translate into significant changes in rent rates or occupancy.

Fourth, the case studies provide an opportunity to obtain physical information about actual sites but these are not development projects with existing concepts and budgets. We are estimating the approximate revenues and costs associated with hypothetical upgrade or redevelopment scenarios.

Consequently, we suggest that the case studies be viewed as indicators of approximate financial performance, not definitive financial analysis.

The three case studies are:

- A rental residential property in Centre Square, at 2105 Cornwall Street.
- A small two storey commercial building in Downtown (the Municipal Hail Building) at 1965 Hamilton Street.
- A three storey warehouse building in the Dewdney Warehouse District, at 2002 Dewdney Avenue.

5.2 Three Case Studies

5.2.1 2105 Cornwall Street, Centre Square

This is a three storey apartment building within easy walking distance of Downtown. As shown in Exhibit 8, the building has an attractive front elevation with bay windows and interesting masonry. The side and rear elevations are quite plain.

The building is divided into studio and one bedroom apartments (30 units in total) that are relatively small. The building appears, based on a quick visual inspection, to be in good structural condition but there has not been much updating of the rental units or common areas and there has not been much electrical or mechanical updating.

Rents are modest, based on suites advertized for rent.

Exhibit 8: Photographs of 2105 Cornwall Street

For this case study, we look at the building from several perspectives:

- First we estimate the value of the property "as is".
- Second we estimate the value of the site as a redevelopment property based on current zoning, assuming demolition and redevelopment.
- Third, we examine whether a developer could feasibly acquire the property, do a complete renovation and conversion to condominiums, and sell the units.
- Finally, we examine some scenarios for upgrading the existing heritage building, assuming it remains as a rental residential property.

The purpose of these various evaluations is to determine whether retention of this building as a heritage property is financially attractive and to determine the relative significance of the City's property tax exemption incentive in decision-making about the future of this building.

We have three indicators of the value of this property as is:

- Listings and sales of small, older rental apartment properties in this area suggest that values range from about $50,000 to $115,000 per suite, depending on size, condition, and location. Because the subject property has small suites that have not enjoyed much updating, it seems reasonable to assume this building would be valued in the lower half of this range. At $80,000 per suite for 30 suites, the building would be worth about $2,400,000.
- As shown in Scenario 1 in Exhibit 10, based on estimated current rental income and typical allowances for operating expenses in similar buildings, this rental property could support a value of about $2.4 million from the perspective of an investor. This is consistent with the above estimate.
- The assessed value is only $718,000, but current assessed values in Regina appear to be generally much lower than market values.

So, for the purpose of this case study, we estimate the current value of this rental housing property, as an income-producing investment and before any upgrading, at say $2.4 million.

Next we consider the possible value of this property as a residential redevelopment site, based on market evidence of sales or listings of potential residential development sites in the core area. Using the limited sales evidence, comments from some market participants, and a pro forma we were able to see (on a confidential basis) for a proposed Downtown residential development project, it appears that new high density residential development with underground parking supports a value of at most about $15 per square foot of buildable residential area. The subject site has an area of 9,351 square feet and the existing zoning allows a maximum FAR of 3.1, so at $15 per square foot buildable the supportable site value is about $435,000 (i.e. just under $50 per square foot of land), far less than the estimated current value. Even if this site is approved for the maximum allowable density in the TAR zone (FAR 7.5), the maximum supportable land value for redevelopment would be about $1.1 million, at $15 per buildable square foot. The highest reported sales price we have heard for a Downtown development site is about $200 per square foot of site area, so even at this price the subject site's value would only about $1.9 million, well below the current value supported by the rental income ($2.4 million). Therefore, in our view it is highly unlikely that a developer would acquire this site with the intention of demolishing the building and developing new higher density residential condominium units.

Next, we look in preliminary terms at a complete refurbishment and conversion to condominium units. In this case, we assume a complete gutting and reconstruction of the interior, probably including a reduction in the total number of units (i.e. opening walls to make larger units).

Exhibit 9 shows a high level financial analysis, using these assumptions:

- Units sell for an average of $300 per square foot. We understand that current residential prices for new units in Downtown are in the range of $300 to $400. This site is near Downtown, is a modest building (even after upgrade) with no views and limited charm beyond the front elevation, and would not provide underground parking, so we assume a maximum sales price of about $300 per square foot for the renovated condominium units.
- The upgrade cost is estimated at about $200 per square foot all in (i.e. all hard and soft costs). This assumes the shell is in good structural shape and assumes the entire building is upgraded. This cost estimate draws on the reported all-in cost of other full upgrade projects, although $200 is at the low end of full upgrade costs for major residential renovations; some projects reported up to $260 per square foot.
- We use standard allowances for marketing (5% of sales) and profit margin (15% of sales).

Exhibit 9: Residual Land Value Analysis of 2105 Cornwall Street Assuming Condominium Conversion

	Amount
Revenue from sale of units (14,765 square feet saleable at $300 per square foot)	$4,430,000
Less marketing commissions (5%)	$221,000
Less all-in development cost (16,464 square feet gross area at $200 all in)	$3,293,000
Less developer profit (15% of revenue)	$665,000
Equals residual property value	$251,000 ($15 per square foot of gross floor area or $27 per square foot of land)

The calculation shows that a developer could pay a maximum of about $250,000 to acquire this property with the intention of a "down to the studs" renovation and condominium conversion. Even if we dramatically increase the assumed sales price and decrease the conversion cost, the supportable land value will not come anywhere close to the existing value of this rental property. Note also that the supportable value for the property works out to $15 per square foot of gross building area, which is consistent with market evidence of land value.

For this site, the existing improvements are too valuable (i.e. generate too much income) for a developer to acquire the property with the intention of demolishing or doing a full upgrade and conversion to condominium units.

Therefore, it appears highly likely that the future of this property is retention as a rental apartment building, which is good from the perspective of the City's objectives for retaining affordable housing and protecting heritage buildings. The next step is to explore some scenarios for the possible upgrade of this property, assuming an owner/investor is considering investing in upgrades to increase the longevity of the property, to avoid future major repairs by addressing concerns now, and to generate increased rent by providing higher quality units.

In Exhibit 10 we show three different scenarios for rental income in this property:

- Scenario 1 is the base case, in which we estimate current rents. This is the scenario that supports our value estimate of $2.4 million, assuming an investor would apply a cap rate[1] of about 5.75% to this older property that needs upgrading. Note that if we use a lower cap rate (there is market evidence of rates in the range of 5% to 6%), the implied value of the property would increase, making it even less likely that this is a candidate for redevelopment.
- Scenario 2 shows the effect a 10% increase in rents and a reduction (to 5.5%) in the cap rate (due to lower risk because the building is updated and more marketable), which could result from some modest updating (e.g. painting, floors, refreshed common areas, new appliances, some mechanical upgrades). The value of the property increases to about $2.9 million based on these assumptions, which suggests that the maximum budget for this upgrade should be about $500,000 (about $17,000 per suite or $30 per square foot), which is reasonable for a cosmetic refresh.
- Scenario 3 assumes that rents rise to a level that is at the peak of rent rates in this neighbourhood. A further reduction in cap rate (to 5% which is about the lowest in the market and is based on the assumption of an extensive upgrade) along with the higher rent produces a value of about $3.9 million, which supports a maximum upgrade budget of about $1.5 million ($3.9 million minus $2.4 million), just over $50,000 per suite or $90 per square foot of gross building area, which should cover electrical and mechanical updating, new kitchens and bathrooms (of moderate quality) and other updating but not a complete upgrade.

These three scenarios show the value of the property rising from $80,000 per suite to $130,000 per suite, which is in line with asking/selling prices for rental properties in the area.

Note that the estimated property taxes rise with value.

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[1] "Cap rate" is a short-hand reference to capitalization rate, an indicator of investor expectations for rate of return. A cap rate of 5.75% means that a purchaser expects to earn sufficient income from the property to achieve a 5.75% per year return on the purchase price. An investor with a required cap rate of 5.75% and acquiring property for $2.4 million expects to earn net operating income of $138,000 ($2.4 million x 0.0575). Said another way, a building that generates $138,000 of net operating income per year is worth $2.4 million to an investor seeking a return of 5.75% ($138,000 ÷ 0.0575 = $2.4 million). Generally, the lower the risk, the lower required rate of return (and the higher the value that an investor will pay for a particular asset).

Exhibit 10: Financial Analysis of 2105 Cornwall Street as an Income-Producing Property

Cornwall Court
2105 Cornwall Street

Site Size (Sq. Ft.)	9,351
Gross Building Area (Sq. Ft.)	16,464
Net Building Area (Sq. Ft.)	14,765

	Suite Area (sq. ft.)	Number of Suites
Bachelor	323	5
Bachelor	336	3
1 Bedroom	450	3
1 Bedroom	540	6
1 Bedroom	544	3
1 Bedroom	560	6
1 Bedroom	640	4

	Scenario 1	Scenario 2	Scenario 3
Net Rentable Area Bachelor	2,623	2,623	2,623
Bachelor Rent (per Sq. Ft. per month)	$1.40	$1.65	$2.00
Bachelor Revenue (annual)	$44,066	$51,935	$62,952
Net Rentable Area 1 Bedroom	12,142	12,142	12,142
1 Bedroom Rent (per Sq. Ft per month)	$1.05	$1.20	$1.50
1 Bedroom Revenue (annual)	$152,989	$174,845	$218,556
Total Gross Income (annual)	$197,056	$226,780	$281,508
Less Vacancy (1%)	$1,971	$2,268	$2,815
Less Operating Expenses (30%)	$59,117	$68,034	$84,452
Net Operating Income	$135,968	$156,478	$194,241
Cap Rate	5.75%	5.5%	5.0%
Value	$2,364,667	$2,845,061	$3,884,810
Value Per Suite	$78,822	$94,835	$129,494
Assessed Value	$718,600		
Property Taxes (based on current assessment)	$12,307		
Property Tax (based on Estimated Value)			
Calculated Property Tax			
Municipal	$21,673	$26,076	$35,606
Library	$2,373	$2,855	$3,899
School	$16,685	$20,075	$27,411
Total	$40,732	$49,006	$66,916

The next step is to look at these three scenarios from the perspective of an investor over say an 11 year period[2]. Exhibit 11 models the investment (in three scenarios) from the perspective of someone who buys the property today, holds for ten years, and then sells.

The scenarios all incorporate these assumptions:

- The investor buys today at $2.4 million and then decides on some level of improvement.
- We assume an all-cash purchase. A real investor would likely use a combination of equity and mortgage, but introducing financing would make the numbers more complicated without changing the outcome materially.
- The initial rents in each scenario match the rent assumptions in Exhibit 10.
- Rents escalate at 2% per year.
- Operating expenses and vacancy are deducted as in Exhibit 10, to yield a net operating income.
- The property is sold after 11 years (at a value based on capitalizing the projected year 12 income).
- If necessary, we inject an incentive to make the project perform reasonably, in financial terms. The incentive is assumed to be used to increase landlord income, not reduce rents.

Scenario 1 is the base case. It assumes that the investor makes no significant improvements. Over the 11 years with no incentive, the investor achieves an internal rate of return (rate of return on invested capital) of 7.6%.

In Scenario 2, the investor spends $500,000 on renovations (and also loses 6 months of revenue during the renovations). To match the rate of return in the base case, this investor needs an incentive of $49,000 per year for 4 years. This amount is roughly equivalent to the estimated property taxes (assuming market valuation), as shown in Exhibit 10. Therefore, this scenario is attractive if the owner achieves a property tax exemption for 4 years with a sum (not present valued) of about $200,000. This is larger than the $150,000 maximum for non-Downtown properties in the current program.

In Scenario 3, the investor spends almost $1.5 million on renovations (and loses a whole year of revenue due to renovation). In this case, the investor needs an incentive of $66,000 per year (roughly equal to the new property tax assuming market valuation) for 7 years. This is longer than the current 5 year term and much more than then current $150,000 maximum.

Note that the renovation scenarios require significantly increased rents.

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2 Our analysis assumes that the investor holds the building for at least 10 years. In some scenarios, we assume up to one year of renovation so the investment analysis spans a total of 11 years.

Exhibit 11: Rate of Return Analysis for 2105 Cornwall

Cornwall Court
2105 Cornwall Street

Scenario 1 - Base Case

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Acquisition price		$2,400,000											
Renovation budget		$0											
Net operating income, escalated at	2%		$136,000	$138,720	$141,494	$144,324	$147,211	$150,155	$153,158	$156,221	$159,346	$162,533	$165,783
Less vacancy during renovation of	0%		$0										
Plus incentive			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Reversionary value at a cap rate of	5.75%												$2,940,851
Net position		($2,400,000)	$136,000	$138,720	$141,494	$144,324	$147,211	$150,155	$153,158	$156,221	$159,346	$162,533	$3,106,634
IRR	**7.6%**												

Scenario 2

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Acquisition price		$2,400,000											
Renovation budget		$500,000											
Net operating income, escalated at	2%		$156,000	$159,120	$162,302	$165,548	$168,859	$172,237	$175,681	$179,195	$182,779	$186,434	$190,163
Less vacancy during renovation of	50%		$78,000										
Plus incentive			$0	$49,000	$49,000	$49,000	$49,000	$0	$0	$0	$0	$0	$0
Reversionary value at a cap rate of	5.5%												$3,526,662
Net position		($2,900,000)	$78,000	$208,120	$211,302	$214,548	$217,859	$172,237	$175,681	$179,195	$182,779	$186,434	$3,716,825
IRR	**7.6%**												

Scenario 3

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Acquisition price		$2,400,000											
Renovation budget		$1,450,000											
Net operating income, escalated at	2%		$194,000	$197,880	$201,838	$205,874	$209,992	$214,192	$218,476	$222,845	$227,302	$231,848	$236,485
Less vacancy during renovation of	100%		$194,000										
Plus incentive			$0	$66,000	$66,000	$66,000	$66,000	$66,000	$66,000	$66,000	$0	$0	$0
Reversionary value at a cap rate of	5.0%												$4,824,292
Net position		($3,850,000)	$0	$263,880	$267,838	$271,874	$275,992	$280,192	$284,476	$288,845	$227,302	$231,848	$5,060,777
IRR	**7.6%**												

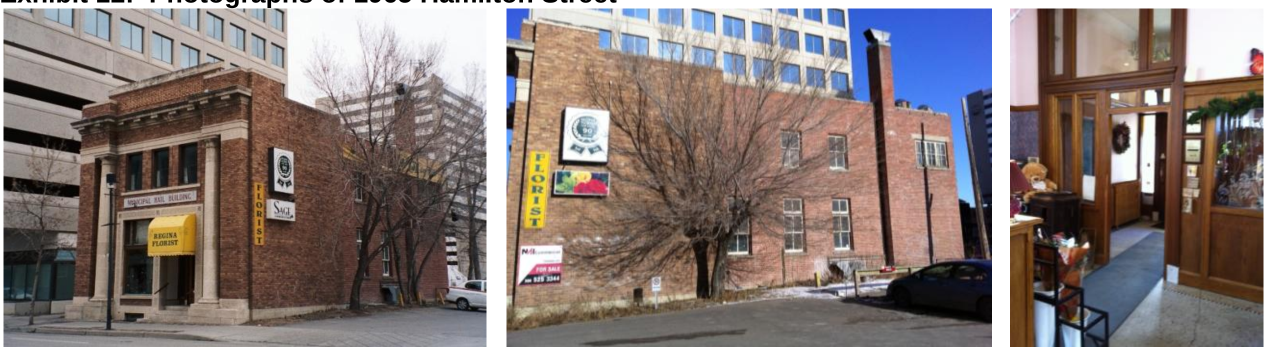
Based on these preliminary numbers for this case study, we can reach these conclusions:

- It is highly unlikely that a developer would acquire this site as a redevelopment property. The existing improvements are too valuable. This is good, from a heritage perspective, because it means that the City does not have to consider additional incentives to prevent demolition/redevelopment.
- It is highly unlikely that a developer would acquire this site for a complete rehab and conversion to condominium units, even with the City's residential property tax incentive program. The property is too valuable as a rental property for a developer to be able to profitably empty, completely upgrade, and convert this building to units for sale.
- The property is likely to remain as a rental apartment project for the foreseeable future. This outcome appears to be consistent with the City's objectives for affordable housing in this area.
- The property appears to be a reasonable investment to hold without making any major improvements.
- There is an opportunity to increase the value of the property and increase the life of the building, but reasonable upgrades (in the range of $25 to $90 per square foot) require some incentive to produce a reasonable return.
- This example suggests that to encourage upgrades that materially improve the quality, lifetime, marketability, and value of heritage apartment buildings, the City should consider increasing its property tax incentive program beyond the limits of 5 years and $150,000.

5.2.2 1965 Hamilton

This is a small, handsome heritage building in Downtown, known as the Regina Florist building or (based on its original owner) the Municipal Hail building. This is a two storey building with a total gross floor area of 6,690 square feet (including the basement).

Exhibit 12: Photographs of 1965 Hamilton Street



The building is occupied by a retail use (florist) that uses the main floor intensively and uses the basement level for refrigerated storage and flower arrangement work and uses the upper floor for storage. The building contains some original interior features. On one side of the building is a large office building, that is not in any way sensitive to the heritage character of the subject, and on the other side is a vacant parking lot that is owned by another party.

We approach this case study as follows:

- We start by estimating the value as a development site.
- Next we estimate the value of the property as an ongoing income-producing asset under various scenarios.

We are advised by local real estate market participants that Downtown redevelopment property values are approaching $200 per square foot of site; this figure is consistent with some current listings of small Downtown properties. The subject property has an area of 3,808 square feet. At $200 per square foot, the site is worth about $760,000 for redevelopment (although it is noteworthy that this site is too small to be redevelopable on its own, because it cannot accommodate a reasonable office floor plate (usually 10,000+ square feet) and too small to accommodate an efficient multi-storey structured parking layout. This site is appealing as a future redevelopment site (if assembled) because the existing retail use generates holding income. A developer who pays $760,000 for this property could earn rent, not have to invest any capital in repairs, and absorb no holding costs because the tenant(s) would pay the taxes and other operating expenses.

This property is currently advertised for sale, but without a stated asking price. It is our understanding that there have been expressions of interest in the range of $700,000 to $800,000. So, we use our estimate of $760,000 as the current market value of the property for redevelopment (assuming future assembly).

Next we explore whether an investor could match this redevelopment value and have a viable long-term income producing asset.

Exhibit 13 shows several scenarios for the building as an income-producing property:

- Scenario 1 approximates the existing situation, assuming a retail tenant at grade and an office tenant above. We assume no upgrading, so the achievable rents are low. Total annual revenue is just over $3,000 per month which we understand is the rent the current owner (who is also the retailer) imputes for his business. The value supported by this income stream, assuming a relatively high cap rate (because of no updating and because of occupancy risk due to the current condition of the upper floor) is only about $450,000, well below the estimated value as a redevelopment site.
- Scenario 2 assumes that upgrades to the building will support an increase in rents and warrant a lower cap rate. These rents assume a limited refresh of the building and, in particular, some interior improvements to make the upper floor office more marketable (e.g. separate lockable entrance, improvements to walls, floors, and ceilings). The assumed changes produce a value of about $580,000, still less than the value of the site as redevelopment property. This scenario is therefore unlikely, except for the possibility of an investor who buys with the intention of future redevelopment and spruces up the building in the interim to improve revenue. Note that this temporary updating is not of interest to the City and would warrant no incentive. In this scenario, the investor would probably not seek the City's current property tax exemption, because the requirement for designation as Municipal Heritage Property would wipe out redevelopment value of the site.
- Scenario 3 assumes the building is improved to the extent necessary to achieve the current top Downtown rents for this type of space in this location ($18 per square foot for retail and $14 for office). The increased marketability and upgrading warrant a lower cap rate (7.5%) which we understand is the best achievable for older heritage commercial properties in this market. This scenario supports a value of $900,000, which is more than the value of the property. However, this new value means the investor can only afford to spend a maximum of $140,000 on the update ($900,000 minus $760,000), which is only about $35 per square foot over the main and upper floor. This budget would support moderate interior updating but does not support the extent of upgrading needed to enable this building to achieve peak rents.

Exhibit 13: Financial Analysis of 1965 Hamilton Street as an Income-Producing Property

Municipal Hail Building				
1965 Hamilton Street				
Site Size (Sq. Ft.)	3,808			
Gross Building Area (Sq. Ft.)	6,690			
Net Building Area (Sq. Ft.)	4,236			
		Scenario 1	Scenario 2	Scenario 3
Retail Floor Area (Sq. Ft.)		2,118	2,118	2,118
Retail Rent		$12.00	$14.00	$18.00
Retail Revenue		$25,416	$29,652	$38,124
Office Retail Floor Area		2,118	2,118	2,118
Office Rent		$6.00	$8.00	$14.00
Office Rent Revenue		$12,708	$16,944	$29,652
Net Operating Income		$38,124	$46,596	$67,776
Cap Rate		8.5%	8.0%	7.5%
Value		$448,518	$582,450	$903,680
Assessed Value		$189,400		
Property Taxes (based on current assessment)		$6,238		
Property Tax (based on Estimated Value)				
Calculated Property Tax				
Municipal		$8,017	$10,411	$16,153
Library		$878	$1,140	$1,769
School		$5,494	$8,591	$13,329
Business Improvement District		$383	$497	$771
Total		$14,772	$20,639	$32,022

Note: The School Tax mill rate is tiered; properties with a value over $499,999 are taxed at a higher rate.

The next step is to use the three scenarios to examine the building from the perspective of an investor who buys and holds, with the intent of upgrading to improve financial performance and protect the heritage resource.

Exhibit 14 shows the three scenarios as eleven year investments. All scenarios include these assumptions:

- The initial acquisition price is $760,000 (i.e. the investor must match the property value supported by redevelopment).
- Lease terms are 5 years, so the rent escalates in year 6 (assuming underlying market growth in rates of 2% per year) and year 11.

- Leases are net, so the tenants pay all operating expenses. Any property tax exemptions are used to increase landlord income; they are not passed through to tenants.
- At the end of 11 years, long term future income is capitalized (effectively the same as if the owner sells in year 11).

Scenario 1 is the base case. With no upgrading and continued low rent, this only yields a return of about 3% per year. This may be acceptable as a short term hold pending assembly and redevelopment, but it is not an attractive long term investment.

Scenario 2 assumes a $200,000 renovation budget (about $50 per square foot over the two upper floors) and increased rents, as well as the improved cap rate. In order to achieve a reasonable rate of return (8% per year over the 11 years), this project only works with significant incentive, which has two components:

- $20,000 per year for 10 years (which is equivalent to the estimated taxes, as shown in Exhibit 13), which is less than the existing $250,000 maximum but longer than the existing maximum 8 years.
- An injection of $230,000 in year 2. Not surprisingly this is similar to the difference in the value supported by redevelopment ($760,000) and the value supported by the existing income stream ($450,000) as shown in Exhibit 13. In other words, this project only works if the investor receives the property tax incentive <u>and</u> is compensated for the reduction in property value due to foregoing the redevelopment potential inherent in the existing zoning.

Scenario 3 is more favourable. If the renovation budget is increased to $420,000 (about $100 per square foot) and rents reach the peak, the project needs:

- $30,000 for 9 years, approximately equal to the new property taxes (which is over the $250,000 and over the 8 years)
- About $100,000 in up-front assistance.

Scenario 3 hinges on being able to achieve the peak rents in this area, which might be challenging given the small size of the upper floor office space (although it is possible that this building could be converted to a two-level restaurant/bar use, as it was before the current retail use), and given that this is not a strong retail street. We are inclined to think that Scenario 2 is more realistic.

Exhibit 14: Investment Analysis for 1965 Hamilton

Municipal Hail Building													
1965 Hamilton Street													
Scenario 1 - Base Case													
		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Acquisition price		$760,000											
Renovation budget		$0											
Net operating income			$38,000	$38,000	$38,000	$38,000	$38,000	$41,955	$41,955	$41,955	$41,955	$41,955	$46,320
Less vacancy during renovation of	0%		$0										
Plus incentive			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Reversionary value at a cap rate of	8.5%												$544,941
Net position		($760,000)	$38,000	$38,000	$38,000	$38,000	$38,000	$41,955	$41,955	$41,955	$41,955	$41,955	$591,261
IRR	**3.1%**												
Scenario 2													
		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Acquisition price		$760,000											
Renovation budget		$200,000											
Net operating income			$47,000	$47,000	$47,000	$47,000	$47,000	$51,892	$51,892	$51,892	$51,892	$51,892	$57,292
Less vacancy during renovation of	50%		$23,500										
Plus incentive			$0	$250,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000
Reversionary value at a cap rate of	8.0%												$716,150
Net position		($960,000)	$23,500	$297,000	$67,000	$67,000	$67,000	$71,892	$71,892	$71,892	$71,892	$71,892	$793,442
IRR	**8.0%**												
Scenario 3													
		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Acquisition price		$760,000											
Renovation budget		$420,000											
Net operating income			$68,000	$68,000	$68,000	$68,000	$68,000	$75,077	$75,077	$75,077	$75,077	$75,077	$82,891
Less vacancy during renovation of	100%		$68,000										
Plus incentive			$0	$130,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$0
Reversionary value at a cap rate of	7.5%												$1,105,213
Net position		($1,180,000)	$0	$198,000	$98,000	$98,000	$98,000	$105,077	$105,077	$105,077	$105,077	$105,077	$1,188,104
IRR	**8.0%**												

These preliminary numbers support these conclusions:

- This property is more valuable as a redevelopment site than as a heritage commercial building, in its present condition, assuming the site can be included in an assembly.
- Because of its small size, this is not a redevelopment candidate on its own; it will require assembly with the adjacent vacant property. If the property is not assembled, then the heritage building may be saved for this reason, but the adjacent property is a surface parking lot so the City should not rely on difficulty to assemble as the strategy for protecting this building.
- The building can be an attractive investment with some upgrading that allows the building to achieve higher rent, but only with incentives.
- It appears that the necessary incentive is a combination of property tax exemption (likely for about 10 years) and compensation for the loss of redevelopment potential.

Under the City's current incentive system, there is no mechanism to compensate for loss of the redevelopment potential available under the existing zoning.

To address this issue, the City has few options:

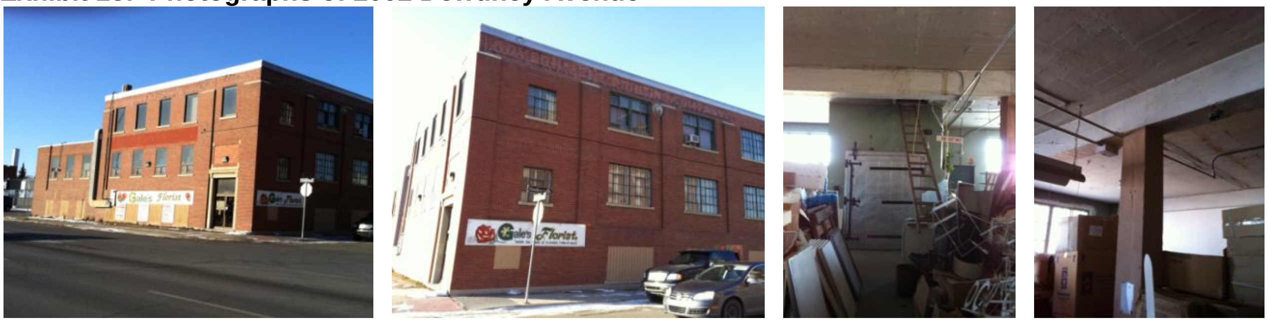
- The City has the legal power to designate this as Municipal Heritage Property without compensation for any loss in value. The owner might object to such designation, but it is allowed under Saskatchewan legislation. If the site is assembled with the adjacent vacant property, then the unused density (under existing zoning) can be incorporated into the new part of the development, allowing the retention of the building without loss of development potential. This would be at the developer's option, however. The property might retain its value if (a) it is assembled, (b) the unused density can be physically accommodated within the overall project, and (c) the financial performance of the overall project is attractive. However, it is possible that the value of the property is reduced if assembly and redevelopment including retention of the building is not as attractive to the developer as redevelopment without the building. Note also that this approach to retaining property value (inclusion in an assembly and redevelopment) will not apply to Downtown properties for which assembly is not possible due to adjacent development.

- If the site is not assembled with the adjacent property, the City could grant bonus density, in exchange for the amenity contribution of upgrading the building. However, in this case the site is too small to allow new development and retention of the heritage building. The bonus would only be useful if it is transferrable to another property. We calculate that the subject site needs up to about $250,000 for its "lost" redevelopment value. If Downtown commercial land values are $200 per square foot of site for properties that allow FAR 7, then land values can be expressed as a maximum of $28 per square foot of buildable floor space. Even at this high rate, the subject site needs to have a transferrable density bonus of at least 9,000 square feet and, of course, there must be a willing purchaser of this density. We think it would be challenging to sell transferrable density to sites elsewhere in Downtown, for several reasons. We return to the subject of bonus density in Section 6.

5.2.3 2002 Dewdney Avenue

This is an original warehouse building with no major changes since construction. The building has a total gross floor area of 26,036 square feet on three levels, including a full height basement of 9,321 square feet with clerestory windows, a main floor area (which is slightly above grade) of 9,321 square feet, and an upper floor of 6,000 square feet. The building appears to be in good physical condition and could be upgraded without a significant amount of demolition work. The building is suitable for retail or entertainment use at grade (although only for uses that need fairly large floor area and that do not require a grade level relationship with the street), office use, or residential use (but only for relatively large units because of the large, square floor plate).

Exhibit 15: Photographs of 2002 Dewdney Avenue



For this case study, we proceed as follows:

- We first estimate the value of the building "as is".
- Next, we make a preliminary estimate of how the project might perform as a residential conversion with large, loft-style units.
- Next we examine some scenarios for improving the value as an income-producing asset assuming some upgrading and leasing for a combination of retail and office use.

Similar properties have listed or sold for values of about $85 per square foot of site area. At that value, the site is worth about $1.1 million (13,462 square feet times $85).

Exhibit 16a shows a preliminary analysis for a residential strata conversion. Exhibit 16a includes these assumptions:

- The building achieves a net saleable ratio of 85%.
- Units will have to be large because of the large floor plate.
- Prices are not likely to exceed $300 per square foot (and this is probably high).
- The all-in upgrade cost is $200 per gross square foot (which is probably low).
- To give the project the benefit of the doubt, we assume that even the lower floor can be included in saleable area (as part of multi-level units); this is optimistic.
- Marketing is 5% and developer profit margin is 15%.

Exhibit 16a: Residual Land Value Analysis of 2002 Dewdney Avenue

	Amount
Revenue from sale of units (26,036 x 85% x $300)	$6,640,000
Less marketing commissions (5%)	$330,000
Less all-in development cost (26,036 x $200)	$5,210,000
Less developer profit (15% of revenue)	$1,000,000
Equals residual land value	$100,000

Based on the assumptions in Exhibit 16a, this residential conversion does not work. Exhibit 16b shows a more optimistic scenario, in which we increase the sales price to $400 per square foot (even for the below grade space), although we increase cost to $250 per square foot on the assumption that these would have to be high end units to achieve this price.

Exhibit 16b: Residential Value Analysis Assuming Higher Price

	Amount
Revenue from sale of units (26,036 x 85% x $400)	$8,850,000
Less marketing commissions (5%)	$440,000
Less all-in development cost (26,036 x $250)	$6,510,000
Less developer profit (15% of revenue)	$1,330,000
Equals residual land value	$570,000

Even with this optimistic sales price, the project does not support a high enough acquisition price for a developer to do a condominium conversion of this building.

This property is more likely a candidate for conversion to retail and office, so we next examine the financial performance of different investment scenarios.

Exhibit 17 models three scenarios for project value based on different assumptions about renovation, rents, and cap rates. All three scenarios assume the investor acquires the property for $1.1 million and then makes improvements to increase rent. The investor is assumed to hold for 11 years and then we capitalize future income (which is the same as assuming the investor sells after 11 years). The scenarios are as follows:

- Scenario 1 tries to approximate the present situation (if the building were sold to an investor, as distinct from the current situation in which it is held by an owner/occupier who operates several retail, wholesale, and service businesses in the space). This scenario assumes a small capital investment is necessary to allow the building to be leased to several large retail and wholesale tenants at relatively low rents. This scenario supports a value (at a high cap rate of 10%) of about $1.3 million, suggesting a maximum renovation budget of roughly $200,000. For this scenario, we assume a renovation budget of about $10 per square foot ($260,000) which would only support some improvement to the entrance, some cosmetic improvement to the exterior, and some minor electrical and plumbing work.
- Scenario 2 assumes some renovation work to improve the grade level for retail use, improve the upper floor for office, and use the basement for warehouse with some office use. In this case, the rental income could increase significantly over the base case, so the value rises to $2.5 million, meaning that up to about $1.4 million could be spent on renovation. For this scenario, we assume a renovation budget of about $50 per square foot ($1.3 million).
- Scenario 3 assumes a more extensive upgrade that allows the entire basement and upper floor to be office or entertainment while the grade level remains retail. The increased rents (and lower cap rate) warranted by this much-improved building result in a value of $3.8 million, suggesting a maximum potential upgrade budget of about $2.7 million. For this scenario, we assume a renovation budget of about $100 per square foot ($2.5 million).

Exhibit 17: Financial Analysis of 2002 Dewdney Avenue as an Income-Producing Property

2002 Dewdney Avenue				
Site Size (Sq. Ft.)	13,492			
Gross Building Area (Sq. Ft.)	26,036			
Net Building Area (Sq. Ft.)	24,642			
		Scenario 1	Scenario 2	Scenario 3
Retail Floor Area (Sq. Ft.)		9,321	9,321	9,321
Retail Rent		$8.00	$12.00	$14.00
Retail Revenue		$74,568	$111,852	$130,494
Office Floor Area		-	6,000	15,321
Office Rent		$8.00	$10.00	$11.00
Office Rent Revenue		$0	$60,000	$168,531
Warehouse/Wholesale		15,321	9,321	-
Warehouse/Wholesale Rent		$4.00	$6.00	$6.00
Warehouse/Wholesale Revenue		$61,284	$55,926	$0
Total Rental Revenue		$135,852	$227,778	$299,025
Less Vacancy (5%)		$6,793	$11,389	$14,951
Net Operating Income		$129,059	$216,389	$284,074
Cap Rate		10%	8.75%	7.5%
Value		$1,290,594	$2,473,018	$3,787,650
Assessed Value (2011)		$412,400		
Property Taxes (based on current assessment)		$13,830		
Property Tax (based on Estimated Value)				
Calculated Property Tax				
Municipal		$23,069	$44,205	$67,704
Library		$2,526	$4,840	$7,413
School		$19,036	$36,477	$55,868
Business Improvement District		$1,263	$2,420	$3,706
Total		$45,894	$87,942	$134,691

Exhibit 18 shows the eleven year performance of our three scenarios.

All scenarios include these assumptions:

- The initial acquisition price is $1.1 million.
- Lease terms are 5 years, so the rent escalates in year 6 (assuming underlying market growth in rates of 2% per year) and year 11.
- Leases are net, so the tenants pay all operating expenses. Any property tax exemptions are used to increase landlord income; they are not passed through to tenants.
- At the end of 11 years, long term future income is capitalized (effectively the same as if the owner sells in year 11).

Exhibit 18: Investment Analysis for 2002 Dewdney

2002 Dewdney Avenue													
Scenario 1 - Base Case													
		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Acquisition price		$1,100,000											
Renovation budget		$260,000											
Net operating income			$130,000	$130,000	$130,000	$130,000	$130,000	$143,531	$143,531	$143,531	$143,531	$143,531	$158,469
Less vacancy during renovation of	50%		$65,000										
Plus incentive			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Reversionary value at a cap rate of	10.0%												$1,584,693
Net position		($1,360,000)	$65,000	$130,000	$130,000	$130,000	$130,000	$143,531	$143,531	$143,531	$143,531	$143,531	$1,743,162
IRR	**10.2%**												
Scenario 2													
		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Acquisition price		$1,100,000											
Renovation budget		$1,300,000											
Net operating income			$216,000	$216,000	$216,000	$216,000	$216,000	$238,481	$238,481	$238,481	$238,481	$238,481	$263,303
Less vacancy during renovation of	100%		$216,000										
Plus incentive			$0	$88,000	$88,000	$0	$0	$0	$0	$0	$0	$0	$0
Reversionary value at a cap rate of	8.75%												$3,009,175
Net position		($2,400,000)	$0	$304,000	$304,000	$216,000	$216,000	$238,481	$238,481	$238,481	$238,481	$238,481	$3,272,478
IRR	**10.4%**												
Scenario 3													
		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Acquisition price		$1,100,000											
Renovation budget		$2,500,000											
Net operating income			$284,000	$284,000	$284,000	$284,000	$284,000	$313,559	$313,559	$313,559	$313,559	$313,559	$346,194
Less vacancy during renovation of	100%		$284,000										
Plus incentive			$0	$134,000	$134,000	$134,000	$134,000	$0	$0	$0	$0	$0	$0
Reversionary value at a cap rate of	7.5%												$4,615,926
Net position		($3,600,000)	$0	$418,000	$418,000	$418,000	$418,000	$313,559	$313,559	$313,559	$313,559	$313,559	$4,962,120
IRR	**10.3%**												

Exhibit 18 shows the cash flows for an investor holding for 11 years. Scenario 2 requires about $180,000 in tax exemption (two years at the new rate) and Scenario 3 requires full exemption for 4 years (totalling over $500,000).

This case study supports these conclusions:

- Retention is more likely than residential or demolition redevelopment for this type of multi-storey warehouse.
- Upgrading is attractive with property tax exemptions, but it appears necessary to increase the limits in the existing program.

6.0 Conclusions and Recommendations

The purpose of this study is to determine whether the City should consider additional or improved measures to encourage the retention and upgrade of heritage properties that have not yet been upgraded or made use of the current property tax exemption program.

Based on our review of the existing incentive program and our review of heritage properties in the central area, we have divided our conclusions and recommendations into the following categories:

- zoning
- heritage designation
- improvements to the existing property tax exemption program
- capital grants
- density bonusing and transferrable density

6.1 Zoning

Some aspects of current zoning regulations are helping to protect some heritage buildings in the study area:

- Where existing zoning in central area locations allows a relatively low density of development, this acts in favour of retaining existing good quality buildings by limiting the pressure for redevelopment. For example, the parts of Centre Square that allow FSR in the 3 to 4 range are less likely to see redevelopment over time than areas with higher allowable density. If the City wants to retain existing heritage buildings (and also retain existing rental housing), it should maintain current allowable densities on these properties.
- In the Warehouse District, existing zoning only allows residential in an existing building. This supports retention of existing buildings, as new buildings cannot contain residential use. The City should retain this zoning if it wants to continue to encourage re-purposing of existing buildings. Warehouse District zoning also makes office a discretionary use. If discretionary approval is only given to office use in existing buildings (as a stand-alone use, not including office that is ancillary to industrial uses), this also supports retention and upgrade of existing buildings rather than demolition/redevelopment.

In Downtown, relatively high allowable density and height can work against the retention of low density heritage buildings, unless these buildings are designated as Municipal Heritage Property to prevent demolition. Proposed zoning changes that allow for increased height and density in some areas (pursuant to the RDNP), in exchange for amenity contributions, may make it even more difficult to retain heritage buildings that are not designated. The City should carefully consider whether the existing Heritage Conservation District should be expanded or whether additional individual buildings should be designated, as undesignated heritage sites will come under greater redevelopment pressure based on RDNP policies.

6.2 Heritage Designation

The City has the authority to designate Municipal Heritage Property, as it has done for individual sites and the entire Heritage Conservation District in Downtown. This is the City's most effective means of preventing demolition, although it does not ensure that owners will invest in their buildings. Designation of new properties without compensation also creates the risk of land owner opposition.

The City should only consider new unilateral heritage designations as a last resort in some cases to:

- Require the retention of important heritage buildings that are at risk of demolition because the owner is not taking steps to upgrade or protect the building or is seeking redevelopment.
- Encourage (or in effect require) assembly of heritage buildings with adjacent developable lands, so that the density from the heritage site can be absorbed into the larger project, thereby reducing the incentive required to retain the heritage building.

In any new designation, the City will have to consider whether it will provide some form of compensation for lost redevelopment potential. The City is not required to compensate under Saskatchewan legislation, but the City has to decide whether it is reasonable to use this authority. If the City is inclined to compensate for lost development potential in Downtown, it will need to provide more incentive than is possible under the existing property tax exemption program.

6.3 Improvements to the Property Tax Incentive Program

We suggest two kinds of improvements to the existing property tax exemption program for heritage buildings:

- Increase the maximum amount of exemption
- Improve the design of the system

Based on the case study analysis, it is our view that the current maximum value ($250,000 in Downtown, $150,000 elsewhere) and maximum duration of the exemption (8 years in Downtown, 5 years elsewhere) should be increased. The tax exemption should continue to be a maximum of 50% of the value of the completed upgrade work.

There are several reasons why increasing the limit should be considered:

- The City gives property tax incentives for new housing and for new major office development in Downtown. These incentives can be for a maximum of 5 years, but there is not a cash limit on the actual amount of the exemption. It seems reasonable to treat heritage properties similarly (i.e. limit the duration but without an arbitrary limit on the total amount).
- Upgraded heritage buildings tend to generate more income, which means they increase in value and (after the period of exemption) make a larger contribution to City revenues. Granting an exemption in the short term results in a long term larger revenue stream, so the City is not impacted negatively, in financial terms, by granting larger exemptions if they result in more extensive upgrades and more valuable properties. City staff have produced some financial analysis (which we have reviewed) which indicates that the City can achieve a net fiscal gain over the long term by foregoing short term tax revenue as a means of incentivizing the retention and upgrade of heritage buildings. Upgrades result in

higher rents, which support higher property value and increased property taxes. The long term value of the increased taxes more than offsets the short term abatement.

- There are precedents for higher exemptions. Victoria and Vancouver, for example, both allow exemptions of up to 100% of property taxes for up to 10 years for major upgrade projects that extend the life and increase the value of important heritage buildings.
- The case studies indicate that there are central area heritage buildings that need 5 to 10 years of tax exemption to make major upgrades financially attractive.

We also question whether there should be a material difference between the exemption limit for properties inside versus outside Downtown. In our view, the primary determinants of available tax exemption should be the heritage value of the building and the cost of the upgrade; it seems arbitrary to say that a small building in Downtown is entitled to more incentive than a large building outside Downtown just because of location, if both are regarded as important heritage resources.

Therefore, we suggest increasing the maximum amount of the available exemption to be the lower of 50% of the cost of the work or 10 full years of property tax, for buildings that the City regards as important to retain and upgrade. The limitation on actual cash amount should be eliminated.

In addition to increasing the maximum, we recommend several improvements to the way the incentive program is managed:

1. The City should establish a minimum value of upgrade that is eligible for the incentive program. This value could be set at a low level for single detached residences (say $25,000), but should be higher for commercial and multifamily residential buildings. Setting a minimum upgrade budget will concentrate the incentive program on substantial improvements that materially improve the longevity and value of the building. We suggest a minimum upgrade threshold on the order of $50 per gross square foot of improvements as this level of expenditure is associated with programs that include foundation repairs, new roofs, masonry repair, and electrical/mechanical improvements.
2. For projects that will involve substantial dollars over the life of the tax exemption (say a total cash value of more than $250,000), the City should make the application process more demanding:
    - There should be an application fee ($2,500 would not be unreasonable).
    - The application should include a full conservation plan for the building, indicating the overall condition of the building and the longer term plan to maintain the building in a sound and attractive state.
    - The application should include some financial evidence indicating why the tax exemption is needed.

    Smaller projects do not require this additional effort, but if the City is being asked to make a major contribution to an upgrade project it is reasonable to require a higher standard in the content of the application.
3. Even if the City does not implement any of the other suggested changes, it should make the exemption last for a specific number of full years. If the City wants to maintain a cap on value, it should round up the exemption so it is equal to a set number of years (rather than have the exemption run out part way through a year).
4. The City should invest more in communicating the incentive program to heritage property owners.

6.4 Capital Grants

The current capital grant only applies to tax-exempt buildings and, at $25,000, it is small. We suggest that the City consider increasing this amount, but only for applications that present a complete conservation plan, that are designated as Municipal Heritage Property, and that are making some financial contribution. The upper limit on grants for tax-exempt buildings obviously depends on the City's budget, but for the purpose of increasing the longevity of important buildings the grant should support substantial improvements not cosmetic or minor repairs. If funds are limited it would be better to spend a higher amount in fewer buildings rather than spread available funds out over small projects on more buildings.

The City may also want to consider cash grants to taxable properties in some cases, to compensate for lost redevelopment potential if the City is not willing to designate without compensation and if it is not practical to implement a density bonus system to compensate for lost opportunity (see Section 6.5).

6.5 Density Bonusing and Transferrable Density

For some properties in Downtown, the property tax exemption program (even with the proposed changes) will not be sufficient to compensate for lost development potential on undesignated sites with existing low density improvements. If the City does not want to provide cash compensation and is not willing to designate without compensation, the only other option is allowing bonus density.

The *Saskatchewan Planning and Development Act* sets out a framework that allows municipalities to provide additional density in exchange for community amenity contributions. There are two different approaches that can be used:

- Direct Control District. Properties could be rezoned into a direct control district, with provision for additional density (i.e. more than the existing zoning) in exchange for agreed-on amenities.
- Exceptions to development standards. A municipality can allow a property to achieve additional density and/or height in exchange for amenities. This is the approach that is used by the City in the Downtown area at present.

The City's current approach to density bonusing is to negotiate a site-specific package of amenities or public benefits in exchange for additional density. The City does not intend to use financial analysis to calculate/compare the value of the additional density versus the cost of the proposed amenity, so the negotiations are qualitative and rely heavily on developers articulating what they are willing to provide to obtain extra density.

With regard to heritage properties, the current density bonus system works as follows:

- In a site assembly involving a heritage building, the City could allow the un-used density on the heritage part to be shifted to the other part of the site (i.e. maintain the overall allowable FAR for the whole site to avoid any density loss due to the retention of the heritage building). Therefore, encouraging assembly could be a key element in a strategy to retain heritage buildings on small sites.
- The conservation and upgrade of a heritage building is in the list of amenities that the City can consider in granting additional density. However, this would only apply to a heritage building included in a proposed development site.
- There is not currently a mechanism for allowing heritage property owners to sell their un-used density on the open market, to other development sites (which is called transferrable density).

Therefore, the existing system is only applicable when a heritage building is part of an assembled development property or the heritage building occupies a sufficiently small part of its site that new development can be accommodated on the vacant portion.

The new Regina Downtown Neighbourhood Plan contains some modifications to the City's density bonus approach:

- Many parts of Downtown are given reduced heights and densities, so these properties will have to provide amenities in order to recover their previous density (and to obtain higher density than they formerly had).
- Office projects will apparently be able to obtain additional office density for a payment of $4 per square foot of buildable space in the CBD.
- In the CBD, projects can obtain "unlimited" height and density in exchange for an amenity contribution, to be negotiated on a site-by-site basis. Heritage building upgrade is a candidate for the amenity contribution.
- There is no explicit provision for transferrable density, so a developer might get bonus density for upgrading a heritage building, but there is not a proposed mechanism for allowing a heritage building owner to receive bonus density (in exchange for retaining/upgrading the building) to sell on the open market. The effect is that heritage conservation is only encouraged by the density bonus system when the heritage upgrade is part of a specific redevelopment project.

Therefore, under existing and proposed policy there is a mechanism to provide a density incentive for heritage building preservation when the building is part of the redevelopment project (i.e. on an assembled site). There is not a system for allowing transferrable density (i.e. allow heritage property owners to sell their un-used or bonus density to other property owners).

For a transferrable heritage density system to work, two key conditions must be true:

- There must be a significant amount of high density development occurring, such that there are projects that want more density (beyond the density allowed under existing zoning). It is these projects that create the demand for extra density being sold by heritage properties approved for transferrable density.
- If redevelopment projects can obtain extra density from the City by providing community amenity contributions, the City must make deliberate decisions about how much density to approve for general amenities, how much density to approve for heritage transfers, and how to price bonus density. Essentially, if the City makes a lot of bonus density available at low cost, in terms of cash contributions or amenities, there will be no market interest in acquiring transferrable heritage density from heritage property owners (or any market interest will be at a low price).

Currently in Regina, these conditions are not in place. There is not much high density development seeking additional development entitlements and there is not a system that deliberately creates a market niche for transferrable heritage density.

If the City wants to use density bonusing as an incentive for heritage conservation, it will be necessary to:

- Include specific provisions for heritage as an amenity in the detailed design of the proposed new density bonus system in the implementation of the RDNP. This could include (for example) earmarking a share of cash-in-lieu amenity funding for heritage programs (as the City of Victoria does).

- Consider a mechanism for transferrable density, which has significant implications for the design of the density bonus system for other amenities to make sure there is a market for heritage density (as Calgary and Vancouver do).

A major challenge the City will face in using bonus density for heritage incentives is the potentially large amount of density that will have to be allocated. Attachment 2 contains the list of important heritage buildings the City may want to see designated and upgraded. Not including one very large property in the list (2625 Victoria, which is already the subject of an approved tax exemption), these properties have a total site area of about 16,970 square meters (just over 180,000 square feet). These are all single storey or two level buildings, so they will need to “export” at least 5 FAR of density in order to be compensated for un-used density. At 5 FAR, these sites would transfer a total of 900,000 square feet of development potential to other sites. This potential need for transferable density is enormous compared to the recent pace of office development in Downtown Regina, which has until recently seen very little new development in the past two decades. At present, there is about 370,000 square feet of office space under construction plus about 320,000 square feet proposed, so it is clear that trying to transfer almost one million square feet is a huge challenge.

For these reasons, we suggest that the City not plan on relying heavily on transferrable density to provide incentives for heritage upgrades. The City should:

- Encourage assembly, so that unused density on heritage sites can be included on-site in redevelopment plans. Designation as Municipal Heritage Property can be a powerful motivator to encourage assembly.

- Consider using some of its negotiated amenity contributions in Downtown to assist heritage upgrade projects.

Attachments

See companion document.

APPENDIX B

Coriolis Consulting Corporation – Recommendations

The report entitled "Incentives for Heritage Building Upgrades in Regina" was prepared by Coriolis in 2011 and 2012. Recommendations from the report are generally outlined below. Note: the following notations under the column 'timing' indicate when the findings will be implemented or further analyzed.

1 – Addressed in consideration of the amended Heritage Incentives Policy provided in Appendix C.
2 – Pursue in conjunction with the Intensification Strategy (2015-2017).
3 – Develop as part of the Bonus Density policy (2015).

The report outlines the planning context for heritage building rehabilitation, a financial analysis of heritage building upgrades, and several recommendations to positively impact the viability of rehabilitation. More specifically, the work completed by Coriolis included the following:

1. Analysing the planning and regulatory context for urban development and heritage building retention in the study area (Downtown, City Square, and Warehouse District).
2. Describing the nature of the City's powers under *The Heritage Property Act* with regard to heritage property designation and providing heritage conservation incentives.
3. Describing the existing program and evaluating experience. An analysis of 41 properties across the city that have been approved under the program and approximately 15 properties in the downtown that have not yet applied under the program to see if there are any significant patterns.
4. Using three case studies to evaluate the market and financial forces that influence heritage building maintenance, upgrades, or demolition for redevelopment.
5. Examining the role that the incentives play in influencing financial performance of a building to observe whether there is a need to change the incentives program.
6. Recommending changes to the City's incentive approach in cases where existing incentives are not sufficient to encourage retention and upgrade.

Consultant Recommendations	Administration's Response	Timing
1. ZONING		
Where existing zoning in central area/City Centre locations allows a relatively low density of development, this acts in favour of retaining existing good quality buildings by limiting the pressure for redevelopment.		
Recommendations: a) In order to retain existing heritage buildings (and also retain existing rental housing), maintain current allowable densities on these properties in the TAR zone. b) Retain Warehouse District zoning to allow residential in existing buildings only, in order to continue to encourage re-purposing of existing buildings. c) Warehouse District zoning makes office a discretionary use. If discretionary approval is only given to office use in existing buildings, then this also supports retention and upgrade of existing buildings rather than demolition/redevelopment.	The Administration will address compatible urban design, built forms, densities, and design controls in the Intensification Strategy, as outlined in the Official Community Plan.	2

<table>
<tr><td colspan="3">In Downtown, relatively high allowable density and height can work against the retention of low density heritage buildings, unless these buildings are designated as Municipal Heritage Property to prevent demolition. Recent zoning changes that allowed for increased height and density in some areas (pursuant to the RDNP), in exchange for amenity contributions, may make it even more difficult to retain heritage buildings that are not designated.</td></tr>
<tr><td>Recommendations:
d) The City should carefully consider whether the existing Heritage Conservation District should be expanded or whether additional individual buildings should be designated, as undesignated heritage sites will come under greater redevelopment pressure based on RDNP policies.</td><td>The Administration will pursue owner consent to the designation of up to 15 downtown buildings (see the Administration's comments under 2a below for more information).</td><td>1</td></tr>
<tr><th>2. HERITAGE DESIGNATION</th><th></th><th></th></tr>
<tr><td colspan="3">The City has the authority to designate Municipal Heritage Property, as it has done for individual sites, and the entire Heritage Conservation District in Downtown. This is the City's most effective means of preventing demolition, although it does not ensure that owners will invest in their buildings. Designation of new properties without compensation also creates the risk of land owner opposition.

In any new designation, the City will have to consider whether it will provide some form of compensation for lost redevelopment potential. The City is not required to compensate under Saskatchewan legislation, but the City has to decide whether it is reasonable to use this authority. If the City is inclined to compensate for lost development potential in Downtown, it will need to provide more incentive than is possible under the existing property tax exemption program.</td></tr>
<tr><td>The City should only consider new unilateral heritage designations as a last resort in some cases to:

a) Require the retention of important heritage buildings that are at risk of demolition because the owner is not taking steps to upgrade or protect the building or is seeking redevelopment.
b) Encourage (or in effect require) assembly of heritage buildings with adjacent developable lands, so that the density from the heritage site can be absorbed into the larger project, thereby reducing the incentive required to retain the heritage building.</td><td>The Administration will pursue owner consent of up to 15 downtown buildings. Where feasible, redevelopment plans could be encouraged involving assemblies, incentives, and designation of heritage buildings.</td><td>1</td></tr>
<tr><th colspan="3">3. IMPROVEMENTS TO THE EXISTING PROPERTY TAX EXEMPTION PROGRAM</th></tr>
<tr><td colspan="3">Based on the case study analysis, there are central area/City Centre heritage buildings that need 5 to 10 years of tax exemption to make major upgrades financially attractive. Victoria, Vancouver, Kelowna, Edmonton and Winnipeg all allow exemptions of up to 100% of property taxes up to 10 years.</td></tr>
<tr><td>Recommendations:
a) The current maximum duration of the exemption (8 years in Downtown, 5 years elsewhere) should be increased. Increase the maximum amount of the available exemption to be the lower of 50% of the cost of the work or 10 full years of property tax, for buildings that are important to retain and upgrade.</td><td>The Administration has prepared a policy amendment (see Appendix C).</td><td>1</td></tr>
</table>

b) The current limitation on the monetary value ($250,000 in Downtown, $150,000 elsewhere) should be eliminated. The exemption should last for a specific number of full years (rather than have the exemption run out part way through a year). The primary determinants of available tax exemption should be the heritage value of the building and cost of the upgrade; it may be arbitrary to say that a small building in Downtown is entitled to more incentive than a large building outside Downtown just because of location, if both are important buildings.	Outside of the Downtown area: The $150,000 cap ca be removed as nearly 50 per cent of all heritage properties are single family detached properties and would result in 10-year exemptions of less than $30,000. The other 50 per cent of properties are larger and would also result in 10-year exemptions of approximately $150,000, on average. In 2014, The Administration expects to receive an application for an exemption of up to $100,000 to rehabilitate a house-form commercial building in Centre Square. The consultant's pro forma analysis also indicated that 10-year exemptions of approximately $200,000 could be generated for a warehouse or an apartment in a desirable area. Inside the Downtown area: Nearly all of the sixteen downtown heritage buildings are relatively small (i.e. less than 32,000 ft^2 in size) and would generate exemptions of approximately $250,000. In the consultant's pro forma analysis using the aforementioned downtown building as an example a $250,000-$300,000 exemption would be generated over ten years, depending on project costs, which is close to the current $250,000 cap.	
In addition to increasing the maximum amount of exemption, several improvements are recommended to the way the incentive program is managed.		
Recommendations: c) Establish a minimum value of upgrade that is eligible for the incentive program. This value could be set at a low level for single detached residences (say $25,000), but should be higher for commercial and multifamily residential buildings. Setting a minimum upgrade budget will concentrate the incentive program on substantial improvements that materially improve the longevity and value of the building. The minimum upgrade threshold in the order of $50 per gross square foot of improvements should be established as this level of expenditure is associated with programs that include foundation repairs, new roofs, masonry repair, and electrical/mechanical improvements.	The Administration has prepared a policy amendment (see Appendix C). It includes the $20,000 minimum project value but not the minimum upgrade threshold (i.e. approximately $50 per gross square foot of improvements). It would be difficult to administer a threshold for smaller projects.	1

<table>
<tr><td colspan="3">For projects that will involve substantial dollars over the life of the tax exemption (say a total cash value of more than $250,000), the City should make the application process more demanding. Smaller projects do not require this additional effort, but if the City is being asked to make a major contribution to an upgrade project it is reasonable to require a higher standard in the content of the application.</td></tr>
<tr><td>Recommendations:
d) There should be an application fee.
e) The application should include a full conservation plan for the building, indicating the overall condition of the building and the longer term plan to maintain the building in a sound and attractive state.
f) The application should include some financial evidence indicating why the tax exemption is needed.
g) Invest more in communicating the incentive program to heritage property owners.</td><td>The Administration will address these process improvements through the Program. If Council concurs with the recommendations in the report, the Administration will mail notifications and program information to property owners encouraging greater participation. The fee may not exceed the actual cost to the City of administering the application process.</td><td>1</td></tr>
<tr><td>4. CAPITAL GRANTS</td><td></td><td></td></tr>
<tr><td colspan="3">The current capital grant only applies to tax-exempt buildings and, at a maximum amount of $25,000, it has little practical value. The upper limit on grants for tax-exempt buildings obviously depends on the City’s budget, but for the purpose of increasing the longevity of important buildings the grant should support substantial improvements, not cosmetic or minor repairs. If funds are limited it would be better to spend a higher amount in fewer buildings rather than spread available funds out over small projects on more buildings.</td></tr>
<tr><td>Recommendations:
a) Consider increasing this amount, but only for applications that present a complete conservation plan, that are designated as Municipal Heritage Property, and that are covering 50% of the total project costs.
b) Consider cash grants to taxable properties in some cases, to compensate for lost redevelopment potential if the City is not willing to designate without compensation and if it is not practical to implement a density bonus system (described in the following recommendation) to compensate for lost opportunity.</td><td>The Administration will request a budget allocation through the 2016 budget deliberation process.</td><td>1</td></tr>
<tr><td colspan="3">5. DENSITY BONUSING AND TRANSFERABLE DENSITY</td></tr>
<tr><td colspan="3">For some properties in Downtown, the property tax exemption program (even with the proposed changes) will not be sufficient to compensate for lost development potential on undesignated sites with existing low density improvements. If the City does not want to provide cash compensation and is not willing to designate without compensation, the only other option is allowing bonus density.

There are approaches that can be used to provide additional density in exchange for community amenity contributions. These include Direct Control Districts and exceptions to development standards.

The City’s current approach to density bonusing is to negotiate a site-specific package of amenities or public benefits in exchange for additional density. The City does not intend to use financial analysis to calculate/compare the value of the additional density versus the cost of the proposed amenity, so the negotiations are qualitative and rely heavily on developers articulating what they are willing to provide to obtain extra density.</td></tr>
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<tr><td colspan="3">
The existing system is only applicable when a heritage building is part of an assembled development property or the heritage building occupies a sufficiently small part of its site that new development can be accommodated on the vacant portion.
The new Regina Downtown Neighbourhood Plan modified the City’s density bonus approach: Office projects are able to obtain additional office density for a payment of $4 per square foot of buildable space in the Central Business District (CBD):

In the CBD, projects can obtain “unlimited” height and density in exchange for an amenity contribution, to be negotiated on a site-by-site basis. Heritage building upgrade is a candidate for the amenity contribution;
There is no explicit provision for transferrable density, so a developer might get bonus density for upgrading a heritage building, but there is not a proposed mechanism for allowing a heritage building owner to receive bonus density (in exchange for retaining/upgrading the building) to sell on the open market to another property owner;
The effect is that heritage conservation is only encouraged by the density bonus system when the heritage upgrade is part of a specific redevelopment project (i.e. an ‘on-site’ density bonus);
Therefore, under existing and proposed policy there is a mechanism to provide a density incentive for heritage building preservation when the building is part of the redevelopment project (i.e. on an assembled site);
There is not a system for allowing transferrable density (i.e. allow heritage property owners to sell their un-used or bonus density to other property owners) or conditions for the system to work.

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<td>
If the City wants to use density bonusing as an incentive for heritage conservation, it will be necessary to:
a) Include specific provisions for heritage as an amenity in the detailed design of the proposed new density bonus system in the implementation of the RDNP. This could include (for example) earmarking a share of cash-in-lieu amenity funding for heritage programs (as the City of Victoria does).
b) Consider a mechanism for transferrable density, which has significant implications for the design of the density bonus system for other amenities to make sure there is a market for heritage density (as Calgary and Vancouver do).
</td>
<td>The Administration will report back on a Bonus Density policy (i.e. amenity bonus). The policy will address the use of negotiated amenity contributions in the Downtown to develop funds for the Heritage Building Rehabilitation Program. The Program could also be used to fulfill objectives of the RDNP with respect to façade rehabilitation (limited to pre-1962 properties in the Victoria Park Heritage Conservation District).</td>
<td>3</td>
</tr>
<tr><td colspan="3">
A major challenge the City will face in using bonus density for heritage incentives is the potentially large amount of density that will have to be allocated. The total site area of the properties requiring upgrades is 55, 675 square feet (16, 970 square meters). These are single storey or two level buildings, so they will need to “export” density equivalent to a Floor Area Ratio (FAR) of 5, at least, in order to be compensated for un-used density. At 5 FAR, these sites would transfer a total of 900,000 square feet (83,613 square meters) of development potential to other sites.
This potential need for transferable density is enormous compared to the recent pace of office development in Downtown Regina, which has until recently seen very little new development in the past two decades. At present, there is about 370,000 square feet (34,374 square meters) of office space under construction plus about 320,000 square feet (29,729 square meters) proposed, so it is clear that trying to transfer almost one million square feet is a huge challenge.
</td></tr>
</table>

It may not be feasible to rely heavily on transferrable density to provide incentives for heritage upgrades. The City should: a) Encourage assembly, so that unused density on heritage sites can be included on-site in redevelopment plans. Designation as Municipal Heritage Property can be a powerful motivator to encourage assembly. b) Consider using some of its negotiated amenity contributions in Downtown to assist heritage upgrade projects.	The Administration will report back with a Bonus Density policy for new development adjacent to a designated heritage property. The Administration will consider the ability to ensure that an adjacent heritage building upgrade is prioritized as an amenity contribution.	3

Appendix C

HERITAGE INCENTIVE POLICY (*DRAFT*)

Formerly known as the *Municipal Heritage Incentives for the Preservation of Heritage Properties*.

Authority: Property tax exemption is permitted under Section 28 (a) of The Heritage Property Act.

An application fee will be required for projects that seek an exemption worth $200,000 or more.

1.0 Purpose

The objectives of the incentives provided under this policy are:

- To encourage the full upgrading of designated heritage properties to ensure their long-term conservation, extend their effective life and/or to ensure their structural integrity.
- To stimulate the economic development of the Downtown through the rehabilitation of commercial facades in the Victoria Park Heritage Conservation District.
- To encourage the development of an attractive city that contributes to a better quality of life.

2.0 Scope

Stakeholders involved with the conservation of designated property including property owners, non-profit organizations, and developers.

3.0 Definitions

Conservation: All actions or processes that are aimed at safeguarding the character-defining elements of a historic place so as to retain its heritage value and extend its physical life. This may involve "Rehabilitation," "Preservation," "Restoration" or as a combination of these actions or processes in accordance with the *Standards and Guidelines for the Conservation of Historic Places in Canada*.

Character-Defining Elements: The materials, forms, location, spatial configurations, uses and cultural associations or meanings that contribute to the heritage value of an historic place, which must be retained in order to conserve its heritage value.

Conservation Plan: A plan describing the proposed methods used to conserve the heritage values and character-defining elements. A Conservation Plan should also indicate the overall condition of the historic place and longer term plan to maintain it in a sound and attractive state.

Eligible Work Costs: The expenses incurred to conserve the character-defining elements of a building, structure or landscape.

Designated Property: Any Municipal Heritage Property, any pre-1965 property within the Victoria Park Heritage Conservation District, or any Provincial Heritage Property.

Executive Director: Executive Director, City Planning and Development.

Heritage Alteration Permit: A permit authorizing the alteration of a designated property.

Planning
City Planning and Development
Queen Elizabeth II Court │ 2476 Victoria Avenue
PO Box 1790 │ REGINA SK S4P 3C8
P: 306-777-7551 │ F: 306777-6823
Regina.ca

Heritage Value: The aesthetic, historic, scientific, cultural, social or spiritual importance or significance for past, present and future generations. The heritage value of a historic place is embodied in its character-defining elements.

Historic Place: A structure, building, or landscape that has been formally recognized for its heritage value by City Council.

Statement of Significance: A statement that identifies the description, heritage value and character-defining elements of a historic place. A Statement of Significance is required in order for an historic place to be considered for designation by the Council of the City of Regina.

Maintenance: Routine, cyclical, non-destructive actions necessary to slow the deterioration of an historic place. It entails periodic inspection; routine, cyclical, non-destructive cleaning; minor repair and refinishing operations; replacement of damaged or deteriorated materials that are impractical to save.

4.0 Transition Provisions

Owners of properties with Exemption Agreements established under the former Municipal Incentive Policy for the Preservation of Heritage Properties (last amended October 22, 2001) that provide for an exemption in 2015 will be required to reapply under this new Policy no later than October 31, 2015. Otherwise, the existing Exemption Agreement will not be amended.

5.0 Incentives Policy

A property tax exemption may be provided for properties that meet the policy criteria as outlined below.

5.1 General Eligibility Requirements

The application of this policy is limited to buildings, structures or landscapes that have been formally recognized by City Council as designated property pursuant to Section 11(1) of *The Heritage Property Act*.

Only those designated properties in the Victoria Park Heritage Conservation District that were built before 1965, according to the dates provided in the Assessment and Taxation records.

In general, eligible work costs must be based on the assessment of a qualified architect or professional engineer.

Properties that have property taxes or other charges past due to the City of Regina are not eligible.

5.2 Calculation of Exemption

Property tax exemption may be provided to the owner(s) of taxable property for a period of up to 10 years to a maximum value equivalent to 50 percent of eligible conservation work costs; whichever is less.

Subject to the availability of funds, a cash grant of up to $50,000 may be provided for tax exempt properties but limited to a maximum of 50 percent of eligible conservation work costs.

The amount of the property tax exemption, including calculation of any percentage or portion and the determination of any use or cost, shall be conclusively determined by the City Assessor. The amount shall only apply to the portion of the property containing the building, structure or landscape with heritage value pursuant to Section 11(1) of *The Heritage Property Act*.

The tax exemption does not apply to local improvement fees, business improvement fees, and the non-exempt portion of taxes (i.e. laneway improvements) and other charges to tax accounts; these must be paid during the term of the agreement in the year in which they are due. No abatement of outstanding or current taxes will be negotiated.

5.3 Exemption Agreement

The property tax exemption will be subject to an agreement between the City of Regina and the property owner(s). The term of the agreement will be dictated by the number of years it will take to complete the work in addition to the term of the exemption.

The expiry date for the exemption agreement may be extended by one year at the sole discretion of the Executive Director to accommodate unanticipated construction delays.

The applicant is required to notify the Current Planning Branch of the City of Regina when the project work is complete. A representative of the Branch will inspect the project to verify its completion.

The total cumulative tax exemption will be equal to either (a) 50% of the eligible conservation work costs, or (b) ten years of tax exemptions, whichever is less.

The agreement may be assigned to a new owner at the sole discretion of the Executive Director. An assignment agreement will be required.

Where a development is also eligible for tax exemption under the Housing Incentives Policy, the full benefit under both policies may be provided. The Heritage Incentives Policy will be provided first unless otherwise approved by the Executive Director.

Incentives provided under this policy may be stacked with incentives provided through programs offered by the Municipal, Provincial and Federal Governments.

5.4 Eligible Work

Eligible conservation work must be specifically aimed at extending the life and increasing the value of designated property. The conservation work must also be in accordance with the *Standards and Guidelines for the Conservation of Historic Places in Canada.* The following work is eligible:

- Qualified architectural or professional engineering services not related to the preparation of the application.
- Conservation of exterior character-defining elements or significant landscape elements.
- Façade-only conservation in the Victoria Park Heritage Conservation District.
- Structural stabilization.
- Improvements required to meet National Building Code (NBC) or City of Regina bylaw requirements, including the repair or upgrading of mechanical and electrical systems.
- Improvements to energy efficiency (e.g. insulation, windows, furnace). Such work will be evaluated on the basis of its importance to the conservation of the character-defining elements of the building.
- Conservation of significant or rare character-defining interiors or interior elements.

The conservation of exterior character-defining elements may include the cleaning of surfaces, removal of unsympathetic materials, and painting associated with the replacement of these elements.

Cosmetic improvements, painting, repairs, regular maintenance, tenant improvements and new additions are NOT eligible.

5.5 Application Requirements

Applications must include:

(a) a completed application form
(b) current colour photographs
(c) archival photographs and historical documentation
(d) in cases where the value of the exemption is greater than $200,000:

- the application must include a Heritage Alteration Permit application with an architect's drawings in addition to the architect's report that provides the following: a description of the proposed development highlighting new repairs and conservation work, the Conservation Plan, a construction schedule and, where applicable, an engineer's report on the structural improvements and costs.

- the application must include some financial evidence indicating why the tax exemption is needed in the form of a development pro forma that provides detailed costs, overall budget breakdown and cash flow. The pro forma should include financing details, two estimates for all materials and labour, leasing specifications, project soft costs (e.g. labour), project hard costs (e.g. materials), operating statement, and an explanation of how the tax incentives will affect the economic viability of the project.

OR in cases where the value is less than $200,000:

- the application must include a Heritage Alteration Permit application with an architect's drawings in addition to the architect's report that provides the following: a description of the proposed development highlighting new repairs and conservation work, the Conservation Plan, a construction schedule and, where applicable, an engineer's report on the structural improvements and costs.

- the application must also include two estimates for all work to be done or project costs based on the assessment of a qualified architect or professional engineer or qualified quantity surveyor. The total project costs must be a minimum of $20,000.

In addition to these requirements, the City may require additional historic research, engineering, or other studies in support of the application. All Conservation Plans and architectural drawings are to be carried out by an architect, engineer or equivalent professional, each having substantive experience and expertise in heritage conservation.

The costs of preparing and submitting an application, including any consultant fees, are the sole responsibility of the applicant. The application may apply to recover such costs as part of the incentives; however the City will only approve such recovery for successful applications.

5.6 Application Process

A complete application under the Heritage Incentives Policy, including details and costs of conservation work to be undertaken, must be submitted to the City of Regina in writing, before commencement of any work or development that is intended to qualify for an incentive.

A Heritage Alteration Permit application will also be required for the project. The timing of this Heritage Alteration Permit in relation to this application should be discussed with staff. The Heritage Alteration Permit application may require Council approval unless the authority has been delegated to the Administration.

Applications for an incentive must be made before issuance of a heritage alteration, building or development permit. Exception of this requirement is at the discretion of the Executive Director where Council has delegated authority to the Administration to approve the alteration of a designated property. The approval must be provided in writing by the Executive Director before any project work begins.

If the property is not designated, an application for designation and an application for an incentive may be submitted at the same time, but the application for an incentive may not be formally considered until after the property has been designated by City Council.

Upon completion of the Administration's review, the application for an incentive will be considered by the City's Finance and Administration Committee which, in turn, will make a recommendation to City Council.

If approved by City Council, the incentive will be provided in accordance with a formal agreement between the City and the subject property owner(s), which will be authorized by City Council's passage of an enabling bylaw.

For further information or assistance, please contact:

Current Planning Branch
City Planning and Development
9th Floor, City Hall
P.O. Box 1790
Regina SK S4P 3C8

Phone: 306-777-7551
Fax: 306-777-6823

FA14-20

August 5, 2014

To: Members,
Finance and Administration Committee

Re: Lawson Aquatic Centre Improvements

RECOMMENDATION

1. Approve the allocation of up to $271,500 in funding from the Asset Revitalization Reserve (ARR) for the Lawson Aquatic Centre (LAC) improvements.

2. That this report be forwarded to the August 25, 2014, City Council Meeting for approval.

CONCLUSION

On February 24, 2014, City Council approved the allocation of up to $1.5 million in funding from the ARR to implement the recommended upgrades at the LAC, on an expedited completion schedule, targeting September 1, 2014, to support fall programming (reference CR14-8). This funding amount was based on estimates identified in the Lawson consultant assessment reports completed in late 2013 and early 2014.

Following City Council approval, the detailed design work was completed, which included defining the construction scope and air and water quality improvements required. This scope of work is the basis for which a construction Request for Proposals (RFP) was developed. At the time of issuing the RFP it was still anticipated that the work would be within the previously approved funding. The costs for the construction work received through the RFP purchasing process were higher than anticipated and, therefore, additional funding is required for the project to proceed. The RFP submission provided alternative pricing options that were evaluated in consideration of the project technical requirements, desired project schedule, value for money and the funding currently available for this project. Based on this analysis the recommended award has a shortfall of $271,500. It is recommended that this additional funding be allocated from the ARR, which is consistent with the previously approved funding. The ARR is currently well above the minimum balance and has sufficient funds to support this work.

The construction work is scheduled to be completed during the LAC shutdown from July 21 through September 1, 2014. As approved in the report to Council on February 24, 2014, the facility is targeted to re-open to the public on September 2, to allow for scheduled fall programming to proceed. It is this expedited timeframe that could have resulted in the construction work costs being higher than anticipated. The Administration still recommends proceeding with the work as per the expedited timeframe as not to impact fall programming and associated revenues.

The LAC improvements will create an environment in which air and water management is consistent with modern aquatic facilities. These changes will allow the facility to continue to operate as both a recreational and competitive training facility and support large aquatic events. The recommendations being implemented have proven to be effective in other aquatic facilities and are reasonable upgrades considering the age of the LAC and its significant remaining useful life estimated at 20 years.

BACKGROUND

The LAC was constructed in 1975. There are three bodies of water within the LAC – a 65 meter main pool, a teach pool and an above-deck whirlpool. Both the water treatment and heating and ventilation infrastructure have not undergone any significant enhancements since the Lawson's construction. Since its opening, the facility has seen an increase in the volume of activity, intensity of training and the number of events held at the facility. The facility plays an important role in providing recreation opportunities to the public as well as competitive training and large aquatic events.

Since November 28, 2013, the LAC has been operating under a conditional license from the Regina Qu'Appelle Health Region (RQHR) that requires improvements to air and water quality systems in order for the regular license to be reinstated. The City of Regina and the RQHR have been working closely together since that time to monitor the interim measures that have been implemented as well as throughout the detailed design process on the long-term solution.

On February 24, 2014, City Council approved the allocation of up to $1.5 million in funding from the ARR to implement the recommended upgrades at the LAC, on an expedited completion schedule, targeting September 1, 2014, to support fall programming (reference CR14-8). This funding amount was based on estimates identified in the Lawson consultant assessment reports completed in late 2013 and early 2014.

DISCUSSION

Following City Council approval, an aquatic facility consultant was engaged to complete the design work for enhancing the air and pool water quality in the facility. The implementation of the recommendations will provide a long-term solution to improve the conditions at the LAC by bringing the facility in line with other modern aquatic facilities. The major recommendations being implemented include a secondary water treatment system (Ultraviolet) on all of the pools, improving the air distribution system resulting in better air flow and installing a source-capture exhaust system to remove chloramines from the breathing zone above the water surface. The mechanical control system will also be enhanced to provide optimal control of the equipment serving the facility. Several smaller retrofits are also being implemented to bring the facility up to modern standards for aquatic facilities. All systems will be consistent with aquatics facility best practices including considering system performance, lifetime system costs and energy efficiency.

The detailed design work resulted in defining the construction scope and air and water quality improvements required to be confident in the level of performance that would be achieved. This scope of work is the basis for which a construction Request for Proposals (RFP) was developed and was anticipated to be affordable within the previously approved funding. The costs for the construction work received through the RFP purchasing process were higher than anticipated and could have resulted from the expedited construction timeframe.

The pricing received for the construction work was evaluated and only those optional items that represented good value for money and are most efficiently delivered in conjunction with the overall project were selected. The total value of these optional items is $86,900 and includes items that:

- Are consistent with aquatic facility best practices;
- Are required to meet aquatics facility standards;
- Would increase in cost if they were to be deferred;
- Will improve the performance of air and water systems; and
- Will ultimately improve the LAC user experience.

Based on the funding currently available for this project and the award amount including the optional items, additional funding in the amount of $271,500 is required for the project to proceed. It is recommended that this additional funding be allocated from the ARR, which is consistent with the previously approved funding. The ARR is currently well above the minimum balance and has sufficient funds to support this work.

The construction work is scheduled to be completed during the LAC shutdown from July 21 through September 1, 2014. The facility is targeted to re-open to the public on September 2, 2014, following the recommended improvements to allow for scheduled fall programming to proceed.

Proceeding with the work as per the expedited timeframe approved by Council is endorsed by the Administration as it does not impact fall programming and associated revenues.

The LAC improvements will create an environment in which air and water management is consistent with modern aquatic facilities. These changes will allow the facility to continue to operate as both a recreational and competitive training facility and support large aquatic events. The recommendations being implemented have proven to be effective in other aquatic facilities and are reasonable upgrades considering the age of the LAC and its significant remaining useful life estimated at 20 years.

RECOMMENDATION IMPLICATIONS

Financial Implications

To support the recommendation, additional funding of up to $271,500 needs to be approved outside of the 2014 Budget. It is recommended that this funding be allocated from the ARR, which is consistent with the previously approved funding. The Asset Revitalization Reserve (ARR) is currently well above the minimum balance and has sufficient funds to support this work as shown below:

Min Recommended Balance	Max Recommended Balance	2014 Opening Balance	Forecasted Funding	Forecasted Draws	Forecasted Ending Balance
$ -	$10,000,000	$5,610,168	$3,300,000	$2,381,416	$6,528,752

In order to meet the project timelines and targeted re-opening of the facility in September, the construction contract was awarded utilizing interim funding allocated from the Facilities Asset Revitalization and Sustainability program to cover the $271,500 shortfall. If funding from the ARR is not approved as recommended and utilized to restore the funding allocated from the Facilities Asset Revitalization and Sustainability program, projects that were originally planned to utilize these funds would need to be deferred to 2015 or until funding becomes available. Projects that would be impacted include the further development of the facility condition assessment database and capital planning program, infrastructure renewal at Neighbourhood Recreation Centres, irrigation pumphouse facility repairs and assessment of the North West Leisure Centre retaining wall. These projects were all planned to proceed in the third and fourth quarters of 2014 and are of high priority.

The long-term solutions being implemented will require an increase in annual operating costs of $15,000 due to the maintenance requirements of the new equipment. This additional operating funding will be requested as part of the 2015 budget process.

Environmental Implications

The implementation of the recommendations will ensure that the addition of any systems maximize energy efficiency while contributing to enhancing the user experience within the facility.

Policy and/or Strategic Implications

The decision to improve the facility will result in the City being able to maintain a needed community facility and postpone a significant investment to replace the facility further into the future.

Other Implications

None with respect to this report.

Accessibility Implications

None with respect to this report.

COMMUNICATIONS

A Communications Plan for the improvements to the LAC has been developed to ensure that the aquatic sport user groups, the general public and Regina Qu’Appelle Health Region are aware of the actions that the City will be proceeding with including facility shutdown impacts.

DELEGATED AUTHORITY

This report requires City Council approval.

Respectfully submitted,

Karen Gasmo, Director
Facilities Management Services

Respectfully submitted,

Ed Archer
Chief Financial Officer

Respectfully submitted,

Jason Carlston
Executive Director
Community Planning & Development

Report prepared by:
Jamie Hanson, Manager, Facilities Engineering

August 5, 2014

Liberty Brears
Planning Department
Community Planning & Development Division
2476 Victoria Avenue
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City of Regina Heritage Building Rehabilitation Program

Dear Ms. Brears:

Thank you for the opportunity to comment on the proposed City of Regina Heritage Building Rehabilitation Program on behalf of Regina Downtown Business Improvement District (Regina Downtown BID).

Regina Downtown Business Improvement District offers general support for the Heritage Building Rehabilitation Program for:

- Encouraging the rehabilitation of Downtown's designated heritage properties to ensure their long-term conservation, extending their effective life and ensuring their structural integrity;
- Stimulating the economic development of the Downtown through the rehabilitation of commercial facades in the Victoria Park Heritage Conservation District; and
- Encouraging the development of an attractive city that contributes to a better quality of life.

Further to this endorsement, Regina Downtown recommends that appropriate levels of funding be approved in the future, through the City's budget allocation process to ensure that the Heritage Building Rehabilitation Program is implemented effectively and efficiently, for the benefit of all Regina citizens.

Should you have any further questions, please do not hesitate to contact me. Thank you.

Sincerely,

Judith Veresuk
Executive Director
Regina Downtown Business Improvement District

SUBMITTED VIA E-MAIL

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