

Financial Measures to Encourage Heritage Development

FINAL REPORT



PREPARED FOR:
**The Federal-Provincial-Territorial
Ministers' Table on Culture and
Heritage (FPT)**

PREPARED BY:
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1. Executive Summary

This report was commissioned by The Federal-Provincial-Territorial Ministers’ Table on Culture and Heritage (FPT) to assist the development community and governments at all levels in considering and assessing measures to encourage the rehabilitation of heritage properties in Canada.

A Discussion Guide and accompanying Questionnaire (see Appendix D) were developed to assess financial measures that might encourage heritage development, as well as to gain insights into the factors that discourage it. FPT members were then asked to use these materials to consult with a representative sample of the development community within their jurisdictions about which potential measures might be the most effective. The Discussion Guide was supplemented by a simulation model to help stakeholders assess the potential revenue impacts of Income Tax Credit (ITC) and Capital Cost Allowance (CCA) measures. Eight provinces subsequently gathered a total of 27 completed questionnaires from a broad cross-section of stakeholders within Canada’s heritage development industry. While participation in two of the provinces was relatively low, the sampling was remarkably balanced (see Table 1) when categorized by the participant’s typical project type, typical project value, and typical property age/status. This is the first time that a pan-Canadian sampling of this type has been collected.

Stakeholder Questionnaire Findings

Stakeholder Responses – Key Factors That Discourage Heritage Development		
Ranking	Factor	Observations
1	Low Return on Investment (ROI)	Challenge for all participant types
2	Limits on Development Potential	Challenge for all participant types
3	Complexity of Building Code Compliance	Particularly for projects \$1M-\$10M and those in new construction
4	The “Unexpected” in Heritage Projects	Particularly for projects \$1M - \$4M
5	Delayed Return on Investment (ROI)	Particularly for those in new construction

Stakeholder Responses – Best Potential Measures to Encourage Heritage Development		
Ranking	Measure	Observations
1	Ongoing Property Tax Relief	Support from all participant types
2	Heritage Grant –Federal	Strong support from small projects
3	Refundable Income Tax Credit	Strong support from commercial and projects \$1M - \$4M
4	Non-Refundable Income Tax Credit	Moderate support from all participant types
5	Heritage Grant – Provincial/Territorial	Strong support from projects \$1M- \$4M

Stakeholder Responses – Prioritizing Potential Measures to Encourage Heritage Development	
Ranking	Potential Measures
1	Ongoing Property Tax Relief
2	Refundable Income Tax Credit
3	Non-Refundable Income Tax Credit
4	Heritage Grants – (All Levels of Government)
5	Property Tax Abatement

Conclusions

The *Financial Measures to Encourage Heritage Development* report represents a fair picture of attitudes held by Canadian property development stakeholders toward factors which discourage heritage development and financial measures which might help alleviate them. The report demonstrates that there is substantial unanimity around key factors which hold back investment in heritage properties as well as the potential financial measures that would be effective in encouraging investment. Notably, the top-five measures remained the same for stakeholders in the evaluation of individual measures and prioritization phases of the project, the only difference being their ranking.

Canada’s heritage development community is diverse in its composition and investment expectations. Therefore when considering financial measures that might assist heritage development, the key will be to identify and pursue a variety of heritage financial measures at all three levels of government that can be combined to strong effect and contribute to the diverse existing range of development and investment models. A combination of financial measures has the potential to establish a price signal that will change the way mainstream Canadian society views heritage properties. Despite evidence to the contrary, many in the real estate development industry continue to portray heritage rehabilitation as an insurmountable technical and financial challenge. By offering financial measures that encourage heritage investment, it would suddenly shift perceptions across columns on the balance sheet and become an opportunity.

Recommendations

That the Federal-Provincial-Territorial Ministers’ Table on Culture and Heritage (FPT):

- **further explore the potential for federal, provincial, and territorial financial measures to encourage heritage development;**
- **establish in each jurisdiction a working group to explore options highlighted in the report with other governmental departments (finance, municipal affairs, etc.) and to develop specific recommendations for municipal, provincial, territorial and federal options to encourage heritage development; and**
- **request officials in their future deliberations to consider, among other things, both the feasibility of approaches that are pan-Canadian and the possibility of launching an initiative(s) for Canada’s 150th.**

2. Project Overview

This initiative of the Federal-Provincial-Territorial Ministers' Table on Culture and Heritage (FPT) was launched in 2012. Its purpose was to assist the development community and governments at all levels in considering measures to encourage the rehabilitation of heritage properties in Canada and to gain insights into which measures would have the greatest potential impact. A foundational question was why sensitive rehabilitations of heritage buildings are not a matter of course in Canada.

The following materials were subsequently developed:

1. Discussion Guide – Explained 14 financial measures that may encourage heritage development as well as an appendix with additional municipal measures.
2. Questionnaire – Evaluated responses to the financial measures to encourage heritage development outlined in the Discussion Guide. It also explored factors that discouraged heritage development.
3. Appendix B: Revenue Impacts of Income Tax Credit (ITC) and Capital Cost Allowance (CCA) Simulations – Provided background on a simulation model that had been developed to assess the revenue impact of seven ITC and CCA scenarios and contained a summary of results. Greater detail on these results was made available in Appendix C.
4. Appendix C: Technical Description of Heritage Financial Measures Simulator – Contained the in-depth results for the seven ITC and CCA scenarios summarized in Appendix B. An Excel-based Heritage Financial Measures Simulator was developed to assist participants who wished to explore different financial scenarios.

Provinces and territories were then encouraged to use these materials to consult with the development community within their jurisdictions to see which potential measures might be of the greatest interest. Eight provinces gathered responses from development community stakeholders in their jurisdictions, with a national total of 27 participants completing questionnaires. The data from these questionnaires is collected below along with comments from participants, discussion of the results, and additional explanatory materials. This report represents the first time a pan-Canadian sampling of this type has been collected.¹

¹ For instance, the important 2006 study *The Lazarus Effect: An Exploration of the Economics of Heritage Development in Ontario* by Robert Shipley, Michael Parsons and Stephen Utz of the University of Waterloo's Heritage Resources Centre had 30 participants and explored the economics of 132 completed heritage projects. The aim of the report was, "To determine as far as possible what the characteristics of successful renovation projects are in terms of factors such as building type, architectural and marketing approach, financing and the regulatory environment."

3. Introduction – Understanding the Need to Encourage Heritage Development

Canada's communities are made up of heritage properties that define its national identity and give shape and texture to its urban and rural areas. They provide cultural and physical links to the past, enriching the lives and understandings of both residents and visitors. Heritage properties can also contribute to sustainable economic development and prosperity by:

- providing landmarks that build a sense of place and assist with economic development;
- providing a crucial draw for the tourism sector in both urban and rural areas;
- assisting with the development and retention of small-businesses and start-ups;
- attracting investment by increasing the livability of surrounding areas;
- generating more jobs than new construction and providing better local expenditure retention;
- providing environmental benefits by reducing demolition waste, capitalizing on the durable materials heritage properties typically possess, and preserving their embodied energy.²

Recognizing their contributions to their communities, all provinces and territories in Canada have enacted legislation to protect places of heritage significance, while most urban municipalities (and to a lesser extent rural) have bylaws and policies, if not programs, in place to identify and safeguard places of local value.

A. Contextualizing the Need for Financial Measures – Factors that Discourage Heritage Development

Heritage properties are seen as cornerstones of local, regional, and national identity and are valued in planning documents and tourism brochures alike. Their social, cultural and historic value, however, goes well beyond the private value they hold for their current owners. For private industry, ownership and rehabilitation of these properties comes with such benefits as their location in often well established and desirable areas and being able to build on their special character for marketing purposes. Why then, one might ask, are sensitive rehabilitations of heritage properties not a matter of course in Canada? It is helpful to examine this question by looking at some of the key variables property investors consider in making their investment decisions:

Return on Investment (ROI) – Construction projects and real estate in general in Canada is considered a high risk investment. As a result, a higher ROI is typically expected than other financial investments (e.g. bonds and stocks). For the majority of developers, 20-30% ROI is the industry standard, while others have expectations of 10-15%. The ideal scenario is low rehab cost, low property value, and high marketability after rehab. In many cases, taking a “heritage” approach to a property means foregoing development potential. In city centres and higher density areas, zoning encourages developers to favour

² Environmental Protection and Heritage Council. *Making Heritage Happen: Incentives and Policy Tools for Conserving Our Historic Heritage*. (Adelaide, Australia: National Environment Protection Council Service Corporation) 2004, 3.

higher floor area ratios over the lower density most often found in heritage properties. High land values and property acquisition costs in these areas increase pressure to maximize development potential as does the ingrained concept of “highest and best use” deployed by real estate appraisers and developers.³ In economically challenged communities with lower rental and leasing rates, the expense of heritage rehabilitation can be hard to justify and there is the temptation to minimally invest in properties. Timing of the ROI is equally important. Heritage projects are frequently undertaken by patient developers/investors who are building a portfolio of highly marketable, income-producing properties and are willing to take out little or no profit as a means of “buying” commercial investments. By the same token, heritage properties typically appeal less to the majority of mainstream developers/investors, reducing the demand.

Construction Costs – While some heritage rehab projects cost less than building a comparable sized new building, many cost more. A 2006 study of adaptive reuse projects in Ontario, found the cost difference between heritage rehab and new construction to be:

- Commercial Projects – +15% (small projects), +8% (medium-sized projects) and -38% (large projects);
- Institutional projects – +8% (small projects), +2% (medium-sized projects);
- Residential projects – -8% (medium-sized projects), +44% (large projects).⁴

There are various reasons for these higher costs including: the higher costs of professional and trades workers skilled in older buildings; the higher costs for sourcing or repairing heritage materials; site remediation (e.g. asbestos abatement); and the need to address accessibility and energy efficiency challenges. Heritage rehab is typically more labour intensive than new construction⁵ and therefore the limited professional and trades workforce skilled in heritage projects can constrain competitive bidding and raise costs.

Financing and Minimum Risk of Loss – Simply put, it is less risky to build new on bare ground. One can tailor the new structure precisely to market expectations and develop a solid pro forma for lenders. Heritage rehab involves the unknowns of adapting older buildings, and this uncertainty can be a barrier

³ Real estate appraisers define “highest and best use” as “the reasonably probable and legal use of property, that is physically possible, appropriately supported, and financially feasible, and that results in the highest (monetary) value.” In Canada, development potential is generally established by municipalities acting on authority given to them by the province to decide on zoning, which often allows for greater density and height than what currently exists. When property values are determined based on development potential (i.e. “highest and best use”) developers often have an expectation that they are entitled to build to the allowed density as a minimum.

⁴ Shipley, Parsons, and Utz. *The Lazarus Effect: An Exploration of the Economics of Heritage Development in Ontario*. (Waterloo: Heritage Resources Centre, 2006), 9-13. The report also noted that even when the cost is greater, developers of heritage properties are generally rewarded with a high rate of return on investment. Another study – Shipley. *Heritage Designation and Property Values: Is There an Effect?* (International Journal of Heritage Studies, 2000) – found that in rate of sales, both during good and bad economic conditions, designated heritage properties performed better than non-designated properties.

⁵ A 2002 Michigan study found that in new construction about 50% of cost is labour and 50% materials, whereas for rehabilitation projects the ratio is typically 70% labour and 30% materials. Michigan State Historic Preservation Office. *Investing in Michigan’s Future: The Economic Benefits of Historic Preservation*. October 2002.

to obtaining financing from Canadian banks.⁶ Banks for the most part do not want to be involved in “staged” investments and are not prepared for the risks that come with adapting older buildings. When debt capital can be obtained from private lenders, the lending rates for heritage projects is often twice as much as new construction (e.g. 11-13% versus 6 -7% for new construction). Moreover, with heritage rehab there may also be a narrower tenancy market due to heritage imposed limits on meeting modern user and tenant needs.

Tax Treatment – The existing framework of municipal, provincial and federal taxation both reflects and influences the way property is used. This particularly applies to heritage property. Many provinces have introduced enabling legislation allowing municipalities to provide property tax relief to owners of heritage properties. These incentives are often too modest to make a substantial difference in an investor’s decision-making. At the federal level, the Income Tax Act contains a number of measures that can act as a disincentive to heritage development. Most notably, the ongoing lack of clarity as to which types of rehab work can be *expensed* in the current tax year versus those which must be *capitalized* and depreciated over many decades under the Capital Cost Allowance (CCA) rules. This confusion can have a major impact on the after-tax cost of a project, thereby discouraging rehabilitation and making it more difficult for owners to develop a balance sheet and obtain financing for a project.

Ease of Property Development

Property development is fast-paced and competitive, and Canada’s construction season is short. Investors are often discouraged by the real, or perceived, restrictions on altering heritage property, and by the timelines for additional approval processes and/or the complexities of codes compliance that may come with modifying older buildings.

Given an environment where new development is often more straightforward and profitable in the short term than the rehabilitation of older properties, governments and groups at all levels have seen a need to protect heritage properties of value to their communities by putting in place financial measures that address the challenges identified above. These financial measures can take various form, as summarized under these general aims:

- *To Reduce Risk* – Financial measures, such as loan guarantees, can ensure a minimum return by limiting the borrower’s exposure to unforeseen problems that can affect the value of collateral or the borrower’s ability to pay.
- *Reduce Financing Costs* – Measures such as tax credits can help make capital more affordable by improving a development’s pro forma.
- *Improve the Owner’s Financial Situation*. The project’s cash flow can be improved through tax credits, tax abatements, or repayment grace periods, easing the way for the project to show the expected profitability.

⁶ Shipley, Parsons, and Utz. *The Lazarus Effect: An Exploration of the Economics of Heritage Development in Ontario*. (Waterloo: Heritage Resources Centre, 2006), 16. This report noted that those involved in heritage development “found demand significant enough that the market would bear the additional costs that arose from uncertainty. No project investigated failed to report moderate to high income generation and many developers feel that bank reluctance to recognize the value of heritage and adaptive reuse projects, especially where experienced project management is involved, is unjustified and fails to recognize good business opportunities.”

- *Provide direct financial assistance* in the form of grants and forgivable loans, to make projects more attractive for private investors.
- *To Compensate for Foregone Development Potential.*

B. Addressing the Need for Financial Measures to Encourage Heritage Development – The Canadian Context

Beginning in the 1970s and 1980s, Canadian provincial/territorial and municipal governments began offering incentives to tip the balance in favour of retaining, rather than demolishing, significant older places. Most provincial governments now offer funding incentive programs of varying size, though some, like Ontario, are more focused on providing assistance through municipal governments. Canadian municipalities play a pivotal role by identifying and designating heritage sites of local significance and ensuring added protection by incorporating measures within municipal planning documents and processes. They can also provide incentives that encourage property owners to maintain and rehabilitate places important to the community. These incentives can be financial—including grants, property tax reduction, or the waiving of municipal fees—but can also take other forms, such as density transfer, parking relaxation, and free heritage conservation advice.

Provincial/Territorial Heritage Grant Funding Budgets (2006)*			
Jurisdiction	Population	Available Funding	Per Capita
AB	3,256,800	\$2,147,000	\$0.66
BC	4,254,500	\$300,000	\$0.07
MB	1,177,600	\$210,000	\$0.17
NB	752,000	\$265,000	\$0.35
NL	516,000	-----	-----
NWT	43,000	\$1,001,000	\$23.28
NS	937,000	\$50,000	\$0.05
NU	30,000	-----	-----
ON	12,541,400	-----	-----
PEI	138,100	-----	-----
QC	7,598,100	-----	-----
SK	994,100	\$275,000	\$0.28
YK	31,000	\$122,000	\$3.94

*Brenda Manweiler. “The State of Heritage Conservation in Canada: Provincial and Territorial Levels.” For BC Heritage Branch. January 2007.

Most municipal granting programs provide a percent contribution (up to a maximum contribution of 50 percent) of eligible costs. There are some differences in what qualifies as matching funds (e.g. in-kind or donated labour or resources) and what qualifies as an eligible cost. Most grant programs are for façade improvements only.

Municipal Grant Program Per Capita Spending in Canada*				
	Grant Budget (\$) Per Year	Population (2006)	\$ Per Capita	Average # of Grants Per Year
Montreal	3,000,000	1,620,693	1.85	200
Saskatoon	262,000	202,340	1.29	9
Charlottetown	38,000	32,174	1.18	16
Edmonton	800,000	730,372	1.10	8
Vancouver	500,000	578,041	0.86	n/a
Halifax	150,000	372,858	0.40	18
CBRM	40,000	105,928	0.38	16
Kelowna	\$30,000	106,707	0.28	19
Hamilton (1)	120,000	504,559	0.24	19
Calgary	225,000	991,759	0.23	n/a
Hamilton (2)	100,000	504,559	0.20	n/a
Ottawa	150,000	812,135	0.18	19
Mississauga	75,000	695,300	0.11	25
Toronto	250,000	2,503,281	0.10	42
Brampton	25,000	433,806	0.06	10
		National Average:	0.56	

*Michael Oram. "Background Study of Heritage Preservation Incentive Programs." Land Use Planning and Policy, City of Calgary. January 2011.

In recent decades, there have been growing concerns that existing heritage financial measures at the municipal and provincial/territorial levels do not provide sufficient assistance to counterbalance the relative ease and familiarity of new construction. These findings were indeed borne out in the questionnaires compiled below.

At the federal level, the Parks Canada Agency's Historic Places Initiative, a federal/provincial/territorial collaboration launched in 1999, had the creation of tax-based incentives as one of its key goals. The Commercial Heritage Property Incentive Fund (CHPIF) was a \$30M pilot contribution program launched in 2003 and closed to new applications in 2006. It offered financial incentives to attract developers to rehabilitate historic buildings so challenging or deteriorated that they would otherwise be torn down. CHPIF funded 35 projects across Canada and gave empty, derelict buildings sustainable new uses. . Project costs totaled \$143.4 million, or \$4.1 million per property (including CHPIF contributions and additional refurbishment/rehabilitation costs incurred). CHPIF contributions represented \$14.95 million. At the conclusion of the program, a 2010 Deloitte study found that CHPIF demonstrated the beneficial effect of a federal incentive to leverage private investment for the rehabilitation of historic places.⁷

⁷ Deloitte. *Impact Study of the Commercial Heritage Properties Incentive Fund (CHPIF)*. 2010.

C. The Benefits of Financial Measures Encouraging Heritage Development – An International Perspective

The benefits of financial measures encouraging heritage development have been demonstrated abroad and in a range of municipalities across Canada. For instance, over the past forty years, federal, state and local governments in the United States have adopted a number of public policies in support of preservation, with the goal of spurring private reinvestment in the historic built environment. In 1977, the federal government established a 25 percent federal tax credit for rehabilitation of heritage buildings (later reduced to 20 percent), and a 10 percent tax credit for the rehabilitation of non-heritage, non-residential buildings built before 1936. These incentives have encouraged the rehabilitation of thousands of vacant and underutilized historic buildings across the country. Since 1977, the more than 38,000 certified projects have generated an estimated 2.4 million jobs and leveraged over \$66 billion in private investment in historic buildings – a 5 to 1 ratio of private investment to federal tax credits. The Federal tax credit not only helps preserve historic buildings, it is also a cost-effective tool in the ongoing efforts to revitalize older urban neighborhoods, communities and Main Streets across America. The public benefits are far-reaching, creating affordable housing, enhancing property values, and stimulating other rehabilitation activity in the surrounding community.

The US federal tax credit has led the way for other levels of government. As of 2013, 31 US States now have a state tax credit for historic building rehabilitation. Designed so that they can be used in tandem with the Federal credit, these state credits have helped further the effectiveness of the Federal program and have achieved remarkable success at the state level. In Maryland, for example, the Sustainable Communities Tax Credit Program has assisted more than 1,000 rehab projects, leveraging \$400 million in private investment from \$90 million in tax credits. Virginia and Missouri have reported similarly impressive ratios of private investment to tax credits. Between 2002 and 2005 the Rhode Island Historic Preservation Investment Tax Credit generated five times the value of tax credits in total economic activity. Municipal property tax abatement is also commonly used in the US. The State of Washington determined that during the period for which it had forgone over three million dollars in property tax revenues as part of the heritage incentive program, it gained over thirteen million from sales and business-and-occupation tax revenues related to the rehabilitation activity.⁸

Other countries have experienced similar levels of success with heritage incentives. For instance in Australia, local heritage grants for conservation work have been found to leverage 11 to 15 times the grant amounts.⁹ Likewise, in the United Kingdom a sample survey of local area regeneration projects found that, on average, for £10,000 of grant aid from English Heritage, £46,000 was leveraged in from other public and private sources.

⁸ http://era.on.ca/wp/wp-content/uploads/2010/07/article_39.pdf

⁹ McDougall and Vines, *Heritage Advisory Services: Towards Best Practices*, 1997.

In Canada, various municipal property tax programs have been evaluated and have demonstrated the marked potential impact of targeted financial measures for heritage properties. The City of Winnipeg has had a Heritage Conservation Tax Credit (HCTC) Program in place since 1998. This program has provided just over \$32.7 M in tax credit benefits which have leveraged over \$149.4 M in investment, a leverage ratio of more than 4.5:1. Heritage properties that have benefited from the HCTC program have, on average, experienced a 5-fold increase (486%) in their assessed value from 1998 to 2006. By comparison, non-residential properties in the immediate area only increased in assessed value by 142% over that same period, and only 40% in Winnipeg overall.¹⁰ Similarly, the City of Victoria (BC) has had the Tax Incentive Program (TIP) in place since 1998. It was designed to assist heritage property owners with the high cost of seismic upgrading and to create more residential accommodation on the often vacant upper floors of downtown buildings. It has attracted over \$205 million in private investment to the downtown core and dramatically increased the value of the buildings, leading to increased property tax revenue for the City of Victoria when the 10-year exemptions expire. From 1998 to 2012, the average tax increase in the City was 57%, but for properties in the TIP program it was 131%.¹¹

¹⁰ UrbanEdge Consulting Inc. *Heritage Conservation Tax Credit Program Review*. March 18, 2007. 14.

¹¹ Steve Barber. *Victoria's Tax Incentive Program – 14 Successful Years!* Heritage. Vol. XVI, No.1. 18-20.
<http://www.heritagecanada.org/sites/www.heritagecanada.org/files/UC%20%231%20only%20FINAL.pdf>

4. Collated Results from National Stakeholder Questionnaire Process

A. Participant Background

Table 1 – By Jurisdiction: Project Type; Project Value; and Property Age Status

	Total Responses	Typical Project Type			Typical Project Value				Typical Property Age/ Status (50% or more)		
		Commercial	Residential	50-50 Mix	<\$1M	\$1M-\$4M	\$4M-\$10M	>\$10M	Heritage Designated	Older	New
BC	1	--	--	1	--	--	--	1	1	--	--
AB	4	3	--	1	--	1	2	1	1	2	1
SK	3	--	1	2	1	--	1	1	--	2	1
MB	6	2	3	1	--	1	4	1	2	3	1
ON	4	--	2	2		1	1	2	4		
NB	4	1	1	2	2	1	1	--	2	1	1
PEI	1	1	--	--	--	--	1	--	--	--	1
NL	4	--	3	1	2	1	1	--	1	2	1
Total	27	7	10	10	5	5	11	6	11	10	6

Discussion

In the end, this initiative has encompassed a broad, representative range of real property developers from across Canada. It has provided fresh insights into the breadth of heritage development in Canada: how it's taking place; who is undertaking it; and what their motivations are. Due to time and resource constraints in some jurisdictions, developers of heritage properties in smaller municipalities (<25,000 population) were not included, which is unfortunate as a large number of heritage development projects occur in smaller communities.

The diversity of stakeholders in the sample obtained, however, is fascinating. Here are just a few examples:

- a young developer in Saint John using Calgary investment funds to create rental residential/commercial space;
- a developer who has been slowly purchasing and rehabilitating older buildings for decades;
- a large real estate investment trust pointedly investing in early 20th century commercial buildings across the country because they provide a steady rate of return for their investors (5-6%);
- a large residential development firm – primarily involved in new construction – who is wading into the redevelopment of older downtown properties and experiencing challenges; and
- a small development firm which has incrementally built up an impressive portfolio of small-scale, main street buildings using the equity from earlier projects to fund their latest venture.

Selecting a strong, representative range of different types of developers/investors in each province or territory was important for ensuring clear insights. Consideration was also given to ensuring interviewees represent a broad range of geographic areas and circumstances within each jurisdiction: whether they be high-density communities with strong development pressure, or those contending with economic challenges; urban or rural.

B. Evaluation of Factors that Discourage Heritage Development

Table 2 –Average Responses by Jurisdiction - (Scale of 1 to 5)

	BC (1)	AB (4)	SK (3)	MB (6)	ON (4)	NB (4)	PEI (1)	NL (4)	National Average	Ranking – Top Five
(a) Low ROI	5.00	2.67	4.00	3.33	2.33	3.25	4.00	4.50	3.65	1
(b) Delayed ROI	4.00	2.67	3.00	3.33	2.33	3.00	4.00	2.75	3.14	5
(c) Limits on Dev. Potential	5.00	3.33	2.33	3.33	2.75	3.00	5.00	3.75	3.56	2
(d) High cost of heritage workers	3.00	2.67	2.67	2.20	1.5	2.33	4.00	2.00	2.55	
(e) High cost of heritage materials	3.00	2.67	3.00	2.00	1.75	2.50	4.00	2.50	2.68	
(f) High cost of remediation	3.00	2.33	3.00	3.00	2.00	2.00	3.00	3.5	2.73	
(g) High cost of accessibility and energy measures	3.00	1.00	3.00	3.5	2.63	3.50	3.00	2.00	2.70	
(h) Difficulty obtaining bank financing	2.00	3.33	3.00	1.67	2.25	1.75	3.00	5.00	2.75	
(i) Difficulty obtaining other forms of financing	3.00	2.67	3.00	1.67	2.25	1.50	3.00	4.00	2.64	
(j) The “unexpected” in heritage projects	4.00	2.67	4.33	3.17	2.50	0.75	4.00	4.00	3.24	4
(k) Long timelines for heritage process compared with non-heritage	4.00	2.00	4.00	2.83	1.75	1.25	4.00	4.50	3.04	
(l) Limited heritage professional and trades workforce	3.00	2.33	2.67	2.17	1.50	1.75	3.00	2.25	2.33	
(m) Complexity of building code compliance	4.00	3.33	3.00	3.33	3.00	3.00	2.00	4.50	3.27	3

Discussion

While many factors saw significant variation in their responses, stakeholders were relatively unanimous in their ranking of the top five factors discouraging heritage development: (1) Low Return on Investment (ROI); (2) Limits on Development Potential; (3) Complexity of Building Code Compliance; (4) The “Unexpected” in Heritage Projects; (5) Delayed Return on Investment (ROI).

There was a wide-range of written comments which add further nuance to the numerical responses:

- Low Return on Investment – This is a complex issue with a great variation in ROI expectations whether it is a commercial, rental residential, or condo development, and whether there is the expectation of a quick sale or a long-term investment. ROI is used to evaluate the efficiency of an investment, usually in comparison to the efficiency of a number of different investments. Making the potential ROI worth their risk is a primary challenge for all participants, whether they represent organizations large or small.
- “Every developer has a different rate of return projections and expectations. Looking at a cash-on-cash rate of return: can they make money back given income, expenses and mortgage carrying costs? How much in pocket after this? Every developer has a different internal rate of return expectation. In a lot of cases, after mortgage payments and principal reductions, most developers are only looking at a rate of return comparable to bond rates – therefore not worth the risk!”(MB) “Financial gaps are significant. There could be a 1-3 million gap in 10-15 million size project.”(MB)
- Delayed Return on Investment – A significant challenge as well. “A number of projects in downtown Winnipeg are on hold because they can’t get the return quickly enough.”
- Limitations/controls on development potential – This is a challenging issue for many but not for others depending on their expectations (timing, magnitude, etc.) from the investment. From “Not a factor because we are in these buildings for the long-term” to “Can’t get the economies of scale with many of the smaller heritage properties.”
- High cost of heritage workers – While this did not garner high numerical responses there are significant challenges in finding a steady supply of workers. Certain regions do not have enough heritage work to employ those with heritage skills on a full-time basis, so there is not a steady labour force available.
- High cost of heritage construction materials – Not seen as a significant problem.
- High site remediation costs – Divergent opinions represented on this: very significant issue for some and marginal issue for other.
- High cost of accessibility and energy efficiency measures – This has been identified as a key challenge. “Building codes don’t respect heritage buildings. This is an area the sector needs to work harder on. Building inspectors are not willing to put their necks on the line in interpretation of code. Comes down to inspector awareness; almost need to build a relationship with an inspector. Current codes written for new buildings tend to create disincentives for old buildings.”(NB) Other jurisdictions noted less of a challenge. The Ontario Building Code, for instance, offers two advantages for heritage conservation projects: (1) the Code is “heritage friendly” providing

compliance alternatives; (2) persons responsible for activities regulated under the Code must be qualified and registered, which reduces the risk each Chief Building Official assumes.

- Difficulty of obtaining financing from Canadian banks – Despite the relatively low numerical scores, comments spotlight this is a persistent problem, particularly for newer players or those working with unusual properties where a conventional business plan is hard to develop. “Banks hate you at the start of a project and love you when it’s finished. We found it hard to find debt capital and when we could it came at a premium – 10.5 to 13% range. By comparison, it would be 6-7% on new construction. Banks and investors are simply more comfortable with new construction.” (AB) “We were lucky because we already had a track record with banks from other projects. One bank didn’t have ability to conceptualize the potential of the site.” (ON)
- Difficulty of obtaining other forms of financing – This is slightly less of a challenge, but a barrier to heritage development, nonetheless. “Equity financing is sometimes an option.” (NB)
- The “unexpected” involved in adapting heritage buildings – This has been singled out as a key issue. “Perception is that the risk is too big for a project with potential of 12-15% ROI. With a project with only 5% ROI there is even less margin for error so people won’t take the risk. (MB) “How much can be spec’ed out in advance is a factor. Need to develop a profile of a type of building up front and then be able to provide this to developers – would take out guesswork and bring more into the market. Make it a requirement of another authority to pay for this tool.” (MB)
- Long timelines for heritage approval process when compared to non-heritage projects – Most see the process issues as similar to new construction.
- Limited heritage professional and trades workforce – An issue of moderate concern, but with significant regional variation. “This is not a substantial problem. The workers are there.”(NB) “Key is retaining them; you need a critical mass of projects to attract and retain these people. (ON)”
- Complexity of building code compliance – As noted, a very significant disincentive. “Code issues are a big irritant and time consuming; in some cases we needed to bring in code experts (at great cost) before local building officials would sign off.” (AB) “Building inspectors are a problem. With building regulations they are looking for every opportunity to raise safety standards as high as they can. Need qualified people who can make a special heritage assessment.” (AB)

Other factors that discourage heritage development not captured in chart:

- “Finding a use is always the biggest problem. Governments rent new space not old space which exacerbates the problem.” (SK)
- Servicing buildings in older areas – Water, electrical, gas upgrades add to the cost of projects in older areas.
- Building Acquisition Costs – “Old buildings have gone up in value, but lease rates haven’t gone up by much – a growing gap.” (MB)
- Operating Costs for Older Buildings are Higher –“ \$0.50/sq.ft. on new; \$2.00/sq.ft. on older (this from windows and roofs, etc.).”(AB)

Table 3 –Average Responses Sorted by Participant’s Typical Project Type; Average Project Value; and Typical Property Age/Status

	Typical Project Type			Typical Project Value				Typical Property Age/Status		
	Commercial	Residential	50-50 Mix	<\$1M	\$1M-\$4M	\$4M-\$10M	>\$10M	Heritage Designated	Older	New
(a) Low ROI	3.13	3.42	3.93	3.50	2.50	3.38	3.17	2.80	3.87	4.00
(b) Delayed ROI	3.13	3.26	3.43	2.50	2.50	2.25	3.13	1.60	2.90	4.40
(c) Limits on Dev. Potential	2.90	3.20	3.90	2.13	4.50	3.42	2.33	4.13	2.20	4.60
(d) High cost of heritage workers	2.25	2.74	2.29	1.50	1.00	3.00	1.75	2.94	2.30	2.20
(e) High cost of heritage materials	1.90	2.51	2.64	1.80	2.25	2.50	2.00	3.14	2.00	2.60
(f) High cost of remediation	2.10	2.29	3.00	3.38	3.33	2.53	0.50	3.25	2.70	2.80
(g) High cost of accessibility and energy measures	2.40	3.52	2.71	3.75	2.30	2.50	2.00	1.75	2.74	2.80
(h) Difficulty obtaining bank financing	2.16	2.82	3.07	3.25	3.75	2.71	1.17	3.50	2.96	3.00
(i) Difficulty obtaining other forms of financing	2.40	3.42	2.79	3.00	3.00	2.08	2.67	2.25	2.66	3.00
(j) The “unexpected” in heritage projects	2.72	2.63	3.79	2.13	4.67	2.96	3.33	2.50	2.83	4.20
(k) Long timelines for heritage process compared with non-heritage	2.38	2.20	3.07	2.05	2.00	3.21	1.50	3.50	2.23	4.20
(l) Limited heritage professional and trades workforce	2.32	2.90	2.07	2.25	2.00	2.96	1.30	2.80	1.76	2.50
(m) Complexity of building code compliance	2.76	3.13	3.50	2.83	3.66	3.86	1.88	3.80	2.84	4.25

Discussion

The results in this table reveal interesting nuances in the ranking of discouraging factors with “typical project value” and “typical property age/status” often generating very different results:

- Low ROI (a) and Delayed ROI (b) are much stronger disincentives for organizations oriented towards new construction than those focused on heritage buildings.
- Large organizations also demonstrated less tolerance for the “‘Unexpected’ in Heritage Projects” (j) and the “Long Timelines for Heritage Process (k).” Whether these weightings are owing to perceptions or lived experience could be explored further.
- When it comes to obtaining financing – factors (h) and (i) – smaller organizations have far more difficulty in securing backing than larger ones.
- “Complexity of Building Code Compliance” (m) is a strong discouragement in all categories except the largest companies.
- The high cost or availability of heritage workers – (d) and (l) – did not emerge as particularly strong factors.

C. Evaluation of Potential Measures to Encourage Heritage Development

Table 4 – Average Response - By Jurisdiction

	BC (1)	AB (4)	SK (4)	MB (6)	ON (4)	NB (3)	PEI (1)	NL (4)	Total Average	Ranking-Top Five
(A) Non-Refund. ITC	5.00	3.25	1.67	4.0	2.67	3.50	4.00	3.50	3.45	4
(B) Refund. ITC	5.00	3.75	2.00	3.8	2.67	4.50	5.00	4.25	3.87	3
(C) CCA – Clarify Current Rules	5.00	2.50	2.00	3.0	2.50	2.50	3.00	3.50	2.87	
(D) CCA – New Accel. Class for Rehab	3.00	2.50	1.50	3.0	2.50	2.25	3.00	3.25	2.62	
(E1) GST Rebate	4.00	1.00	2.33	1.67	1.67	2.75	3.00	3.00	2.43	
(E2) PST Rebate	2.00	1.00	2.33	1.67	1.67	2.50	3.00	3.25	2.18	
(F) Property Tax Abatement	5.00	2.33	3.33	3.3	2.50	4.00	2.00	4.50	3.37	
(G) Property Tax Credits for Rehab	5.00	2.33	3.00	2.5	3.00	2.75	4.00	4.00	3.32	
(H) Ongoing Property Tax Relief	5.00	3.67	4.00	3.2	3.50	4.25	4.00	4.25	3.98	1
(I) Tax Benefit for Easement	3.00	2.75	2.00	1.0	3.75	2.75	1.00	3.00	2.41	
(J1) Heritage Grant - Municipal	5.00	2.00	4.33	3.0	2.00	3.25	3.00	4.50	3.38	
(J2) Heritage Grant – Prov./Terr.	5.00	3.00	3.33	2.15	3.00	3.00	3.00	4.75	3.40	5
(J3) Heritage Grant - Federal	5.00	3.00	4.33	2.83	3.00	4.00	3.00	5.00	3.77	2
(K) Revolving Fund for Heritage Rehab	5.00	2.33	3.67	2.10	3.00	1.0	2.00	3.50	2.90	
(L) Venture Capital Fund	3.00	2.00	2.67	1.0	1.00	1.50	4.00	3.50	2.33	
(M) Loan Guarantees	5.00	3.00	3.00	2.00	3.25	1.00	1.00	4.75	2.50	
(N) Preferential Leasing	5.00	2.00	4.33	3.58	1.75	3.50	2.00	4.50	3.33	

Table 5 – Average Response - Sorted By Participant’s Typical Project Type; Typical Project Value; and Typical Property Age

	Typical Project Type			Typical Project Value				Typical Property Age/Status		
	Commercial	Residential	50-50 Mix	<\$1M	\$1-\$4M	\$4M-\$10M	>\$10M	Heritage Designated	Older	New
(A) Non-Refundable ITC	3.50	2.96	3.64	3.63	3.67	2.71	3.30	3.10	3.70	3.33
(B) Refundable ITC	4.40	3.28	3.79	3.50	4.33	3.86	3.40	4.02	3.70	4.00
(C) CCA –Clarify Current Rules	2.90	2.80	3.21	3.36	3.25	2.26	3.10	2.83	2.70	3.17
(D) CCA – New Accel. Class for Rehab	2.90	2.40	2.93	2.63	3.25	2.37	2.63	2.70	2.60	3.20
(E1) GST Rebate	1.50	1.58	3.00	2.63	3.00	1.77	2.20	2.14	2.72	2.20
(E2) PST Rebate	1.50	1.84	2.57	2.25	3.00	2.00	1.80	1.74	2.42	2.20
(F) Property Tax Abatement	2.75	2.96	3.57	3.50	3.75	3.23	2.90	3.27	3.88	3.20
(G) Property Tax Credits for Rehab	2.88	3.16	3.93	2.63	3.50	3.09	3.30	3.27	2.62	3.60
(H) Ongoing Property Tax Relief	3.87	3.68	4.27	4.13	3.75	3.94	3.90	3.75	4.22	3.60
(I) Tax Benefit for Easement	1.90	2.46	3.25	1.50	3.75	2.71	2.40	3.17	2.30	2.50
(J1) Heritage Grant -Mun.	2.76	3.62	3.21	3.50	2.75	3.57	3.00	3.42	3.35	3.40
(J2) Heritage Grant – Prov./Terr.3	2.75	3.4	3.21	4.00	3.25	3.08	3.13	3.25	3.25	3.40
(J3) Heritage Grant - Federal	3.25	3.65	3.71	4.25	3.75	3.80	3.38	3.50	3.77	4.00
(K) Revolving Fund for Heritage Rehab	1.68	2.84	3.42	2.37	2.50	2.33	3.13	3.16	3.32	2.40
(L) Venture Capital Fund	2.13	2.00	2.42	2.50	2.50	1.86	1.75	2.42	2.08	2.80
(M) Loan Guarantees	1.63	2.84	3.21	2.63	3.25	2.19	3.75	3.50	2.71	2.50
(N) Preferential Leasing	2.56	3.48	3.64	4.00	2.75	3.33	2.75	3.75	3.33	3.60

Discussion

The most traditional forms of incentives – grants, property tax reduction – generated some of the greatest interest on the part of participants. This could be because they are familiar measures and could easily be conceptualized and integrated into a traditional pro forma. There was significant variation between jurisdictions in terms of emphases, partly due to the nature of the stakeholder sample, but also likely owing to the unique socio-economic circumstances of each place.

- A, B - Income Tax Credits (ITC) for Heritage Rehabilitation

The ITC might have been anticipated to be more attractive for larger firms with more possibilities for substantial taxes owing in a given year. In fact, ITCs were quite popular across the spectrum, even with smaller firms. The need for substantial corporate tax liability could potentially limit its utility. Refundable variation is more attractive as it is equivalent to a grant, a refundable tax credit would be flexible and useful for a broad range of organizations. “Having these incentives would allow me to do more and to get better backing when I go to the banks for loans. Currently I phase my projects so that I spend more money than I make every year, so the non-refundable tax credit route would not be as compelling as refundable.” (NB) “Anything more as an incentive is useful. A refundable credit where you get money back in the first year is best as the length of time to recover money from invest (the time value of money) is a strong factor. A income tax incentive would enhance the rate of return.” (NB) “But there were challenges identified: Earlier use of fund more value than later credits. Can’t expense costs until work is completed – so, a time lag. How do you share tax credits if it’s a joint venture?” (ON)

- C,D - Capital Cost Allowance (CCA)–

These generated moderate interest, yet consistently across the spectrum. The Terminal Losses /CCA recapture on demolition issue was also mentioned. Please see further information on both of these measures in Appendix C. “I think it would help. It doesn’t help much if it is a condominium development, only if it is commercial or rental residential. Could be used for heritage buildings that are currently busy and well-managed, but the CCA changes could encourage owners to invest more in the building through acceleration or write off.” (MB) “CCA terminal loss provisions and recapture is still a big incentive for demolition. Should be given further research.” (ON) “Need to write this off against income in 3 years which could be difficult to do if each property is owned by a separate company. This measure would be less compelling for those operators. Where all the buildings are owned in one company, the tax savings on one structure can offset those of the others. For the homeowner, there would be no incentive.” (NB)

- E - Sales Tax (HST/GST/PST) Rebates for Heritage Rehabilitation – These were also of relatively consistent interest, but many said they needed to learn more about their potential utility. “If he is developing and renting a commercial property, he could claim Input Tax Credits (ITCs) for the 13% HST payable on construction inputs (materials and services). But with residential properties, he doesn’t collect HST from tenants so he can’t claim ITCs on construction materials expenditures or improvements. On a \$200,000 expenditure, at 13% HST rate, that is \$26,000 lost that could encourage more upgrading.” (NB) “Such a small amount, not really on the radar of a project. Small operations don’t have the office staff to make pursuit of this time/cost-effective and need a GST specialist to assist.” (ON)

- F, G, H - Property Tax Abatement, Credits, and Relief–

Ongoing Property Tax Relief for Heritage Properties was singled out for particular attention in part because it is predictable and would be useful for all. It would help to offset property tax rises which are seen to penalize good maintenance and improvement. “This is a

problem with derelict buildings: if you do nothing, the taxes remain stable, but if you fix it up they go up. I spent 40 years fixing up 44 Princess. 90% of the building was done on my dime. It is unfair that the guy across the street could be getting grants and tax abatements where they weren't available for me. The entire heritage inventory needs to receive tax relief to be fair and equitable not just to benefit new developments." (MB) "Property Tax reduction would have value because City reassesses property values during projects. This measure is fair because it impacts all investors equally and it is easily quantifiable. The developer of a condo property might not benefit substantially because paid by condo purchaser. But developer could use the tax savings in their marketing to buyers. The challenge is, what if buyers don't purchase the heritage component of the project – do they still benefit?" (ON)

- I - Tax Benefit in Exchange for Conservation Easement or Covenant – Mixed feedback on this. For some, only useful where there is a large differential in property values before and after an easement is put in place, while others it would be useful in downtowns under pressure. "Of less interest to large commercial operator like us, but a residential homeowner might find it useful. Could lead to an orphaned building in a changed context with this approach. Needs to be a district level of oversight to make it work, ensuring that the contextual heritage value is secured in the long-term."(NB) There was also another suggestion: "Easements could be useful in limiting the negative impacts of market value assessment. If a nearby building is demolished and gets more density then all assessments in vicinity go up and property taxes rise. Could an easement inoculate a property against viral zoning because the value of the property has been capped? Could be useful." (ON)
- J - Heritage Rehabilitation Grants (Municipal, Provincial, Federal) – These were ranked as important measures for all participants, but there were predictable downsides expressed like the requirement for onerous paperwork and bureaucratic timelines. There was a call for the availability of larger grant funds for them to be meaningful. Some respondents said they weren't worth the hassle. "A grant is a way to get someone's attention; a positive way to inspire a heritage response, rather than using the stick that someone is watching and commanding you to do something. It creates a different response in people you are dealing with when it comes to an extra cost. Despite the municipal oversight involved, it is worth it for the developer." (NB) "Small impact in the scheme of things, but it helps, particularly for smaller projects. There are limits per year but AB can divide up projects over multiple years to get more benefit." (AB)
- K,L,M - Revolving Fund, Venture Capital Fund, Loan Guarantees– The Revolving Fund and Loan Guarantees received moderate interest across the spectrum of stakeholders, with particular benefit for small or start-up enterprises. There were divergent opinions: "Could make a substantial impact. Developer could direct these funds to the heritage component of a larger project with new elements. (ON)" "A flawed concept. Most funds rely on money directed by volunteer boards; no incentive for profit or risk. The whole nature of buying, restoring, flipping – you can't do this by committee." (ON) The venture Capital Fund received very low support. Loan Guarantees garnered slightly more interest. "If you are not getting bank financing for the heritage component, then this could be useful." (ON) "Challenge with this incentive is it involves the transfer of risk to outside party. These guarantees would involve a large layer of security in order to determine the possibility for end users and potential cash flow." (ON)
- N - Preferential Leasing of Heritage Properties – This received moderate to high interest and was said to be more useful for smaller-sized organizations, but could have benefit across the board. "Could have significant impact depending on project and term of lease." (SK) "Would help ensure appropriate maintenance, as more likely to have a consistent lease. Lower vacancy rates of historic buildings, and likely will improve area and make more desirable to be in." (SK)

D. Prioritizing Potential Measures to Encourage Heritage Development

Table 6 – Priorities Selected as Top Three Measures – Sorted By Jurisdiction

*Please note that not all participants selected priorities.

	BC (1)	AB (4)	SK (4)	MB (6)	ON (4)	NB (3)	PEI (1)	NL (4)	National Total	Ranking – Top Five
(A) Non Refundable ITC	1	4	--	4	--	3	1	1	14	3
(B) Refundable ITC	1	4	--	4	--	4	1	1	15	2
(C) CCA –Clarify Current Rules	--	--	--	1	1	1	--	--	3	
(D) CCA – New Accel. Class for Rehab	--	--	--	1	--	--	--	--	1	
(E1) GST Rebate	--	--	--	2	--	--	--	--	2	
(E2) PST Rebate	--	--	--	2	--	--	--	--	2	
(F) Property Tax Abatement	1	--	1	3	2	3	--	--	10	5
(G) Property Tax Credits for Rehab	--	--	--	1	2	3	--	2	8	
(H) Ongoing Property Tax Relief	--	3	2	4	3	3	--	1	16	1
(I) Tax Benefit for Easement	--	--	--	--	2	--	--	--	3	
(J1) Heritage Grant - Municipal	1	--	2	4	--	2	--	2	11	4
(J2) Heritage Grant – Prov./Terr.	1	--	2	4	--	2	--	2	11	4
(J3) Heritage Grant - Federal	1	--	2	4	--	2	--	2	11	4
(K) Revolving Fund for Heritage Rehab	--	--	--	--	1	--	--	1	2	
(L) Venture Capital Fund	--	--	2	--	--	--	1	--	3	
(M) Loan Guarantees	--	1	1	--	2	--	--	3	7	
(N) Preferential Leasing	--	--	2	--	--	--	--	1	3	

Table 7 – Priorities Selected as Top Three Measures: Responses Sorted by Participant’s Typical Project Type; Average Project Value; and Typical Property Age/Status

	Typical Project Type			Typical Project Value				Typical Property Age/Status		
	Commercial (7)	Residential (10)	50-50 Mix (10)	<\$1M (5)	\$1 - \$4M(5)	\$4M - \$10M (11)	>\$10M (6)	Heritage Designated (11)	Older (10)	New (6)
(A) Non Refundable ITC	7	4	3	3	3	5	3	5	4	5
(B) Refundable ITC	7	4	4	4	2	5	4	5	6	4
(C)CCA –Clarify Current Rules	2	--	1	--	1	2	--	2	--	1
(D) CCA – New Accelerated Class for Rehab	1	--	--	--	--	1	--	1	--	--
(E1) GST Rebate	--	2	--	--	--	1	1	1	1	--
(E2) PST Rebate	--	2	--	--	--	1	1	1	1	--
(F)Property Tax Abatement	2	3	5	2	2	3	3	6	3	1
(G) Property Tax Credits for Rehab	2	3	3	2	2	3	1	5	2	1
(H) Ongoing Property Tax Relief	5	4	7	3	3	7	3	8	6	2
(I) Tax Benefit for Easement	--	1	1	--	1	1	--	2	--	--
(J1) Heritage Grant – Municipal	3	3	5	3	2	4	2	4	4	3
(J2) Heritage Grant – Prov./Terr.	3	3	5	3	2	4	2	4	4	3
(J3) Heritage Grant - Federal	3	3	5	3	2	4	2	4	4	3
(K)Revolving Fund for Heritage Rehab	--	--	1	--	--	--	1	1	--	--
(L) Venture Capital Fund	1	2	--	1	--	1	1	--	2	1
(M) Loan Guarantees	--	3	4	1	3	1	2	3	2	2
(N) Preferential Leasing	--	2	1	1	--	1	1	--	1	2

Discussion

While there were some significant differences between provinces in terms of the priorities identified with some stakeholders citing tax-based measures as more compelling while others pointed to grants. There was far more unanimity was evident when sorted by project size and type.

- A, B - Income Tax Credits for Heritage Rehabilitation – The Refundable ITC was supported by 59% of the participants as a priority.
- C,D - Capital Cost Allowance – These measures were not identified as key priorities.
- E - Sales Tax (HST/GST/PST) Rebates for Heritage Rehabilitation – While interest in these measures was identified in the questionnaire process, they were ultimately not identified as a key priority. Could benefit from further study.
- F, G, H - Property Tax Abatement, Credits, and Relief – Property tax relief came in for particularly strong interest across the spectrum.
- I - Tax Benefit in Exchange for Conservation Easement or Covenant – While not identified as a priority, there was significant interest demonstrated in the questionnaire to further explore the measure.
- J - Heritage Rehabilitation Grants (Municipal, Provincial, Federal)— These measures are very compelling across the range of participants.
- K,L,M - Revolving Fund, Venture Capital Fund, Loan Guarantees – Loan Guarantees came in for especial interest and deserves further exploration.
- N - Preferential Leasing of Heritage Properties - While this measure only generated limited interest in the Prioritizing phase, it did attract significant interest both numerically and via comments from a broad cross-section of participants.

Comments – On Financial Measures

- “The simplest incentive program will be the best one.” (NB) “Need to keep it simple with incentives programs, otherwise no one will use it. Ease of use is a significant barrier that must be taken into account.” (NB)
- “Tax codes should be revised based on the principle that heritage properties should not be disadvantaged as against other properties. The tax code is complicated enough without introducing more nuances.” (SK)
- “Should implement several of the proposed incentives to cover varying circumstances.” (PEI)
- “Timing is everything. For \$100,000 measure, benefit changes over time: up front contribution – big impact; spread over 5 years – some impact; at the end of 5 years – very little impact.”(MB)
- “With each incentive, you need to monetize the present value of the benefit, both for the developer and the public. If developer gets all of the value up front then what is the incentive to maintain it down the road?” (ON)
- “Communication between levels of government would also be useful, a space where people can share information to disabuse developers of their misconceptions about the viability of projects.” (MB)
- “Developers are not necessarily rational people and may not be disposed to conservation even if strong incentive.” (ON)
- “Small changes to incremental rate of return makes a big difference. Tax credits that are useful are those that can increase cash flow on the front end.” (AB)

Comments - Additional Measures to Encourage Heritage Development

- “Existing Economic Development Funding programs should be expanded to include heritage projects – current guidelines are not broad enough.”
- “Tax Increment Financing (TIF) could be useful, offsetting the increased cost of doing heritage work. Banks only finance new construction based on numbers, so a TIF could tip the balance.” (ON)¹²
- “Assistance with site servicing would be very useful as well.” (MB)
- “It is not just the residential spaces that sells downtown condos, it is the feel of the downtown as a whole (parking, safety, and price needs to be competitive with elsewhere in the city).” (MB)
- Density Transfer Mechanism – “This would be useful: a way to monetize the lost potential of a site. Problem is, if transferring density, municipality needs to break the density limits elsewhere – someone benefits, someone loses. This does not work in municipalities which already give away extra density for nothing; whole system would need to be tightened up and consistent to be useful.” (ON)
- Trading Density for Benefits – “Changes in Ontario to Section 37 which allows cities to provide additional density in return for benefits. Heritage conservation is not yet seen as a benefit under Section 37, which is a problem for project financing. How do you justify saving heritage when there is no recognition of monetary benefit?” (ON)
- “Planning Measures
 - Parking requirements are a killer for heritage conservation (typically \$20K in lieu of in Toronto).
 - Should have completely different parking, loading, and amenity requirements for old buildings as they aren’t as flexible as new.
 - Should relax these requirements across the board for old buildings as currently have to argue each on a case-by-case basis. (ON)
- “Rewarding good maintenance – Connect property tax reductions with good ongoing maintenance and attach to an existing yardstick like BDMA Best program (municipalities don't have money or resources to check up so use independent group like BDMA).” (AB)
- “Waving permit fees – very useful.” (AB)

¹² Ontario currently has legislation that provides for TIF proposals. The Tax Increment Financing Act allows any municipality to apply for funding from the Province for any project where tax increments are expected to occur as a result of the project. The City of Toronto Act gives additional powers to the City by allowing it to issue revenue bonds based on projected tax increments.

5. Conclusions

“Heritage development is complicated. Greenfield development is such an easy thing – all new codes apply and there are no pre-existing conditions or impediments. And the profit margins are great!”

“The issue with heritage buildings is often their small floor plates or scale. It is hard to get enough money out of them to make it worthwhile; the buildings don’t fit a developer’s usual profile.”

“Heritage is a strong niche for our company. There are high operating costs but it provides a distinctive product sought after by creative businesses and young people who don’t want glass and steel. This provides higher occupancy rates which sustains our company. ”

“We need to get the various layers of government to work together. A variety of tools would be collectively catalytic.”

The *Financial Measures to Encourage Heritage Development* report represents a fair picture of attitudes held by Canadian property development stakeholders toward factors which discourage heritage development and financial measures which would help alleviate them. For what appears to be the first time, it sought insights from stakeholders from across the country and was able to bring together a compact yet representative cross-section of participants. The results from the project’s questionnaire demonstrate that there is substantial unanimity around key factors which hold back investment in heritage properties. The findings also reveal strong development community interest in a set of additional financial measures in support of heritage rehabilitation at the municipal, provincial and federal levels.

A key insight from the project was the fact that Canada’s heritage development community is diverse and has different needs and investment expectations. Developers may be primarily involved in residential (rental or condos) or commercial development, or the small-scale main street-style blend of both. The source of their financing – whether from banks, pension funds, private investors, or mortgages against other property holdings – influences their expectations around the timing of their return on investment. The socio-economic circumstances and land-use planning regimes of the jurisdictions they operate in also play a formative role.

A. Evaluation of Factors That Discourage Heritage Development

Stakeholder Responses – Key Factors That Discourage Heritage Development		
Ranking	Factor	Observations
1	Low Return on Investment (ROI)	Challenge for all participant types
2	Limits on Development Potential	Challenge for all participant types
3	Complexity of Building Code Compliance	Particularly for projects \$1M-\$10M and those in new construction
4	The “Unexpected” in Heritage Projects	Particularly for projects \$1M - \$4M
5	Delayed Return on Investment (ROI)	Particularly for those in new construction

Factors with a strong impact on the potential scope and financial return of projects – Low and Delayed Return on Investment (ROI); Limits on Development Potential; and the “Unexpected” in Heritage Projects – received the most attention. Comments confirm that these create a “perfect storm” discouraging investment: the general perception of lower ROI on many heritage projects leaves a smaller margin for project error or the “unexpected,” thereby smothering potential investment.

The difficulty of obtaining financing from banks and other providers was not singled out across the board, but was a particular impediment for smaller developers and those newer to the field. That said, these smaller developers were much more comfortable with the “unexpected” and less critical of longer approval timelines than those from larger or new build-focused organizations. Also notable were the broad challenges that building codes brought to heritage projects and that the high cost or limited supply of heritage workers were not highlighted, though there was some regional variation.

Stakeholders also brought forward key discouraging factors not captured in the questionnaire: finding tenants for often quirky floor plates found in older buildings; the cost of upgrading servicing to buildings in older neighbourhoods; rising building acquisition costs; and higher operating costs for older buildings.

B. Evaluation of Potential Measures to Encourage Heritage Development

Stakeholder Responses – Best Potential Measures		
Ranking	Measure	Observations
1	Ongoing Property Tax Relief	Support from all participant types
2	Heritage Grant -Federal	Strong support from small projects
3	Refundable Income Tax Credit	Strong support from commercial and projects \$1M - \$4M
4	Non-Refundable Income Tax Credit	Moderate support from all participant types
5	Heritage Grant – Provincial/Territorial	Strong support from projects \$1M- \$4M

Stakeholder Responses – Prioritizing Potential Measures	
Ranking	Potential Measures
1	Ongoing Property Tax Relief
2	Refundable Income Tax Credit
3	Non-Refundable Income Tax Credit
4	Heritage Grants – (All Levels of Government)
5	Property Tax Abatement

Notably, the top-five measures remained the same for stakeholders in the evaluation of individual measures and prioritization phases of the project, the only difference being their ranking. Ongoing Property Tax Relief was identified in comments as a clear, immediate and long-term lowering of property costs that could make a pro forma more compelling. The Refundable Income Tax Credit (ITC) was even more compelling than the Non-Refundable ITC because it represented a financial value whether or not the organization had taxes owing to offset. The popularity of grants was buoyed by the fact they are typically upfront financing that could have an immediate impact on a project, but it was noted that in most cases, particularly for larger projects, the current grants available generate only a modest impact. It is debatable whether stakeholder familiarity with existing property tax based financial measures and grants may have enhanced their popularity over less familiar measures like ITCs or CCA related measures.

There are number of measures that did not make the top five but deserve continued consideration as they were highly value by certain constituencies:

- Capital Cost Allowance (Clarify Current Rules & New Accelerated Class for Heritage Rehab) – These financial measures generated moderate interest across the stakeholder spectrum. The lack of clarity around current rules was identified as a significant rehab irritant by some, while others said that CCA changes would encourage owners to invest more in their older buildings.
- Tax Benefit in Exchange for Conservation Easement or Covenant - While the potential for a tax benefit in exchange for a conservation easement did not rank among the top five measures identified by the development community, the existence of a federal tax measure (Eco-Gifts) that encourages the preservation of ecologically sensitive lands may increase the feasibility of establishing a comparable measure for designated historic places.
- Preferential Leasing of Heritage Properties - Given that ensuring a future use/market for heritage buildings is an important factor, policy measures to encourage prioritizing heritage facilities when seeking office space, renting meeting space, etc. should also be considered. Attractive financial incentives may not be effective if there is no market to lease or purchase the building after it is developed

- Loan Guarantees for Heritage Rehab – This generated considerable interest from smaller and larger stakeholders alike. There were questions, however, around who would administer it and how the loans would be backed.

Additional measures, not outlined in the discussion guide and questionnaire, were identified by stakeholders and also deserve consideration:

- Tax Increment Financing (TIF) – These were said to be useful for offsetting the increased cost of doing heritage work.
- Density Transfers – These were noted as proven tools for monetizing the lost development potential of sites with heritage restrictions.
- Planning Measures – There were suggestions that there should be completely different parking, loading, and amenity requirements for old buildings as these are not as flexible as new structures. These should be codified rather than argued on a case-by-case basis. In Ontario, Section 37 of the Planning Act allows municipalities to pass Zoning By laws involving increases in the height or density otherwise permitted, in return for the provision by the owner of community benefits. Preservation of heritage buildings or elements are not currently considered community benefits.

C. Closing Insights

“Tax codes should be revised based on the principle that heritage properties should not be disadvantaged as against other properties.”

“Should implement several of the proposed measures to cover varying circumstances.”

“The simplest incentive program will be the best one.”

“Developers are not necessarily rational people and may not be disposed to conservation even if strong incentive exist.”

The property development industry is predominantly geared towards new construction. Responses by stakeholders confirm the fact that developers who regularly take on heritage projects have a particular way of seeing or imagining the potential of older properties – they see diamonds in the rough where the majority see few possibilities. The authors of *The Lazarus Effect* note in the conclusion to their 2006 report:

“Vision is the ability and perhaps, more importantly, the inclination to see what a project will look like when it is completed. Many people are impressed with renovated older buildings when they visit them in other cities or even other countries, but the same people will look at derelict or rundown premises in their own neighbourhood and think they should be torn down. The heritage developer sees past the current state of the building and can imagine its potential.”

Arguably, this kind of heritage “vision” can be cultivated. A potent combination of financial measures has the potential to establish a price signal that will change the way Canadian society views heritage properties. Despite evidence to the contrary, many in the mainstream real estate development industry continue to portray heritage rehabilitation as an insurmountable technical and financial challenge. By offering financial measures that encourage heritage investment, it would suddenly shift perceptions across columns on the balance sheet and become an opportunity.

Given the diversity of the heritage development community, the key will be to select and pursue a variety of heritage financial measures at all three levels of government that can be combined to strong effect and align well with a diverse existing range of development and investment models. A key insight from the questionnaire process was that small changes to the incremental rate of return on investment can make a big difference in investment decisions. Another insight was that measures that provide front-end capital and can quickly increase cash flow would be very beneficial. Ideally, any range of financial measures would involve a mix of as-of right (entitlement) incentives and discretionary incentives, so that the program as a whole could address the various related goals of equity, public certainty and confidence in the program, and the direction of incentives to priority ‘targets’. With this in mind, it is advisable that the strategy for pursuing potential financial measures to encourage heritage development should strike an appropriate balance between those most desired by the development community, and those most feasible to establish.

Recommendations

That the Federal-Provincial-Territorial Ministers’ Table on Culture and Heritage (FPT):

- **further explore the potential for federal, provincial, and territorial financial measures to encourage heritage development;**
- **establish in each jurisdiction a working group to explore options highlighted in the report with other governmental departments (finance, municipal affairs, etc.) and to develop specific recommendations for municipal, provincial, territorial and federal options to encourage heritage development; and**
- **request officials in their future deliberations to consider, among other things, both the feasibility of approaches that are pan-Canadian and the possibility of launching an initiative(s) for Canada’s 150th.**

Appendix A:

National Trust for Canada Project Team

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Natalie Bull – Executive Director, National Trust for Canada

Paul Berg-Dick – Consulting Economist, MEKA and Associates

Questionnaire Participants

APM Construction Services Inc. (Charlottetown, PEI)

Lloyd Alter – Architect, Developer (Toronto, ON)

Jim Bezanson – Developer (Saint John, NB)

Keith Brideau – Historica Developments Inc. (Saint John, NB)

Trevor Broad & Daryl Carpenter – Resland Development Group (Brandon, MB & Surrey, BC)

Bob Brown – Leon A. Brown Ltd. (Winnipeg, MB)

Guido Del Rizzo – Developer/Renovator (St. John's, NL)

Aiden Duff – (St. John's, NL)

Jamie Goad – CityScape Development Corp. (Toronto, ON)

John F. Irving – J.D. Irving Limited (Saint John, NB)

Ross Keith – Nicor Developments Inc. (Regina, SK)

John & Oreal Kerr – Ansonia Property Management (Calgary, AB)

Garnet Kindervater – (St. John's, NL)

John Leroux – Architect (Fredericton, NB)

Loretta Martin – Centre Venture Development Corp. (Winnipeg, MB)

Alec McColm – Allied REIT (Calgary, AB)

Iain McCorkindale – Matco Investments Ltd. (Calgary, AB)

Kevin Nolan – (St. John's, NL)

Braden Pilling – Renaissance Brandon (Brandon, MB)

Neil Richardson – Heritage Property Corporation (Calgary, AB)

Kurtis Sawatzky – Stonebridge Development Group Ltd (Winnipeg, MB)

Sandy Smallwood – Andrex Holdings Ltd. (Toronto, ON)

Jon Stovell – Reliance Properties (Vancouver, BC)

Gary Switzer – MOD Developments Inc. (Toronto, ON)

Declined to be identified (MB)

Declined to be identified (SK)

Declined to be identified (SK)

Notes on Methodology

- National averages (Table 3A and 4A) were arrived at by averaging the provincial totals rather than using the raw data from all individuals. The intent was to reflect regional variation and to not skew responses to provinces with high participation rates.
- There were challenges in fairly representing the involvement of participants in more than one category many of the tables, particularly when it came to “Typical Project Value” and “Typical Property Age/Status.” Rather than create additional multiple sector categories, an average or typical project value or age was determined. While this may lead to unintended ambiguities, it was decided that a proliferation of sub-categories would impair the legibility of results.

Appendix B:

Collated Comments from Questionnaire

Part 3: Evaluate Factors that Discourage Heritage Development

Please rank the impact of these factors on your decision to invest in/rehabilitate a heritage property:
Factor

A. Low return on investment

- Investors can get a 5% rate of return in Calgary, whereas you can get 7-8% in New Brunswick. (NB)
- Heritage rehab costs more. (NB)
- Market can only bear so much rent. (NB)
- But labour costs are cheaper in NB than Vancouver. (NB)
- Investors looking for a reasonable ROI. Reality in commercial sector is a lower ROI with heritage buildings (5-7% range), same in Toronto or Halifax. (NB)
- This is a key challenge. But there is a very tangible and intangible return on investment: not just financial, but social, ethical, cultural. (NB)
- Every developer has a different rates of return projections and expectations. Looking at a cash-on-cash rate of return: can they make money back given income, expenses and mortgage carrying costs? How much in pocket after this? Every developer has a different internal rate of return expectation. In a lot of cases, after mortgage payments and principal reductions, most developers are only looking at a rate of return comparable to bond rates – therefore not worth the risk! (MB)
- We are getting 2% ROI. The low number comes not just from construction costs but also the low demand for downtown residential properties. (MB)
- Financial gaps are significant. There could be a \$1-3 million gap in \$10-15 million size project. (MB)
- Cash flow property generates possibilities for future gains or toe-hold/critical mass in a neighbourhood. (ON)
- It depends on projected condo sales; ROI affected by acquisitions cost – may have paid more because an older building. (ON)
- Could distinguish between expectations of commercial development and condo developers (they have different expectations on ROI). (ON)
- Accessibility costs are a five while energy efficiency is a two; people don't measure energy efficiency in old buildings properly, they don't take into account thermal mass of older walls which is a huge factor. (ON)
- Premium value for heritage is strong because so few left. (AB)
- Double the cost to build new. (AB)

B. Delayed return on investment

- Relatively large conversion one major investor. (MB)

- A number of projects in downtown Winnipeg are on hold because they can't get the return quickly enough. (MB)
- It depends. (ON)
- Older buildings frequently have less amenity space to keep up – a positive factor. (AB)

C. Limitations/controls on development potential

- Perception is it is a huge problem. In reality it is not a problem at all. (NB)
- Municipal zoning was very open in our project. (MB)
- Not a factor because we are in these buildings for the long-term. Historically, we have used any profits to roll back into the buildings. We don't like to carry mortgages, because then you need to charge high rents for enough cash flow and then have high tenant turnover. (MB)
- Can't get the economies of scale with many of the smaller heritage properties. Inability to provide parking is a key problem. (MB)
- Not really an issue. (MB)
- Parking is a big problem. Often can't demolish what is already in place to facilitate this. (MB)
- As soon as change zoning on an existing building, things get very complicated, the timelines longer. (MB)
- It depends. Getting political say is key; need to demonstrate broader revitalization of surrounding area. (ON)
- Really a two-part problem: (1) Knock down and holding speculative properties puts all at risk (cheaper to sit on a parking lot); and (2) The damage caused by lack of control on misguided increased density or spot rezoning. (ON)
- Not doing this because we are an invest and hold organization. (AB)

D. High cost of heritage workers

- I train people to do the work or do it myself. (NB)
- Challenge of finding quality workers not exclusive to heritage sector. (NB)
- Not a critical issue. We have access to good people. (MB)
- There is capacity. (MB)
- Not exclusive to rehab as any construction is costly. (MB)
- Not feeling constrained because there are prescribed standards for the conservation work. Most of the rest of what they do involves new materials. (MB)
- High cost of heritage sensitive workers. (ON)
- This issue only related to portion of a property, because mostly use mainstream, electrical or heating workers on many parts of a property. (ON)
- Not necessarily a high cost associated. (ON)
- Adequate supply of reasonable cost in Toronto. (ON)
- We were an unusual project – our workers shared the project risk by being flexible with payment. (ON)

- Really a matter of promoting training. (ON)
- On some projects have to bring skilled hands from Eastern Canada. (AB)
- Not enough work in western Canada to justify specializing in heritage crafts. (AB)
- Slow workers and harder to deal with. (AB)
- Need more training – few can specialize in heritage because not enough value. (AB)

E. High cost of heritage construction materials

- Construction materials are cheaper in BC. (NB)
- Simply a different manner of construction. Not a factor. (NB)
- Building materials have doubled in price in the last 10 years. Restoration makes more sense now. (NB)
- Windows and façade are the major issues. (MB)
- Looked into the heritage features of the building when purchasing and what we would be required to maintain. Most of the superstructure was being kept so would need to change things. (MB)
- High cost of new materials is an upside in some cases for heritage reuse. (MB)
- Different from remediating new sites; more complicated. (AB)

F. High site remediation costs

- Asbestos, etc. Need to be calculated at time of building acquisition. (NB)
- Saved on dragging materials to landfill. (NB)
- Demolition, vermiculite, asbestos. (MB)
- A very minor factor in the past, now a challenge with increased requirements. Asbestos is difficult. (MB)
- Not a big issue across the board. (MB)
- Significant factor. Our project is an example of this. A \$250,000 estimate on hazardous removal became \$800,000 due to light ballasts, etc. (MB)
- Asbestos paper under wood floors was a surprise and added cost. (MB)
- These are just expected costs; another line item on the pro forma. (ON)
- We had a SSRA (Site Specific Risk Assessment) due to chemical contamination. (ON)
- Lead paint/PCBs. (ON)

G. High cost of accessibility and energy efficiency measures

- Easier to ask forgiveness than permission. (NB)
- Building codes don't respect heritage buildings. This is an area the sector needs to work harder on. Inspectors not willing to put their necks on the line in interpretation of code. Comes down to inspector awareness; almost need to build a relationship with an inspector. Current codes written for new buildings tend to create disincentives for old buildings. (NB)
- Not just accessibility but safety and fire. (NB)

- Existing counts and fire engineers key. Need to get down to root of safety clauses with this for heritage solution. (NB)
- Residential conversion was a challenge. Coming up with drawings for layouts. (MB)
- Accessibility is a big problem. Planning around structural elements in older buildings (pillars, doorways, etc.) is a big issue. (MB)
- Barrier-free entrances, etc. (MB)
- Inefficient spaces in buildings are hard to rent; accessibility issues mean you may be required to destroy old (door widths/stairs) to ensure compliance. (ON)
- These are just expected costs; another line item on the pro forma. (ON)
- New buildings have more efficient floor plates. (AB)
- No different than other real estate; sometimes elevator size is a problem or window. (AB)

H. Difficulty of obtaining financing from Canadian banks

- Most of my buildings were originally financed through mortgages using other buildings as collateral. Now finances projects out of cash-flow. (NB)
- Head office of our bank is not used to financing century old buildings. (NB)
- Banks loan against a business plan and a company's record. If you are just starting out, you are a higher risk. You will not experience this on your 20th successful project. (NB)
- We have a good relationship with banks. In our case, we bought the building with cash. (MB)
- Financing is not really an issue. Bank financing follows a solid business plan. (MB)
- The loan to value ratio of a heritage project the same as new: 75% loan to value ratio the standard. (MB)
- Some developers need money up front. We have lots of access to capital. The risk with incentives is that you are extending them to developers that don't have successful projects. The optics of projects going bad has a profound chill affect through a regional industry – everyone talks to each other. (MB)
- Banks will give you money if you can prove you need it – no different for a new project; depends on project risk and difficulty; more important factor for a bank is the end users and being able to demonstrate cash flow. (ON)
- Not a big deal if project good. (ON)
- We were lucky because we already had a track record with banks from other projects (one bank didn't have ability to conceptualize the potential of the site). (ON)
- In some ways easier to secure financing on heritage building because collateral is still there in the existing building; that said, it is difficult to get fixed price contracts on old building rehab so need contingency money built in. (ON)
- Market – needs to be a market for the heritage space to work. Banks hate you at the start of a project and love you when it's finished. We found it hard to find debt capital and when could now at a premium – 10.5 to 13% range. It would be 6-7% on new

construction by comparison. Banks and investors are more comfortable with new construction. (AB)

I. Difficulty of obtaining other forms of financing

- Other established forms of investment available. (NB)
- Equity financing is sometimes an option. (NB)
- Only recently become a problem. Hitherto have used our own internal capital to finance acquisitions. (MB)
- They rely on CentreVenture bridge financing. Their return on cash makes it more attractive to use this financing. (MB)
- Our projects, it is mainly due to the credibility we have gained over time. (MB)
- Banks will give you money if you can prove you need it – now different for a new project; depends on project risk and difficulty; more important factor for a bank is the end users and being able to demonstrate cash flow. (ON)
- Not a big deal if project good. (ON)
- We were lucky because we already had a track record with banks from other projects (one bank didn't have ability to conceptualize the potential of the site). (ON)

J. The “unexpected” involved in adapting heritage buildings

- No problem. Just need to know the process. (NB)
- When compared with new construction, there is always an element of the unknown. (NB)
- Developers quickly adjust to this. (NB)
- Lots of things came up. We are first time heritage developers working on a complicated building. (MB)
- Transformers have become a problem in recent acquisitions because they contain PCBs. Also have been fighting with the City to get sewer and water one of our projects. (MB)
- Perception is that the risk is too big for a project with potential of 12-15% ROI. With a project with only 5% ROI there is even less margin for error so people won't take the risk. (MB)
- You need to budget for this and do extensive assessments of the building in advance. With all our buildings we know their condition inside out. (MB)
- How much can be spec'ed out in advance is a factor. Need to develop a profile of a type of building up front and then be able to provide this to developers – would take out guesswork and bring more into the market. Make it a requirement of another authority to pay for this tool. (MB)
- Always need a contingency plan. (ON)
- If you have good architects, you can proceed with confidence. (ON)
- Sometimes challenges when exposing interior. (AB)

K. Long timelines for heritage approval process when compared to non-heritage projects

- Long timelines, yes, but need to know how to get it done. Zoning changes are also a challenge with new construction. Heritage processes are not an issue. As a developer you need to be accountable to someone; need to do something that tenants and communities like. (NB)
- Tenants like space that is psychologically good. All things being equal, people like being in older spaces – there is a sense of stability, etc. (NB)
- More frustrating working with consultants than govt. regulatory bodies. (MB)
- Often it is the fault of the developer who doesn't give them the right info up front. (MB)
- Bad for heritage projects. We waited 18 months for permits on replacing our windows on a project. They became a bone of contention with shop drawings of windows going back and forth with historical committee and others. (MB)
- There are many disconnections within municipal government that extend things. (MB)
- Timeline issues around approvals is no different for new construction; those developers who complain are those who are attempting to change the use of an old building – then it gets complicated. (ON)
- No longer than new construction. (ON)
- Different from new build. (AB)
- Need to deal with the approval process frequently to be efficient. (AB)
- Similar problems for new buildings. (AB)

L. Limited heritage professional and trades workforce

- Most buildings don't need special professionals. The masons are expensive, however, and more complicated to work with. (NB)
- Need to find an inspired architect. Lots of people are available – not a supply problem. (NB)
- This is not a substantial problem. The workers are there. (NB)
- There is quite a strong heritage trades workforce. (MB)
- Poisoning the atmosphere because not finding the right workers at first. Good expertise is worth every penny. There is a very limited group of people in Brandon. (MB)
- Key is retaining them; you need a critical mass of projects to attract and retain these people. (ON)
- A higher cost than new build. (AB)

M. Complexity of building code compliance

- Alternative provisions under the building code are a possibility, but few go this route because too much of a pain. (NB)
- Part of it is a game of “what is egress”. (NB)
- The fire marshal and building code are challenges. Another challenge is the engineers - they are all trained in HVAC, for instance, but not in floor radiant – so there is an educational issue to be addressed. (NB)
- Assumption is it is high. But in reality, not really so onerous. (NB)
- Discouraging working with inspectors. Need proof of structural soundness for a change of use, which makes conversion to residential all the more challenging. (MB)
- Not doing change of use with our buildings so not a factor. (MB)

- We have always gone up to or exceeded code – not a problem. Sometimes we have gotten building permits and other times not, with the objective being to get the buildings cleaned up and serviceable as soon as possible. We don't believe in cutting corners; need safety in an attractive manner. (MB)
- Waiting to stamp architectural drawings can be a problem – depends on project complexity. (MB)
- Fire safety and egress key. (MB)
- Need to know what you're getting into going in. (MB)
- Life safety is the big one. They operate on a hierarchy of needs. (MB)
- Inefficient spaces in buildings are hard to rent; accessibility issues mean you may be required to destroy old (door widths/stairs) to ensure compliance. (ON)
- Hasn't been a big problem. (ON)
- The city was keen to see our historic buildings retained so Building Department worked closely with us to troubleshoot and find equivalencies. (ON)
- Code issues are a big irritant and time consuming; in some cases we needed to bring in code experts (at great cost) before local building officials would sign off. (AB)
- Building inspectors are a problem. With building regulations they are looking for every opportunity to raise safety standards as high as they can. Need qualified people who can make a special heritage assessment. (AB)
- No different than other commercial building. (AB)

Comments

- Residential easier to finance than commercial. (NL)
- Perception of high cost. (NL)
- Long process and design approvals resulting in bigger risk and changing market opportunities. (SK)
- We don't (and can't) do projects with a "low return on investment." Public funding of some kind must be there (in many cases) to make projects viable. (SK)
- In order to find a good use for a heritage building, the developer needs to work with the assets and have a creative approach: they need to work with the building rather than against it. Many developers don't want to think creatively. I didn't set out to become a developer but became one due to a need to find solutions for buildings – perhaps many other across the country have similar stories. Heritage developers do not get to take advantage of the economies of scale of the assembly-line approach, but they do end up with a product whose palate of materials are unique – this should not be underestimated. For a heritage sensitive developer, it is the challenge of balancing consumer demand and maintaining heritage character – this is the dilemma. In many cases, need to meet the test of reversibility with adaptive interventions. Need to address disincentives (perceived or otherwise) in order to expand heritage rehab beyond the existing small group of passionate oddballs. (NB)

- I expect issues with older buildings so complexity and timelines are not a problem. Heritage committees occasionally cause irritants when they fixate on things like wooden frame windows on the rear of a building – necessary? Some developers don't like the fiddly nature of heritage development and the extra oversight. (NB)
- None of these factors are showstoppers. The issues with heritage buildings for a developer are small floor plates or scale. (often 15-20,000 sq. ft.). It is hard to get enough money out of it to make it worthwhile for a developer; the buildings don't fit their usual profile. In this business, you make money by providing a good or service that people want. (NB)
- Price was right on the Brandon building. Got to know more about it over time. Initial purchase of it was the thrifty part. Labour is expensive in Brandon; much higher than in Winnipeg. Unexpected elements on project: having to correct consultants working on the project; went through 3 or 4 structural engineers (they weren't as comfortable working with heritage as they claimed to be) and 2 architects. (MB)
- We have put the energy into fixing up the buildings over time, whereas others take out large mortgages to fix up buildings and then need to charge high rents to carry them. At 44 Princess, for instance, we used the cash flow from the building to support the ongoing renovation. We have been able to attract tenants who could handle occupancy during the renovation process in exchange for very reasonable rents. As soon as put in residential it moves the renovation of buildings into a different cost bracket, so we haven't gone there. Long-term tenants are key to the business so we charge low rents. It is better to be 90% full with rents well within the market range than very high with tenants constantly pulling out on short notice. We have a personal relationship with tenants, many of whom are mom & pop operations. (MB)
- At this time, more interests is coming from out-of-province developers. Why outsiders? Renaissance Brandon is a young organization founded in 2009, and we have slowly been upping expectations about the project; not a lot of real appreciated in the city to this point. Local developers only look at bottom line and don't factor in the unique nature of heritage buildings when comparing new construction vs old rehab. The City of Brandon and many local residents, however, are convinced they have significant heritage assets. (MB)
- Developers want cash up front rather than slow dribbles of incentives. (MB)
- Urban design advisory appeals are a challenge, also the erratic handling of heritage elements by advisory bodies. There needs to be a more thorough discussion of what is heritage, what is important, and what is acceptable change – lots of change or no change, that is the range. (MB)
- Converting 150+ condos in 100 year old buildings. (MB)
- Most developers get the interiors of heritage buildings and that makes things complicated; often the only "heritage" activities are repointing bricks and repairing windows. (ON)
- Putting new mechanical and HVAC into older buildings can be a challenge. (ON)
- Heritage is a strong niche for us; high operating costs but distinctive product; they are sought by creative businesses and young people who don't want glass and steel; this provides higher occupancy rates which sustains our company. (AB)
- The suburban model of development is broken – property securing costs are now too high, so developers will be looking downtown. (AB)

Other factors not included above?

- Always a risk unlike new construction. Older properties do not comply with new building codes and when they are applied they often deface heritage character of the building, i.e. stair cases in King George V had a long fight to keep them as not up to code with height of hand rail. (NL)
- Lack of flexibility/more help from city inspectors (problem-solving versus throwing the book), easier process within city. (NL)
- Structural aspects of the buildings require so much capital to repair, making them uncompetitive in selling or leasing. (SK)
- Finding a use is always the biggest problem. Governments rent new space not old space which exacerbates the problem. (SK)
- Elected officials at all levels need to think long-term about heritage buildings, their value and how to sustain them. Municipal bureaucrats often only give elected officials the info they need to make the decisions they want. (NB)
- It is hard to upgrade 25% of a building if you gut it and rebuild and keep the outside. In New Brunswick property taxation is a problem: municipal and provincial taxes create double taxation. (NB)
- There is the public perception of whether heritage rehab is worth it. This influences developers' decisions. (NB)
- Working outside our usual geographical area, we don't have the kinds of relationships with professionals/workers that make things run smoothly. Adaptive reuse is very common, so there needs to be acclimatization in the construction culture of a particular area to make things easier – happens over time. (MB)
- Servicing the building – Water supply was good (city services are adequate for the project); needed to upgrade electrical service and provide new gas line, which cost a lot.
- Peregrine Falcon – There was a scare that there was nest in the building which would have set the project back years! (MB)
- Wouldn't undertake a project like this again. We are good at finding properties and packaging saleable land. This is kind of project was outside our comfort zone, out-of-province. (MB)
- Acquisition Costs – Another factor. Old buildings have gone up in value, but lease rates haven't gone up by much, so there is a growing gap. (MB)
- Parking Permit Program – The program was cancelled and now workers can't find regular parking downtown. Huge disincentive. (MB)
- Safety and Security – People are worried about street level crime so want their vehicles in parking garages. (MB)
- Your top line revenue is rent, and this is market driven. Safety influences what you can charge. On top of that you need marketing and parking stalls and streetscape amenities. Then there is cost – with condos you can scale this by increasing/decreasing quality and amenities. (MB)
- More money required to bring buildings up to speed (remediation, servicing of site, etc), so there should be an incentive program to cover this. Public sector could do this, and thereby get

more public good. It was suggested that rather than providing an upfront subsidy, could indemnify a project for any zoning or servicing issues that crop up. (MB)

- Province and federal government could have a role. But much of it needs to happen at the municipal level. It needs to streamline help providing services to these sites. If money went into preparing buildings that are deemed most important (water, electrical, gas) this would be more effective than piling on incentives. Symbolic capital as an incentive, yes, but there is a point where these projects need to compete on a head-to-head basis with new development. The playing field at the moment tips towards suburban greenfield development at the moment. Need good and strong policy to curb this; if so, can have urban and suburban development. (MB)
- Developer – there is a learning curve through doing these projects. New construction still has issues as well. Multifamily projects can bring big profits or loses. We carry responsible contingencies where those projects can carry units that don't sell for 6 -10 months. (MB)
- Need more oversight on what is a solid heritage project with any incentive otherwise encouraging bad work. How do you compare "pure" conservation with the gut and strip approach taken by many? Need a better definition and criteria on heritage to reward/acknowledge those doing quality work. (ON)
- Factors depend on specific context: for instance location dictates the rent you can command. (ON)
- If city is not supportive of a project then there will be no end of problems – need to tailor your project in an attractive/supportable way. (ON)
- The Distillery District was a special project. We had to show that putting value back into the core of heritage buildings made the financing of the entire project work. It could re-establish the heritage and make it a destination; this would add value to the residential tours and drive the entire financial model. It was difficult to find a financier because this kind of development wasn't a traditional bankable position. (ON)
- An older building cannot be made into a new building, but the system is geared towards new. Rehabilitating old buildings takes a lot of time which is an issue. (AB)
- Property taxes are a problem; when upgrading buildings it doubles property taxes. (AB)
- Operating Costs - 50c/sq.ft. on new buildings; \$2.00/sq.ft. on older buildings (this from windows and roofs, etc.) (AB)
- 6.5% cap on current rent profit. 4.5% goes to investors. (AB)
- Having a solid incremental maintenance program is crucial. (AB)
- Heritage buildings are intrinsically valuable to investors because tenants want to be in them. (AB)
- Easy old building development sites have already been picked off. Need to put together the conditions in place for when the Calgary market revives. (AB)

Part 4: Evaluate Potential Measures to Encourage Heritage Development

A. Non-Refundable Income Tax Credits for Heritage Rehabilitation

Federal/Provincial

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- The project would have to make the income to allow for tax credit of 20% or 10% but good in that you can carry it forward. (NL)
- Dependent on profit. (NL)
- Reduce your taxable income. (NL)
- Good if not too cumbersome, i.e. red tape, etc., accounting, etc. (NL)
- I think the tax credit would have to be substantially higher and dependent on the individual project and market conditions at time. (SK)
- Not enough of a financial benefit to make a difference to do the project or not do the projects. But at the same time everything helps in the long run! (SK)
- Tax incentives are clumsy. (SK)
- Having these incentives would allow me to do more and to get better backing when I go to the banks for loans. Currently I phase my projects so that I spend more money than I make every year, so the non-refundable tax credit route would not be as compelling as refundable. (NB)
- The more you can give by way of incentives, the better case a developer can make when going to his investors and backers. (NB)
- Anything more as an incentive is useful. A refundable credit where you get money back in the first year is best as the length of time to recover money from invest (the time value of money) is a strong factor. An income tax incentive would enhance the rate of return. CHPIF program, for instance, gave us 10% on the CenterBeam project, which made all of the difference. (NB)
- This would have a huge impact in NB. Would have a catalytic effect. Increase in the tax base would far outweigh temporarily lost revenue for government. (NB)
- Any kind of tax credit or deferment of taxes helps the bottom line. (MB)
- These ITCs would have a use and I would utilize them. I think it is distasteful, however, that only some people get lower taxes while others pay the full rate: there should be equality through the tax system. Some property owners need motivation. Problem is people will take government money and not provide good public value for the expenditure – e.g. poor quality conservation work. That said, an ITC will help a company what would need to put financing in place. If there are credits that can help the bottom line, it will make a project more doable. (MB)
- The measure absolutely has potential to have an impact. But you need to have someone sit down developers and explain to them the value of the incentive based on realistic project projections. They would need to have this to understand the monetary value of it. Effectiveness of the measure is going to be reduced in proportion to its complexity. If could come up with something like a flat number that would be best (e.g. per door or per square foot). Simplicity the key. (MB)
- US incentives make sense in the Canadian context. It would be fantastic if we had all three levels of government involved in incentives. Every bit helps move people in the direction of rehab over new construction. Would help to have a central clearing house

of downtown heritage development knowledge and expertise for people in smaller centres to turn to. (MB)

- Would have merit. (MB)
- Would be more useful with a developer like us where these credits can be applied to a large company; limited potential with a one-off project. Would build these into the pro forma by writing off the tax expense. (MB)
- It depends – how it will impact finances varies project to project. Challenge with this incentive would be how to define heritage. Worried that people would abuse the system. In US, for example, they will not allow replacement of windows to be eligible. (ON)
- Earlier use of fund more value than later credits. Can't expense costs until work is completed – so, a time lag. How do you share tax credits if it's a joint venture? (ON)
- A project like the Distillery District always takes about 6-8 years before making money and being in a taxable position. With a different kind of project tax credits could be more useful: a tower with a facade, for instance. Tax credits are not that straight forward. (ON)
- Not in a position to be able to vet its utility. (ON)
- If these credits were transferable they would be more useful. Better to have money right up front. (AB)
- With a REIT there isn't much corporate tax exposure, as the cash flow/dividends typically flow untaxed to the individual unit holders, for taxing at their rates, or sheltering under their RRSPs, etc. (AB)
- Would need to have solid financial model in place to make the tax incentive useful. A tax incentive would enhance restoration opportunities. Incentive would increase ROI. (AB)
- Would be a solid way to go. (AB)
- Giving a break on output capital, but doesn't change the fact that you need to have upfront money. (AB)

B. Refundable Income Tax Credits for Heritage Rehabilitation

Federal/Provincial

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- Better than a total tax write off or carry forward more in pocket. (NL)
- Less risk exposure. (NL)
- Give extra money for development. (NL)
- This may be a better option and again should be a higher tax credit depending on project taken on. (SK)
- Not enough of a financial benefit to make a difference to do the project or not do the projects. But at the same time everything helps in the long run! (SK)
- Tax incentives are clumsy. (SK)
- A non-refundable tax credit would have a powerful impact; it acts like a grant. (NB)
- Would have a big impact but the refundable nature of it would be problematic. It's too much. We don't need to go there to get good results. (NB)
- It would have an impact, but not sure if very much, as CCA already does something to a degree. The real factor for making a project a go is how much equity you have to put in

up front. The challenge would be to establish the CCA change's effect on net revenue – need to lower expenses and raise revenue.

- For tax credits to be useful you need to A) make money and B) be a taxable entity. If your major investor is a pension fund they don't pay tax so into benefits? A tax credit would not make a strong material impact on our decision to undertake a project. Other developers, however, may be motivated by it. (ON)
- These would be very useful. Transferable, even better. (AB)
- I tested a scenario that could apply to grants or refundable credits (B & J). Which I think could be advantageous to a broad range of companies or investors. I tried to scale that on an average older building size and requirement. So I sampled a 50,000' building. With a \$10/ft. upgrade allowance, \$500,000. Receiving a grant or refund benefit/incentive of 20% or \$100,000. I ran that on a five year ownership span (though many heritage or older building owners such as ourselves plan to hold for much longer than that). In any case, on an unleveraged basis that scenario yielded about 1/10th of a percentage point return improvement with the incentive/benefit. Perhaps by itself not an inducement to do all the right things. But still a contribution that would encourage restorations to do more. Particularly those things that aren't easily capitalized by improved rental rates (such as facades). That return factor can also be enhanced by positive leverage mortgage rates currently available. Which could be further amplified by any discounted lending funds that your programs made available (AB).

C. Capital Cost Allowance – Clarify Current Rules for Repair or Betterment to Encourage Heritage Rehabilitation Federal/Provincial

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- Would require a fair amount of time for certification conditions and how they would be instituted – but it would be good. (NL)
- Beneficial where managing property but not when selling. (NL)
- Give more money for development NOW. (NL)
- Dependent on desirability of location and building. (SK)
- It would all help, but if I am going to undertake a project I am going to undertake it! These would be terrific rewards but not the reason or determining factor behind doing the work. (SK)
- Tax incentives are clumsy. (SK)
- This is a challenge. Developers should not be depreciating these kinds of conservation expenses. I ran into exactly this problem with a CRA audit in the past. (NB)
- The federal tax issue doesn't have as big a hit on New Brunswick. That said, these CCA measures might make a difference – would have to delve into it further. For things like repointing and maintenance, clarified CCA criteria would make accounting measures a lot easier. (NB)
- The difference between current expense and capitalization is a problem. Ran into this situation with Ready Mix trucks where you could write off the mix component but not the truck underneath. (NB)

- Deferred maintenance is a problem. The more complex an incentive becomes the less it will be used. Having some way to measure the work by a heritage professional would be important. Then again, oversight is a two-way street. With CHPIF, it provided useable knowledge and knowledge transfer with the oversight: this brought financial savings. (NB)
- It would have an impact, but not sure if very much, as CCA already does something to a degree. The real factor for making a project a go is how much equity you have to put in up front. The challenge would be to establish the CCA change's effect on net revenue – need to lower expenses and raise revenue. (MB)
- My accountant would be the judge of this. I push hard as I can to expense any repairs during any tax year and he adjudicates. Only time I have been audited by CRA for the current/capital issue was with air conditioning units in townhouse properties where they objected to expensing these additions. (MB)
- I think it would help. It doesn't help much if it is a condominium development, only if it is commercial or rental residential. Could be used for heritage buildings that are currently busy and well-managed, but the CCA changes could encourage owners to invest more in the building through acceleration or write off. (MB)
- US incentives make sense in the Canadian context. It would be fantastic if we had all three levels of government involved in incentives. Every bit helps move people in the direction of rehab over new construction. Would help to have a central clearing house of downtown heritage development knowledge and expertise for people in smaller centres to turn to. (MB)
- Would have merit. (MB)
- I've had discussions with CRA about expenditures they have deemed inconsistent with their interpretation, so this is a problem. Decisions all depend on the individual hearing officer. Would be reasonable to clarify this and widely disseminate guidelines. (ON)
- With a condo development, you are not going to see income until after the work is completed so this would not be a motivator to start a project. (ON)
- This could be quite helpful. (ON)
- CCA recapture is still a big incentive for demolition. Should be given further research. (ON)
- Would help to clarify activities. CCA is less important to the long-term investor. Better for short-term property market place. (AB)

D. Capital Cost Allowance – New Accelerated Class for Heritage Rehab

Federal/Provincial

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- It would allow for a greater write off – more money for maintenance and more for investor. (NL)
- Also beneficial where managing property but not when selling. (NL)
- More money for work. (NL)
- Would have to be further evaluated. (SK)
- Not enough of a financial benefit to make a difference to do the project or not do the projects. But at the same time everything helps in the long run! (SK)
- Tax incentives are clumsy. (SK)

- There is a slippery slope here, because developers often won't apply for a permit to do work, but they will apply for a grant. Perhaps if these measures were in place they would encourage greater transparency? (NB)
- The federal tax issue doesn't have as big a hit on New Brunswick. That said, these CCA measures might make a difference – would have to delve into it further. For things like repointing and maintenance, clarified CCA criteria would make accounting measures a lot easier. (NB)
- Need to write this off against income in 3 years which could be difficult to do if each property is owned by a separate company. This measure would be less compelling for those operators. For us, where all the buildings are owned in one company, the tax savings on one structure can offset those of the others. For the homeowner, there would be no incentive. (NB)
- I've had discussions with CRA about expenditures they have deemed inconsistent with their interpretation, so this is a problem. Decisions all depend on the individual hearing officer. Would be reasonable to clarify this and widely disseminate guidelines. (ON)
- With a condo development, you are not going to see income until after the work is completed so this would not be a motivator to start a project. (ON)
- Most developers are using debt to finance. Interest payments are deductible from income tax already. In order to expanse CCA, need to have 90% of building ready to occupy, otherwise need to depreciate. (AB)
- I don't think CCA allowance adjustments would equally benefit REIT and non-REIT realty endeavours. Nor would either benefit to a much greater extent, where they are trying to reverse depreciation or improve values on heritage buildings, as opposed to just being tax compensated for continual depreciation. For example, a non-REIT investor, that has taken CCA, but the property has improved in value, they just end up paying the corporate tax deferred by CCA on eventual sale at sustained or improved value. (AB)
- This would only be of interest to long-term investors. (AB)

E. Sales Tax (HST/GST/PST) Rebates for Heritage Rehab

Federal/Provincial

The measure: GST Rebate for Renovation of Substantial Value.

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- It was in place before but was removed. It allowed for common space in condo to get a full rebate of GST. (NL)
- In combination with other incentives. (NL)
- Definition of substantial is unclear by CRA (income tax). Very few clients get them – this is a deterrent to restoration. Clearly redefine! (NL)
- Not a substantial incentive on overall decision. (SK)
- Not enough of a financial benefit to make a difference to do the project or not do the projects. But at the same time everything helps in the long run! (SK)
- Obvious example of heritage properties being treated unfairly. These are lots of others. (SK)
- Unclear on how useful this could be. (NB)

- If I were developing and renting a commercial property, I could claim Input Tax Credits (ITCs) for the 13% HST payable on construction inputs (materials and services). But with residential properties, he doesn't collect HST from tenants so he can't claim ITCs on construction materials expenditures or improvements. On a \$200,000 expenditure, at 13% HST rate, that is a \$26,000 lost that could encourage more upgrading. (NB)
- Could have a very large impact. People thinking they are getting a deal. (NB)
- If it is a property for sale you can get the GST back but not the PST. If the building will be used for rent, cannot get the GST back because can't charge GST on rent (no input tax credit). In other words, you can only get the GST back if the end product is GST applicable. So with a rented apartment building you can't build in those costs which makes the numbers more challenging. If got a rebate, then things could change.... (MB)
- It would have a bearing on construction budget of PST payable. If received 50% of GST back, say, that would be useful. If combined a bigger GST rebate with a portion of PST (say 5 of 8%), then could be useful. Bridge Financing Backing to Municipal development orgs like CentreVenture. More funds that Centre Venture (or other similar org) could use for bridge financing as this is crucial for MB projects. If take the value of tax incentives extended to an entire project budget, and could boost it to say a 15% tax rebate overall (in combination), this is compelling. CentreVenture could then provide bridge financing based on these tax incentive numbers over an extended period of time. In MB, there was a 8% tax credit available over several years that would still be a challenge for developers because don't see any money in their pocket immediately. It comes down to the value of money over time. A 5% break up front is more valuable than 8% over time. Would need to test the effectiveness of these kinds of GST/PST tax breaks through models via the MB Bureau of Statistics. (MB)
- Such a small amount, not really on the radar of a project. Small operations don't have the office staff to make pursuit of this time/cost-effective and need a GST specialist to assist. (ON)
- No impact because we are involved in residential and there is no sales tax passed to buyers. There could be a quantifiable benefit to commercial developers, however. (ON)
- This could be helpful for the commercial components of projects. (ON)
- Not in a position to evaluate. (ON)
- Could be useful for commercial properties. (AB)

The measure: PST Rebate for Heritage Rehab.

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- It would lower costs a great deal by approximately 6%. (NL)
- 2.2% there now for residential. (NL)
- Low impact on its own but with other incentives would help. (NL)
- Good! (NL)
- Not a substantial incentive on overall decision. (SK)
- No real rationale for this. (SK)
- Unclear on how useful this could be. (NB)

- Would be more useful with a developer like us where these credits can be applied to a large company; limited potential with a one-off project. Would build these into the pro forma by writing off the tax expense. (MB)
- Not in a position to evaluate. (ON)

F. Property Tax Abatement for Heritage Properties

Provincial/Municipal

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- It does not exist for condo development which is a large percentage of reuse of heritage buildings and it would make sale of a condo a lot easier! (NL)
- Good. (NL)
- The tax abatement would have significant advantage to marketing if desirable location and competitive pricing. (SK)
- See it as a more immediate tangible benefit. (SK)
- Not necessarily a direct cost to the municipal treasury as taxes will increase over original once abatement expires. Present value of heritage taxes may exceed abatement. (SK)
- NB property tax increases are based on assessments triggered through building permit activity. If you do largely interior work and don't apply for permits, property tax increases are not an issue. (NB)
- Some say a tax break over 10 years would be more useful than over 5 years. Tax abatement currently available for commercial but not residential. With commercial needs a longer than 5 year rebate period to change your financing. (NB)
- With any tax credits you are always looking at net present value (taking out inflation and borrowing costs). The trick is you want a measure that lowers costs and raises income. Providing \$1,000,000 saving over 10 years is really only worth about \$700,000 right now. For instance with a tax credit, if you say we will give you 70,000 year 1 and 30,000 year 2, it would be better to have the \$100,000 up front. (MB)
- Renaissance Brandon has a rent abatement program with slow phase in to encourage relocation downtown. This has been effective for encouraging business to move into spaces which don't need improvements. Been useful for big or small projects alike. (MB)
- There is no present value for these property tax credits. (MB)
- No impact for condos where the developer doesn't see a benefit from these measures, but for rental properties, yes. (MB)
- Phasing in of property tax increase less compelling than ongoing property tax relief. (ON)
- Property Tax reduction would have value because the City reassesses property values during projects. This measure is fair because it impacts all investors equally and it is easily quantifiable. The developer of a condo property might not benefit substantially because paid by condo purchaser. But developer could use the tax savings in their marketing to buyers. The challenge is, what if buyers don't purchase the heritage component of the project – do they still benefit? (ON)

G. Property Tax Credits for Heritage Properties

Provincial/Municipal

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- Depends on conditions and if they are more costly to comply with than the value of tax credit. (NL)
- Would depend on actual amount but good. (NL)
- Would have to further evaluate. (SK)
- See it as a more immediate tangible benefit. (SK)
- Straight long term abatement is better. (SK)
- Useful. A slight variation of measure F. (NB)
- Would have a low impact because only a one-time credit. (NB)
- This is a problem with derelict buildings: if you do nothing, the taxes remain stable, but if you fix it up they go up. I spent 40 years fixing up one of my properties. 90% of the building was done on my dime. It is unfair that the guy across the street could be getting grants and tax abatements where they weren't available for me. The entire heritage inventory needs to receive tax relief to be fair and equitable not just to benefit new developments. (MB)
- In Winnipeg, the value of an approved tax credit may be up to 50% of the net private investment made in "eligible work" (the definition of which is often a sticking point). The credit can be applied to property tax owing over the next ten years. This is often not enough of an incentive for developers to apply for heritage designation. For all heritage property tax measures, accurate assessments on assessed values are key. The value of these rebates was not as high as most developers thought/were led to believe. Discouraging rumours circulate which undermine the incentive. Education and accurate info is essential for the success of any program. (MB)
- Looking at it from a different angle, for tax people a keen concern is discouraging vacant buildings (often due to absentee landlords). With our current vacant building bylaw they have 21 days to respond to a report. This was spurred by buildings where not capital or maintenance money has been spent and there is not plan to redevelop. They just sit on the property. Expropriation has been considered but the optics are bad. (MB)
- Could be helpful. (ON)

H. Ongoing Property Tax Relief for Heritage Properties

Provincial/Municipal

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- It depends on a level and interpretation of condition but would help a great deal with maintenance. (NL)
- Supports ongoing maintenance. (NL)
- Depends on the volume of relief – 50% relief would be good. (NL)
- Municipality gets value in maintaining heritage values, i.e. in Heritage Districts. (NL)
- Not sure and if in place would have to be transferable to a new owner. (SK)
- Long term benefit would be fantastic! (SK)
- Heritage properties clearly contribute to the community and the community should participate. (SK)

- New Brunswick has problems with its property tax system, generally. It is not a problem exclusive to heritage buildings. The property tax rate in Saint John of 1.78% (the highest in the province) and the 1.5% provincial tax rate combine to create a property tax of 4-5% that is a huge disinvestment for other investors. If municipalities had more control over what they charge for property tax, they could better shape their destinies. A \$20,000 yearly property tax bill is like knocking out \$200,000 in real estate value. Generally, a developer needs to create \$500,000 in new investment to offset increased property taxes. (NB)
- This ongoing foregone revenue would be difficult for a municipality to justify. (NB)
- With a long-term incentive like this would need to sell it politically on the value to the neighbourhood. How it raises all ships. (NB)
- This ongoing foregone revenue would be difficult for a municipality to justify. (MB)
- Tax relief across the board for designated buildings is fairer. Mitigates against disadvantages for owners who did work prior to the arrival of the incentive. (MB)
- Only concern would be that council has the power to take away this relief if conditions for building upkeep aren't met. The absentee landlord situation is a concern.(MB)
- Would have a significant impact. Good because an annual incentive that rides with the property. A good long-term solution. There would cover urban, rural, suburban properties – very egalitarian. (ON)
- Could be very important when trying to attract retail, in lowering their costs. Most leases are ten years so need long time horizon for incentive to be meaningful for them. (ON)
- This is a useful measure rewarding conservation long-term – not a one-time hit. Governments need to recognize this as an investment that doesn't cost them if seen in long-term. (ON)
- Nine of our properties are designated so there is not an impact for us, but others may benefit. These property tax credits should be linked to good ongoing maintenance otherwise owners may neglect properties. The credits are transferred to tenants so would help with their retention which is good for owners. (AB)

I. Tax Benefit in Exchange for Donation of Conservation Easement

Federal/Provincial

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- I like the fact that capital gain realized on sale would be nil. (NL)
- Wouldn't want restrictions passed on to new owners. (NL)
- No great impact on ownership. (NL)
- Dependent on the location and size of easement and does easement have added value to project. (SK)
- Don't have a specific case where I would apply this to. (SK)
- Not as effective as a grant. (SK)
- Needs to be substantial to incentivize. A developer really needs to make the right case to justify going after the \$5,000 grants now available (recently cut from \$10,000). It would be a matter of coming up with the right, most effective program. (NB)
- Of less interest to an operator like us from a commercial standpoint, but a residential homeowner might find it useful. Could lead to an orphaned building in a changed

context with this approach. Needs to be a district level of oversight to make it work, ensuring that the contextual heritage value is secured in the long-term. (NB)

- Exists in Fredericton through the Provincial Easements Act e.g. Knights of Columbus deal over York Street School in Fredericton. An easement was given, but the developer was given extra land as compensation – effectively a land trade. (NB)
- Would need to do a lot of calculations to see where the value in this would be. Never going to find a one-size fits all solution with these covenants, always one-offs. (MB)
- Most people would still refuse to designate. Lots of things around this could be solved through education. (MB)
- The decision as a society is what is the best use for a land parcel? Perhaps that is to take down a building. (MB)
- Heritage still seen as a negative in the industry. When the owner is giving something up there should be an incentive to compel them. (ON)
- Could make a substantial difference. (ON)
- To work, would need heritage designation and conservation agreement, both of which involve significant costs. (ON)
- Easements could be useful in limiting the negative impacts of market value assessment. If a nearby building is demolished and gets more density then all assessments in vicinity go up and property taxes rise. This is bad for heritage buildings. Could an easement inoculate a property against viral zoning because the value of the property has been capped? Could be useful. (ON)
- Only works when time is a huge differential in developed or underdeveloped property values (e.g. downtown Calgary). (AB)
- Useful. (AB)
- This could be useful for recognizing and compensating for change in value. (AB)

J. Heritage Rehabilitation Grants

Federal/Provincial/Municipal

Federal Grants

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- Did have approval of HPI Grant (\$550,000-600,000) however the conditions outweighed the value of the Grant so turned it down after considerable cost in applying! (NL)
- Depends on how much. (NL)
- Would encourage conservation and restoration work, beyond basic maintenance. (SK)
- Most effective in all ways. (SK)
- Anecdotally CHPIF was a nightmare for approvals with those who participated. Add costs arising from following the Standards and Guidelines and CHPIF process route weren't negated by grant contributions. (MB)
- If there were a municipal/provincial/federal pot of pooled money available to solve problems, that would be very effective. (MB)
- This could be significant, but the impact of one million dollars on a 16 million dollar project is debatable. (ON)

- CHPIF was very useful. (AB)
- These grants could help spur activity. (AB)

Provincial/Territorial Grants

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- Depends on certification conditions. (NL)
- Depends on how much. (NL)
- Main Street Program – 50 cents on the dollar grant match, has encouraged work that I would not have considered otherwise, façade restoration. (SK)
- The amount of money available is insignificant. Application routes forced by granting agency and outrageous (e.g. Saskatchewan Heritage Foundation). Main beneficiaries are the consultants. (SK)
- Limited amount of provincial grants available presently. If there were higher amounts available, a much bigger impact could be made. (NB)
- Appreciate provincial grants, while modest in size. There is limited bureaucracy involved which is very good. (MB)
- Limited amount of provincial grants available presently. If there were higher amounts available, a much bigger impact could be made. Present grants are typically oriented to good conservation work on specific features not on enabling an overall project's viability. (MB)
- Provincial grants are small and aren't as attractive at this point. (MB)
- Grants in general seem to be the best incentive for development. (MB)
- Ontario used to provide matching grants through the Ontario Heritage Foundation and these made a big difference. (ON)
- Our opinion is that if you have gotten a rezoning on a property to help pressure the heritage component then you have already received a "grant". Rezoning is effectively the grant. (ON)
- Small in the scheme of things, but it helps, particularly for smaller projects. There are limits per year but AB can divide up projects over multiple years to get more benefit. (AB)
- Could help spur the activity. (AB)

Municipal Grants

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- Depend on how strict the conditions are with Pre and Post-certification – also who would carry out inspections on work done? (NL)
- Depends on level, 25% meaningful. Cushion for unexpected and can take to bank. (NL)
- 5-10% impact. (NL)
- Dependent on project and is grant great enough for viability of project. (SK)
- Would encourage conservation and restoration work, beyond basic maintenance. (SK)
- Most effective way of providing government support. Also most effective in policing quality. (SK)

- A grant is a way to get someone's attention; a positive way to inspire a heritage response, rather than using the stick that someone is watching and commanding you to do something. It creates a different response in people you are dealing with when it comes to an extra cost. Despite the municipal oversight involved, it is worth it for the developer. (NB)
- Not a huge incentive. Tax based incentives are more powerful, their effect reaches deeper. There are not enough funds around for effective granting. Other measures would be more palatable to government as well. Tax –based more progressive incentives. (NB)
- Would have a big impact, but hard to foist this on the municipal government, as they have done the heavy lifting with heritage buildings to this point. There is not really any cash left in the heritage reserve funds now after a few major projects to fund any new granting initiative. (MB)
- I like grants, but I'm not sure how effective they are – I would be doing the work anyway. (MB)
- There are not grants available from the City of Brandon. Renaissance Brandon has a 175k Redevelopment Grant program with most grants being in the 35-45K range on small and medium-sized projects, 7-10 grants since it began. A good track record when these grants are given to proven businesses: need to be flexible and creative with these projects as a funder. Problem for Renaissance is that need to zero out its grant funding every year; would be better if could build up the pot of money into an "opportunity fund" that could be used on a larger project. Small Mom & Pop operations need help hiring an engineer or building inspector to do preliminary development cost estimates. A grant may help encourage this. If people try to cut corners then they get into trouble and discouraged. Say if receive \$5,000 - 10,000 for engineer or architect and if don't go ahead with the project then the City retains the engineering report or architectural work. For example a 3 storey building in Brandon with commercial ground floor and 2 floors of residential above: owner found they couldn't convert to residential because the historic staircase inside had a pitch not to code. (MB)
- Haven't applied for any grants with our projects. Not even the Winnipeg TIF program. Grants are a hassle not worth getting involved in. TIF is easier to apply and calculate and might be more attractive. (MB)
- The Downtown Residential Development Grant (DRDG) was a big factor in bringing many developers to downtown Winnipeg. A grant of 1,800-2000 per condo, which could turn into a leveraged 11,000 – 13,000 benefit per condo, which is compelling. (MB)
- City of Ottawa provides grants up to \$5,000. Helps make the difference between good quality conservation or lower quality in a project. Ease of application depends on the individual organization; we have been applying for years so it is easy to assemble quotes, etc. (ON)
- Current grants in Toronto \$12K to \$40K. These are quite small for the administrative work involved. Effectiveness of grant would depend on sizes available and scope of applicable work. (ON)
- Did get a modest grant from an Arts fund. But city doesn't have grant money available to be meaningful at this time. (ON)
- Grants are seen as more trouble than they are worth. (ON)
- Grants help, but they are quite small in scheme of things. (AB)

- Modest amounts. These go to roof/foundations/facades but not to good ongoing maintenance or tenant improvements. Maintenance is crucial for the longevity of the building but very hard for the investor to capitalize. (AB)

K. Revolving Fund for Heritage Rehab

NGO

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- Would depend on the amount of money available. If they would provide all the money so that they have the first mortgage – if not providing all the money it would complicate getting a commercial loan if the bank did not have first mortgage but 2nd. (NL)
- Likely only beneficial for longer projects. Problematic if also tied to bank financing. (NL)
- Good if could pass on mortgage. (NL)
- High – people would understand what you are trying to achieve compared to banks. (NL)
- I think this would be complicated and desirable. (SK)
- Non-traditional funding streams can always be of benefit when dealing with older buildings in rural areas, especially when tied with small independent business operations. (SK)
- Not applicable for the kind of work I am undertaking. (NB)
- Not useful. Would be too much of a hassle to use. Suspect that too many projects will get approvals for funding that don't merit it. How do you vet the applicants? (NB)
- Not applicable for the kind of work I am undertaking. (NB)
- Not useful for a commercial project. (NB)
- Maybe. Groups likely couldn't come up with the matching portion for grants or for fund loans. For churches, can't give them grants because of their status. No one wants to be the first to put money down on a project. (NB)
- Would have an impact if the funds were subordinated debt in the form of a low-credit repayable loan. So if government wanted to take security against the building they would be second to the primary lender in recouping principal. (MB)
- Not really an issue. But it could open up the market to a whole new group of people. Or could focus this on the existing market. Probably not a good idea to encourage under-capitalized people to get involved and in over their heads with easy access to money. (MB)
- A flawed concept. Most funds rely on money directed by volunteer boards; no incentive for profit or risk. The whole nature of buying, restoring, flipping – you can't do this by committee. (ON)
- Could make a substantial impact. Developer could direct these funds to the heritage component of a larger project with new elements. (ON)
- Could be useful if modified for example, for projects trying to maintain remove and re-erect walls. With Rackhouse 6 we will need to give the city a two million dollar bond for the two million dollar project to disassemble, store, and reassemble historic walls. We thus require four million in liquidity for a two million dollar project – which is challenging. If revolving fund could help with this bond (letter of credit) that would be useful. (ON)
- There needs to be a fund like this for at risk buildings. Could be very useful for crisis situations. (ON)

- Good. Anything that can enhance rate of return. (AB)
- Insist that the applicants refinance after one or two years once the project is done – to free up capital for other projects. Banks often say come back for money once the project is complete. (AB)

L. Venture Capital Fund (Leveraging Heritage Property Tax Relief)

Federal

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- It would lower cost of obtaining loans. (NL)
- Not advantageous when selling. (NL)
- This could be of interest for the right project and market condition. (SK)
- Too much trouble getting bank to agree. (SK)
- Seems too complicated to work. (NB)
- If tax relief is built in, then banks will finance on that bottom line. Banks are only going to lend on the bottom line anyway. Tax relief would be useful if the company structure allowed the credits/savings to be applied across an entire portfolio. (NB)
- The benefits of this kind of measure are already taken into account in the pro-forma our company puts together. (NB)
- A variation on this that might be more useful... If CMHC could provide free mortgage insurance on a project this could make a difference. Or if they could only require a 15-10% equity stake instead of 25% currently, big difference and leaves the developer with more cash on hand to make the financing work. With condos bank financing is tough, with much depending on pre-sales. The effect of an affordable housing income cap rate on rental price is a problem. If there were a subsidy from the government that could top up the affordable housing cap rate to the market rate, that would encourage rental housing development. (MB)
- Limited use. (MB)
- The benefits of this kind of measure are already taken into account in the pro-forma our company puts together. (MB)
- Not likely a very good program as there would be a high level of risk for the taxpayer. Hence unacceptable. (MB)
- A TIF model would be more useful, with the city securing the bond instead. (ON)
- Could be useful if had a heritage property tax relief program in the province. (AB)
- Good, helps rate of return. (AB)

M. Loan Guarantees for Heritage Rehab

Federal/Provincial/Municipal

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- It would lower the risks related to obtaining funds to do projects. (NL)
- Good. (NL)
- Dependent on overall rules and conditions. (SK)
- Non-traditional funding options are beneficial when dealing with older buildings in rural areas, especially when tied with small independent business operations. (SK)
- Too much cost to administer. (SK)
- Amounts too small. (PEI)
- Could turn into a government boondoggle. (NB)

- Not of great utility in my situation. (NB)
- Not useful for our organization. (NB)
- Maybe useful. Would be politically saleable as well. (NB)
- Not useful for our organization. (MB)
- As CMHC currently only provides mortgage insurance for residential mortgages, is they could provide a premium break on heritage properties this could have an impact on rental residential and condo properties. If there was a government guarantee available then could get preferential borrowing rates. (MB)
- Not really an issue. But it could open up the market to a whole new group of people. Or could focus this on the existing market. Probably not a good idea to encourage under-capitalized people to get involved and in over their heads with easy access to money. (MB)
- Not useful for our organization. (MB)
- Not useful for our organization. (MB)
- Challenge with this incentive is it involves the transfer of risk to outside party. Why and how to transfer it? Nobody will take on this risk for nothing in return. These guarantees would involve a large layer of security in order to determine the possibility for end users and potential cash flow. (ON)
- If you are not getting bank financing for the heritage component, then this could be useful. (ON)
- We have a huge potential benefit. All of the money in Distillery was private and it would have been great to have shared risk. (ON)
- CMHC could provide these guarantees or other private mortgage insurance companies. Heritage buildings have a solid track record and so not a problem. (ON)
- Could help tip the financial balance on a project. (AB)
- Would be good for new developers. If they could guarantee up to the value of the existing building, this would be good. (AB)
- These make sense to meet the stress tests for projects required by banks. (AB)

N. Preferential Leasing of Heritage Properties

Federal/Provincial/Municipal

Please explain your assessment of impact above (advantages, disadvantages, etc.)?

- It would help with the leasing of restored property. (NL)
- Not their market. (NL)
- Yes would guarantee a tenant. (NL)
- High incentive. (NL)
- Could have significant impact depending on project and term of lease. (SK)
- Would help ensure appropriate maintenance, as more likely to have a consistent lease. Lower vacancy rates of historic buildings, and likely will improve area and make more desirable to be in. (SK)
- This is the most important option which could be taken. (SK)
- Small proportion of rural income. (PEI)
- Could be very significant. Vancouver has a heritage first policy but never used it. Likely there is not enough bang for the policy buck with this kind of initiative. (NB)
- Anything that can be done to direct government support to heritage buildings and improve the bottom line would be effective. (NB)

- Could be quite beneficial. It is mentioned in the NB government cultural plan. But the problem is the government has no sense on how to organize office space. They do not want open space but rather want closed doors. (NB)
- Need to convince the province to continue to stay in heritage buildings. Need to convince them that it makes sense to occupy buildings you own. (NB)
- This would be a win-win for everyone. (MB)
- I have the MB government as a tenant in one building. I believe that if government has a choice they should be located in a recycled building. There seems to be a prestige with new buildings, but should recognize the value of older ones identified by his clients. (MB)
- This would be beneficial. If you go to a lender with a 20 year government lease in hand, you have taken the risk right out of a project for the lender. MB government now requires LEED silver in MB and this is a problem for leasing in heritage buildings. Though the Lombard Building has achieved LEED silver equivalency, this is the exception to the rule. (MB)
- Not sure what the value is for say main street commercial properties. Would need a case-by-case comparison of impact of preferential leasing vs not to make this idea politically saleable. In Brandon, we want a downtown with mixed space. Commercial mix is the focus. We want to direct it to certain areas (not in the arts and entertainment area, for instance) so this might be a tool. (MB)
- Would have a tremendous benefit. (MB)
- This could be modified to include a residential rental program as well, no? That would be effective. (MB)
- Worthwhile expanding this to encompass NGO and the corporate sector. Entire corporate entities by giving their access to exclusive grants. Could have this as a condition for other grants. (ON)
- We do residential projects. (ON)
- Government agreements privilege new buildings so could be insurmountable. (ON)
- Would be more useful for small projects. (AB)
- Could be useful. (AB)

Part 5: Prioritizing

Of the measures discussed above, please indicate the TOP THREE MEASURES that you feel would have the greatest impact in encouraging heritage development:

Are there additional measures to encourage heritage development that should be explored?

Please explain.

- Fast-track approvals – provide coaching (e.g. by city staff). (NL)
- Better approval system and inspection with municipality. (NL)
- Is the project viable for a long-term and does it meet the requirements of the marketplace or does it become an unsustainable burden on the developers and the tax payer? (SK)
- Tax codes should be revised based on the principle that heritage properties should not be disadvantaged as against other properties. The tax code is complicated enough

without introducing more nuances. I'm not particularly looking for income tax relief. If a project works I am OK paying the tax. Tax incentives cost the government money (same as grants) so do it directly. Also avoids all sorts of structuring and accounting costs to qualify for the incentives. Tax incentives are clumsy and outdated. Grants are also better for leveraging private money. (SK)

- Heritage is a huge contributor to economic development generally. But existing economic development programs generally are not broad enough to include heritage. Qualifying guidelines for their existing programs should be broadened. Also easier to get new money.
- Should implement several of the proposed incentives to cover varying circumstances. (PEI)
- The simplest incentive program will be the best one. Need an incentive program not a subsidy for construction which typically rides roughshod over heritage principles. (NB)
- Need to keep it simple with incentives programs, otherwise no one will use it. Ease of use is a significant barrier that must be taken into account. What is needed is additional funds to bridge the gap. Cash today is more valuable than cash in the future. Anything that can keep money in a developer's pocket and help increase cash flow is the best. (NB)
- The key for any project is:
 - increase income;
 - lower equity requirement;
 - lower expenses;
 - lower overall cost.
- Timing is everything. For \$100,000 measure, benefit changes over time:
 - up front contribution – big impact;
 - spread over 5 years – some impact;
 - at the end of 5 years – very little impact.
- The total value of a heritage project is impacted by requirements: heritage windows, type of paint, etc.
- Communication between levels of government would also be useful, a space where people can share information to disabuse developers of their misconceptions about the viability of projects. (MB)
- Heritage is complicated. Greenfield development is such an easy thing – all new codes apply and not pre-existing conditions or impediments. And the profit margins are great. (MB)
- Public money should be going towards downtown buildings. Community based organizations should be located downtown. (MB)
- Lots of commercial space empty in downtown. (MB)
- You can command 20% higher rents in the Exchange east of Main Street because of safety perceptions, a higher-class atmosphere. (MB)
- Parking is the one and only way to sell downtown to new people. (MB)
- 1. TIFS very useful
- 2. Assistance with site Servicing would be very useful as well.
 - Need to have a focused hit list of important heritage buildings – transparency.
 - Quality – there is a small market for funky spaces, but people are buying meat and potatoes places at the moment, not character. Cheap sells.

- It is not just the residential spaces that sells downtown condos, it is the feel of the downtown as a whole (parking, safety, and price needs to be competitive with elsewhere in the city).
- There is a limit to premiums people will pay. For instance with green projects, you can push but we have found the limit on the premium is \$3,000 tops.
- New construction has efficiencies because there are construction cultures (vinyl and stucco). (MB)
- For Measures A-K: Need money to justify projects (our position for buying, converting, and selling condos). Much of the above is rehab option if you own and rent. (MB)
- Government own/buy/rehab buildings in an open and transparent manner – let tax payers decide if it's worth it. (MB)
- Preferential leasing of heritage properties could swing demand (but at what cost?). (MB)
- Density Transfer Mechanism - This would be useful: a way to monetize the lost potential of a site. Problem is, if transferring density, municipality needs to break the density limits elsewhere – someone benefits, someone loses. This does work in municipalities which already give away extra density for nothing; whole system would need to be tightened up and consistent to be useful. (ON)
- With each incentive, you need to monetize the present value of the benefit, both for the developer and the public. If developer gets all of the value up front then what is the incentive to maintain it down the road? (ON)
- Developers are not necessarily rational people and may not be disposed to conservation even if strong incentives exist. (ON)
- My experience with US tax credit system – must anticipate onerous oversight/bureaucracy/aggravation and when you get a tax-driven incentive it becomes the territory of the accountant and not the preservationist. In the US, the credit requires substantial rehab so they get dramatic impacts, not incremental ones – this may not be the best conservation approach. (ON)
- Heritage still seen as a negative in the industry. (ON)
- Property tax abatement would help to secure primary financiers. (ON)
- Province of Ontario should step in to clean up the heritage section of the City Planning Department. Heritage should be a consulting agency separate from planning. (ON)
- Tax Increment Financing (TIF) could be useful, offsetting the increased cost of doing heritage work. Banks only finance new construction based on numbers, so a TIF could tip the balance. (ON)
- Incentive for condos like the “421-a” in New York City which incentivizes projects in certain areas, but contain at least 20% affordable housing. (ON)
- With any heritage incentive, need to ensure good quality conservation otherwise could be encouraging more façadism. (ON)
- Changes in Ontario to Section 37 which allows municipalities to provide additional density in return for benefits. Heritage conservation is not yet seen as a benefit under Section 37, which is a problem for project financing. How do you justify saving heritage when there is no recognition of monetary benefit? (ON)
- Incentive to assist with servicing of adaptive reuse sites.
- Risk transfer would be useful – indemnification for unforeseen renovation costs, for instance, or capping these costs. (ON)
- Social fundraising and crowd sourcing should be an option. (ON)
- Planning Measures:

- Parking requirements are a killer for heritage conservation (typically \$20K in lieu of in Toronto).
- Should have completely different parking, loading, and amenity requirements for old buildings as they aren't as flexible as new.
- Should relax these requirements across the board for old buildings as currently have to argue each on a case-by-case basis. (ON)
- I still think that a number of these measures can benefit a broad range of companies and individuals. Such as Grants (J), Property Tax adjustments (H), Favourable rate loan pools (K/L); or having Refundable Credits like (B) able to be paid/recovered in cases where no corporate taxes were due. (AB)
- Rewarding good maintenance – connect property tax reductions with good ongoing maintenance and attach to an existing yardstick like BDMA Best program (municipalities don't have money or resources to check up so use independent group like BDMA). (AB)
- Property Tax Relief - flows to tenant not owner but sustains occupancy in buildings. Not a very compelling incentive for some owners, but does provide an important long-term benefit. (AB)
- Small changes to incremental rate of return makes a big difference. Tax credits that are useful are those that can increase cash flow on the front end. (AB)
- Waving permit fees – very useful. (AB)
- Density transfers would be terrific. (AB)
- The answer is not going to be one incentive but many things that meet the various levels of the real estate marketplace. (AB)
- On our large industrial site we would need to use every available municipal incentive measure to make it a go and it still wouldn't be enough. (AB)
- Need to get the various layers of government to work together. (AB)
- A variety of tools will be collectively catalytic. (AB)
- TIFs – they are an important part of a larger picture. (AB)
- Timing of incentive funding is crucial. (AB)

Appendix C:

Additional Analysis of Measures Identified by Participants

By Paul Berg-Dick (Consulting Economist, MEKA and Associates, Ottawa, ON)

1. Sales Tax (HST/GST/PST) Rebates for Heritage Rehabilitation

Building Type: Owner-Occupied Residential & Non-Commercial

What it is:

- *GST Rebate for Renovation of Substantial Value* - Currently a rebate equal to 36% of the GST (i.e. 1.8% of the total cost) is given for substantial renovations (90% of the interior of a building is removed/replaced). This could be amended to provide a rebate equal to 36% of the GST (i.e. 1.8% of the total cost) for renovations that increase the value of the property by 90%.
- *HST/GST/PST Rebate for Heritage Rehab* – Provide a rebate equal to HST/GST/PST on building materials for the repair, restoration, or improvement of a heritage property.

How it works: Certified property appraisal before and after renovation.

Advantages: Is a predictable measure and rewards maintenance and additional property value created.

Comments: Would be limited to owner-occupied residential properties, as commercial ventures already receive an input tax credit for the GST (or HST portion) directly.

Example: Nova Scotia Heritage Property Rebate for owner-occupied and non-commercial properties.

The rebate equal to the 10% provincial portion of the HST on building materials for the repair, restoration, or improvement of a heritage property paid by non-profit community, charitable, fraternal, educational, recreational, cultural or sporting organizations or institutions.

Additional Comments on GST/HST Rebates:

The current general structure of GST/HST rebates and credits has a justifiable rationale:

- ***Commercial operations*** receive a GST/HST credit in line with a value-added tax structure that imposes GST/HST on most revenue and provides a GST/HST credit for most inputs, therefore taxing the value added at each stage of production.
- ***Final consumption expenditure*** (including expenditures for owner-occupied homes) do not receive any credit consistent with the nature of a consumption tax; a special concession is provided for new housing (or very substantial renovations) with this concession being reduced for more expensive homes
- ***Non-profit entities*** can receive partial rebates, determined independently at the federal and provincial level, as a subsidy to these entities.

Differential Impact of a Rebate Incentives

The provision of additional GST/HST rebates for expenditures related to heritage rehabilitation would have a differential impact depending on the nature of the owner of the heritage building. It would provide no incentive to commercial operations (since they already receive a GST/HST credit), a partial subsidy to non-profit entities, and a full rebate to owner-occupied dwellings where they do not meet the substantial renovation test. There is no rationale as to why these different groups should receive differential subsidies i.e. why the government should intervene to help one group over another group in terms of the restoration of heritage buildings.

Purpose and Level of Incentive

There is no rationale given for targeting non-commercial ventures of non-profits and owner-occupied homes as an important intervention by government in the preservation of heritage buildings. Similarly, there is no rationale for providing this particular level of incentive other than that it equates to the existing tax levels i.e. the current GST/HST net of any rebates or credits provide a convenient “source of funds”.

Alternative Approach

An alternative approach to the provision of selective GST/HST/PST subsidies would be to provide a government grant to all eligible heritage properties regardless of ownership structure and use. This would provide a consistent level of government support and could be justified using a social cost/ social benefit framework.

2. Terminal Losses

Federal Income Tax: Terminal Losses

Issue: Owners are rewarded with a statutory tax deduction for demolishing buildings.

Prejudicial Features

Why is there a statutory tax deduction for voluntary destruction, when there is none for voluntary improvement?

The terminal loss deduction was significantly reduced in 1981. It is no longer considered a decisive factor in prompting premature demolitions. It continues, however, to colour the mathematics of whether to demolish or rehab a building; and the question is whether this intervention should exist at *all*.

Specific Reference

Information Bulletins IT-478 and IT-485

Explanation

The income tax treatment of “terminal losses” dates from W.C. Clark’s time. Investment buildings (rental residential, commercial or industrial) are depreciable, so their book value for tax purposes goes *down* every year, even if the market (and Inflation) tend to drive the current market price *up*. After a few years, the value *on paper* (called the building’s Undepreciated Capital Cost, or “UCC”) may therefore be significantly below market realities. If the owner then sells the building, even if there is capital gain, any over-depreciation will be 100% taxable (this is called “recapture of depreciation”); but if the owner

demolishes, he/she not only avoids capital gain and I recapture, but can also claim a *further* deduction called a “terminal loss” (50% of the UCC of the “lost” building).

This is supposedly to acknowledge the disappearance of the asset from the owner’s books. Example: an owner bought a \$1 million building which he depreciated down to \$700,000; he can sell it today for \$900,000, but if so, he must pay tax on \$200,000 of recapture. If he demolishes instead, he not only avoids the tax on recapture, but also claims an additional tax-deductible “terminal loss” of \$350,000 (50% of the UCC).

Most decisions by owners, which are voluntary business decisions, do not give rise to a statutory deduction (there is certainly no counterpart for the alternative option, namely rehab). Nor do buildings get “lost.” Finance Canada has replied that terminal losses merely acknowledge accounting realities — to which the critics reply that accounting realities follow the tax system, not the other way around.

Some Thoughts on Terminal Losses

Appropriate in Theory

The current depreciation, recapture and terminal loss structure is consistent with basic tax policy principles:

- **Depreciation:** buildings should be depreciated over their useful life;
- **Recapture:** When an asset is sold, a fair market value is determined and, if the value is in excess of the depreciated amount, the excess CCA that has been deducted in past years is “recaptured” in terms of an income inclusion upon the sale or disposition. If the value exceeds the original cost, then a capital gain is calculated and taxed at a preferential rate.
- **Terminal Losses:** If an asset no longer exists, then any undepreciated amounts can be deducted in the year of the loss.

Note that the elements of recapture, capital gain and terminal loss all impact the after-tax proceeds for the seller of a property. The buyer of an asset is also impacted since the determination of the new fair market value of the building, which may have triggered recaptured depreciation and capital gains to the seller, will then become the new cost base for the property for the buyer. This new value will then be the starting point for the depreciation that can be claimed by the buyer.

Tensions in Practice

Impact of Alternate Valuations on Seller and Buyer

The sale of a building and associated land raises some tensions in terms of the valuation. The seller will want a lower valuation of the building component. Assigning relatively more value to the land and less to the building will avoid some of the recapture provisions, resulting in more of the sale being treated as a capital gain, which is taxed at preferential rates. The buyer will prefer a higher valuation of the building since that is the starting point for subsequent depreciation. However, the value to the buyer of such a higher valuation is the present discounted value of future depreciation, which is less than the value of the immediate recapture to the seller. Therefore, the seller may agree to a slightly lower

overall purchase price if it reflects a lower building valuation in order to compensate for this loss of future depreciation.

Note that this would occur where the buyer is subject to tax. If the buyer is not subject to tax i.e. non-profit or charity, there would be no impact if the building had a lower value.

Given these tensions related to valuation, the Canada Revenue Agency (CRA) may specifically audit the valuation of buildings to ensure that the appropriate level of recaptured depreciation has in fact been included in the income subject to tax of the seller of the property.

Incentive to Trigger Terminal Losses

Buildings can be difficult to value particularly if most of the value of the sale relates to the underlying land. The intentions of the developer purchasing the property may also differ. The building may actually be an impediment to the sale if the proposed redevelopment plan of the purchaser involves the demolition of the existing building. In this case, the building has a negative value to the purchaser given the costs of demolition. The seller may also be concerned that the building may be designated as a heritage building prior to the sale, which may then compromise possible development possibilities.

For these reasons, it may be in the interest of the seller to demolish the building in advance of the sale so as to trigger the terminal loss and to avoid any valuation issues that may be otherwise be raised by CRA i.e. the building clearly has zero value because it has disappeared.

Impact on Heritage Buildings

These valuation issues can be exacerbated in the case of a heritage building. In this case, the prospective purchaser does value the building and wants to preserve it as part of the future development. The purchaser would prefer an appropriate valuation of the building as the starting point for its cost base (and future depreciation). In this case, the seller would need a higher price from the heritage building developer in order to compensate for the additional tax cost related to the recapture provisions.

Example of Impact

The following example provides some calculations as to the impact of these different valuations. It shows the impact on the seller with a heritage building valued at \$500,000 either left on the property or having it demolished. The impact of the demolition is to raise the after-tax return on the sale by \$62,500 (equal to the value of the building (\$500,000) times the differential tax rate between income and capital gains (12.5%)).

Example of Incentives related to Terminal Losses					
	Property with Building Intact	Property with Building Demolished	Difference	Required Valuation with Building Intact	Difference from Original Pricing
Sale of Property					
- Land Component	9,500,000	10,000,000		9,571,429	71,429
- Building Component	500,000	-		500,000	-
Total Value	10,000,000	10,000,000		10,071,429	71,429
					-
Original Cost of Building	500,000	500,000		500,000	-
Adjusted Cost Base of Building	100,000	100,000		100,000	-
Original Cost of Land	900,000	900,000		900,000	-
Total Cost	1,000,000	1,000,000		1,000,000	-
					-
Gain on Sale before Tax					-
- Land	8,600,000	9,100,000		8,671,429	71,429
- Building	400,000	- 100,000		400,000	-
Total	9,000,000	9,000,000		9,071,429	71,429
					-
Tax Implications					-
Recapture	400,000	-	- 400,000	400,000	-
Terminal Loss		- 100,000			-
Capital Gain	8,600,000	9,100,000	500,000	8,671,429	71,429
Taxable Capital Gain (50%)	4,300,000	4,550,000	250,000	4,335,714	35,714
Impact on Income Subject to Tax	4,700,000	4,450,000	- 250,000	4,735,714	35,714
Additional Taxes Paid (25% tax rate)	1,175,000	1,112,500	- 62,500	1,183,929	8,929
					-
Gain on Sale after Tax	7,825,000	7,887,500	62,500	7,887,500	62,500

In this example, the seller would need an additional \$71,429 from a heritage building developer in order to receive the same after-tax proceeds from the sale. The additional value required is greater than the \$62,500 differential since any additional increase in the sale price will also be taxed as a capital gain. The \$71,429 is equal to the additional value required (\$62,500) divided by the after tax return ratio (1.00 - .125=.875).

Public Policy Implications

These valuation impacts may help explain the difficulty that heritage developers encounter when contemplating the purchase of heritage properties. The requirement for a higher purchase price may be viewed as an impediment to heritage development. It could also be viewed as a rationale as to why the government should provide some type of support for heritage conservation. This could take the form of a grant to the purchaser of a heritage building or some type of tax relief to the seller of a heritage building i.e. deemed capital gain treatment of the recapture provisions of an eligible heritage building.

3. New 30% Capital Cost Allowance (CCA) Class for Eligible Restoration Costs

Proposal:

The federal government consider the creation of a new 30% CCA class for “eligible restoration costs” for “eligible heritage properties”.

Rationale

Many restoration projects involve significant expenditures to bring a building back to its original state, and in some cases, to improve upon that state given advances in materials, demands of government regulation, and client preferences. The Canada Revenue Agency makes distinctions for tax purposes between the treatment of expenditures related to repairs (100% deductible) and expenditures considered as a betterment (treated as additions to the cost of the building a depreciated at a 5% declining balance rate).

The creation of a separate class for eligible restoration costs would provide preferential treatment to all expenditures related to a restoration project that would not otherwise be considered as a repair. This approach will encourage more restoration projects, given the additional costs involved (often with some uncertainty and risk as to their quantum). Encouraging more restoration projects, as opposed to demolition and greenfield construction, will also have a benefit to society providing the ability for others (including non-occupants, customers, students, etc.) to see Canada’s living history.

Structural Impact

Deferral not reduction: An increase in a CCA rate provides a deferral in taxation as opposed to a reduction in tax. All of the restoration costs would eventually reduce income subject to tax in the years ahead. A 30% CCA class simply accelerates that process, providing a much needed up-front cash flow benefit to developers.

Provincial contribution: A change in the CCA rate by the federal government will also provide a tax deferral benefit for provincial and territorial taxation. The federal government determines the income tax base for provinces and territories other than Quebec and Alberta. Quebec and Alberta determine their own CCA rates, although these latter two provinces often follow federal changes.

Financial Impact

The financial impact of a 30% CCA class for eligible restoration costs can be simulated by using a project model focusing on the impact of the measure as a percentage of the present discounted value (PDV) of restoration project costs. A 30% CCA rate would provide an 11.2% reduction in project costs i.e. the value of the tax savings would be equal to 11.2% of the eligible restoration costs. This total reduction amount is comprised of 6.7% due to reduced federal taxes and 4.5% due to reduced provincial taxes. This level of support is equivalent to an 8% federal tax credit and a 5% provincial tax credit.

Impact of Recapture

When a heritage building is sold, a fair market value is determined and, if this value is in excess of the depreciated amount (as represented by the Adjusted Cost Base (ACB)), then the difference up to the

original cost amount is included in income. This effectively “recaptures” the CCA that had been deducted in previous years.

If the disposition price exceeds the original cost amount, then a capital gain is calculated on this excess amount and taxed at a preferential 50% rate.

The impact of recapture reduces the financial benefit of taking CCA deductions since they only provide tax relief in the first few years and then this tax relief is “repaid” in the year when the heritage building is sold. Table 1 below shows the impact of this short term tax deferral for both the current 5% CCA rate and the incentive 30% rate, as well as the impact of alternate recapture scenarios.

Table 1: Eligible Restoration Expenses - Impact of Recapture					
Parameters					
Restoration Expenses	1,000,000				
Discount Rate	10%				
Tax Rate	25%				
	CCA Claims		CCA Claims with Recapture after Five Years		CCA Claims with No Recapture after Five Years
	Current Treatment	Eligible Restoration Expense Incentive	Current Treatment	Eligible Restoration Expense Incentive	Eligible Restoration Expense Incentive
CCA Rate	5%	30%	5%	30%	30%
Present Discounted Value (PDV) of CCA Deductions	350,493	787,500	41,376	188,755	477,039
PDV of Tax Cash Flow	87,623	196,875	10,344	47,189	119,260
PDV of Tax Cash Flow / Investment	8.76%	19.69%	1.03%	4.72%	11.93%

The first two columns show the positive cash flow impact of taking CCA deductions sooner in the project with no sale contemplated in the life of the building. Columns three and four show the impact when the building is sold after five years. The 5% CCA rate results in a small benefit of 1.03% of the investment whereas the 30% CCA rate results in a 4.72% benefit value. In both cases, this represents the value of the interest free loan from the tax savings for five years.

However, the special CCA class could also be structured so that it would **not** be subject to recapture i.e. it would be in a separate class from the building itself. Should the building be subsequently sold, this separate class of expenditures would then continue to be depreciated in the normal way rather than being recaptured as part of the sale. Furthermore, the income inclusion resulting from the disposition would only be taxed at a 50% rate. These two elements would provide an added incentive to restore

heritage buildings, raising the CCA tax benefit from 4.72% in column 4 to 11.93% in column five in the example above.

Not subjecting this CCA class to recapture is similar to the existing treatment of repairs. If a heritage building is significantly repaired, these expenditures are written off as an expense in the year they are incurred. If these repairs have the effect of increasing the value of the building, then this increase in value will be subject to preferential capital gains treatment i.e. the repairs are not "recaptured" in the system. This same result would occur for eligible restoration costs provided they are not recaptured.

Definitional Issues

"Eligible Restoration Costs" would be defined in CRA guidelines developed in conjunction with representatives from the industry together with the National Trust for Canada. These guidelines could draw upon the knowledge gained under the Commercial Heritage Properties Incentive Fund (CHPIF).

"Eligible Heritage Buildings" would include all buildings listed in the Canadian Register of Historic Places.

Appendix D:

Materials Distributed to Stakeholders

Discussion Guide:

Financial Measures to Encourage Heritage Development

This discussion guide is an initiative of the Federal-Provincial-Territorial Culture Ministers' Table. Its purpose is to assist the development community and governments at all levels in considering measures to encourage the rehabilitation of heritage properties in Canada. Provinces and territories are encouraged to use it to explore potential measures that might be of interest to the development community within their jurisdictions.

Understanding Factors that Discourage Heritage Development

Heritage properties are seen as cornerstones of local, regional, and national identity and are valued in planning documents and tourism brochures alike. Their social, cultural and historic value goes beyond the private value they hold for their current owners. For private industry, ownership and rehabilitation of these properties comes with such benefits as their location in often well established and desirable areas and being able to build on their special character for marketing purposes. Why then, one might ask, are sensitive rehabilitations of heritage properties not a matter of course in Canada?

It is helpful to examine these questions by looking at some of the key variables property investors consider in making their investment decisions:

Return on Investment (ROI) – Construction projects and real estate in general in Canada is considered a high risk investment. As a result, a higher ROI is typically expected than other financial investments (e.g. bonds and stocks). For the majority of developers, 20-30% ROI is the industry standard, while others have expectations of 10-15%. The ideal scenario is low rehab cost, low property value, and high marketability after rehab. In many cases, taking a “heritage” approach to a property means foregoing development potential. In city centres and higher density areas, zoning encourages developers to favour higher floor area ratios over the lower density most often found in heritage properties. High land values and property acquisition costs in these areas increase pressure to maximize development potential. In economically challenged communities with lower rental and leasing rates, the expense of heritage

rehabilitation can be hard to justify and there is the temptation to minimally invest in properties.

Timing of the ROI is equally important. Heritage projects are frequently undertaken by patient developers/investors who are building a portfolio of highly marketable, income-producing properties and are willing to take out little or no profit as a means of “buying” commercial investments. By the same token, heritage properties typically appeal less to the majority of mainstream developers/investors, reducing the demand.

Construction Costs – While some heritage rehab projects cost less than building a comparable sized new building, the majority cost more. A 2006 study of adaptive reuse projects in Ontario, found the cost difference between heritage rehab and new construction to be 2% to 15% for commercial/institutional projects, and between –8% to 44% for residential projects.¹³ There are various reasons for these higher costs including: the higher costs of professional and trades workers skilled in older buildings; the higher costs for sourcing or repairing heritage materials; site remediation (e.g. asbestos abatement); and the need to address accessibility and energy efficiency challenges. Heritage rehab is typically more labour intensive than new construction and therefore the limited professional and trades workforce skilled in heritage projects can constrain competitive bidding and raise costs.

Financing and Minimum Risk of Loss – Simply put, it is less risky to build new on bare ground. One can tailor the new structure precisely to market expectations and develop a solid pro forma for lenders. Heritage rehab involves the unknowns of adapting older buildings, and this uncertainty can be a barrier to obtaining financing from Canadian banks. Banks for the most part do not want to be involved in “staged” investments and are not prepared for the risks that come with adapting older buildings. When debt capital can be obtained from private lenders, the lending rates for heritage projects is often twice as much as new construction (e.g. 11 - 13% versus 6 - 7% for new construction). Moreover, with heritage rehab there may also be a narrower tenancy market due to heritage imposed limits on meeting modern user and tenant needs.

Tax Treatment – The existing framework of municipal, provincial and federal taxation both reflects and influences the way property is used. This particularly applies to heritage property. Many provinces have introduced enabling legislation allowing municipalities to provide property tax relief to owners of heritage properties. These incentives are often too modest to make a substantial difference in an investor’s decision-making. At the federal level, the Income

¹³ Shipley, Parsons, and Utz. *The Lazarus Effect: An Exploration of the Economics of Heritage Development in Ontario*. (Waterloo: Heritage Resources Centre, 2006), 9-13.

Tax Act contains a number of measures that can act as a disincentive to heritage development. Most notably, the ongoing lack of clarity as to which types of rehab work can be *expensed* in the current tax year versus those which must be *capitalized* and depreciated over many decades under the Capital Cost Allowance (CCA) rules. This confusion can have a major impact on the after-tax cost of a project, thereby discouraging rehabilitation and making it more difficult for owners to develop a balance sheet and obtain financing for a project.

Ease of Property Development

Property development is fast-paced and competitive, and Canada's construction season is short. Investors are often discouraged by the real, or perceived, restrictions on altering heritage property, and by the timelines for additional approval processes and the complexity of building code compliance that may come with modifying older buildings.

Potential Measures: Reducing Costs to Increase ROI

Tax Measures

A. Non-Refundable Income Tax Credits for Heritage Rehabilitation Federal/Provincial

Building Type: Commercial & Owner-Occupied Residential

What it is: An income tax credit (e.g. 20%) for certified rehabilitations for certified heritage buildings; an income tax credit (e.g. 10%) for substantial rehab of non-heritage buildings at least 50 years old. Eligible rehab costs can be capital in nature and depreciable as real property, or soft construction costs (consulting fees, construction period interest, etc.), but not building or land acquisition costs.

How it works: For a \$100 eligible expenditure, the business would be able to claim a \$20 tax credit, but only against any income taxes owing that year. Once income tax owing was reduced to zero by the credit, any remainder would be carried forward to reduce income taxes in future years. Applicants will need to know in advance what projects and costs are eligible to reduce eligibility risk, which may require pre-certification.

Otherwise, project costs may be denied *ex-post* under CRA audit.

Advantages: Funding of tax measures is open-ended (i.e. unlike a grant program, no annual cap is imposed) allowing for greater take-up. A credit avoids front-end delays that discourage investment and could be calibrated to work for large and small projects in urban and rural settings. Specificity of eligible projects and predictability of qualifying project costs should increase investor confidence and reduce risk of non-compliance.

Disadvantages: Non-refundable credits have less value than refundable credits (see Measure B below) to companies since they need to be in a taxable position to benefit

(i.e. companies face a tax risk). While tax credits can be carried forward, a credit claimed against tax in a future year has a lower present discounted value. To be effective for smaller projects, this measure would have to be sensitively structured (e.g. by creating credit thresholds scaled to project size). The percentage rate of credit needs to be fixed at a level high enough to constitute a meaningful incentive, typically in the range of 20 - 30% of qualified rehab expenditures. In the US, legal and certification costs have made tax credits only economic for larger projects.

Models:

Federal (US) - Federal Historic Preservation Tax Incentives Program (US) provides a 20% non-refundable income tax credit for certified rehab for heritage buildings and a 10% credit for substantial rehab on pre-1936 non-heritage buildings.

State (US) – Thirty-one States have non-refundable income tax credits for historic preservation rehab (e.g. Virginia – 25% for commercial and owner-occupied residential). These can be combined with Federal Tax Incentives.

Comments: In the US, these non-refundable tax credits can be used to offset the building owner's federal tax liability, but many building owners transfer these credits through syndication to a corporate investor in exchange for additional equity capital that can be utilized for long-term financing of the project. Non-profit groups can also syndicate tax credits to corporate investors. Syndication ensures that the building owner can share in the benefit of the tax credit even if the owner is not in a taxable position, or not liable for tax. In Canada, the ability to transfer depreciation and tax credits between corporations is more restricted. However, opportunities exist to use limited partnerships to bring in outside investors, who would then claim their proportionate share of the tax credits and any depreciation allowances. Limited partnerships are subject to the “at risk” rules (limiting deductions to the capital “at risk”) as well as the tax shelter rules.

B. Refundable Income Tax Credits for Heritage Rehabilitation Federal/Provincial

Building Type: Commercial, Owner-Occupied Residential, Non-Commercial

What it is: An income tax credit (e.g. 20%) for certified rehabilitations for certified heritage buildings; an income tax credit (e.g. 10%) for substantial rehab of non-heritage buildings at least 50 years old.

How it works: For a \$100 eligible expenditure, the business would be able to claim a \$20 tax credit, first against any income taxes owing and, once tax was reduced to zero, be eligible for a refund for the remainder of the credit. Unlike grant programs, tax credits are open-ended and require specification of clear and precise eligibility criteria.

Otherwise, pre-certification is required. In either case, property owners will want to reduce eligibility risk by knowing what costs are covered upfront to avoid CRA post-audit challenges.

Advantages: Refundable tax credits are similar to grants in that the business benefits from the credit in the year independent of tax status. As with Measure A above, the specificity and predictability of this measure would increase investor confidence.

C. Capital Cost Allowance – Clarify Current Rules for Repair or Betterment to Encourage Heritage Rehab Federal/Provincial

Building Type: Commercial

What it is: Modify the existing Capital Cost Allowance (CCA) measure in the *Income Tax Act* to ensure restoration or repair work on heritage features on designated heritage properties is considered as “maintenance” (not a capital “betterment”) under current CCA rules and thus able to be expensed in a given tax year. Restoration of original heritage features, for instance, is not currently seen as maintenance.

How it works: Certification of restoration or repair work on heritage properties before and after activity. These costs would then be treated as expenses in a given tax year and not capitalized under CCA.

Advantages: Being able to expense restoration/repair expenses in the year they occurred, would provide a more substantial and immediate after-tax return for property owners than the current 5% declining balance depreciation under CCA. In the first year, the additional deduction would be \$97.50 for a \$100 expenditure (only half of a capital expenditure counts for the 5% in the first year). At a 25% tax rate (15% federal and 10% provincial), that is \$24 of cash flow.

Disadvantages: Developers would have to provide evidence certifying qualified restoration work to access the after-tax return.

Comments: This issue has been under discussion since the 1980s. Currently, on commercial properties restoration work can be either “repairs” (expensed in the year incurred) or “capital” (not expensed in year, but depreciable through CCA) based on uncodified distinctions between “maintenance” or “betterment” of the physical asset.

D. Capital Cost Allowance – New Accelerated Class for Heritage Rehab Federal/Provincial
Building Type: Commercial

What it is: Create a new CCA class for specified restoration and maintenance costs for heritage buildings. This would leave current CCA rules around “maintenance” and “betterment” in place and instead provide an accelerated write-off rate for qualifying

rehab expenditures of a capital nature on heritage property (e.g. the accelerated CCA rate for equipment (Class 29) which allows a straight line write-off of 25% for the 1st year, 50% for the 2nd year, 25% for the 3rd year). Generally, capital outlays in respect of buildings are normally amortized over periods up to 40 years.

Advantages: This measure would be predictable and timely and provide up-front cash flow benefit as a long term interest free loan. It would also be easily integrated within existing accounting practices. Having access to a CCA rate higher than the normal 5% for buildings would result in a cash flow benefit for firms in a taxable position. Accelerated CCA provides an interest free loan over the life of the investment, with the loan being “repaid” once the normal depreciation of a building is taken into account. Value to the firm will depend on its cost of funds and tax status.

Disadvantages: This measure requires codification/certification of qualifying rehab expenditures and is only of benefit to firms in a taxpaying position.

E. Sales Tax (HST/GST/PST) Rebates for Heritage Rehab **Federal/Provincial**

Building Type: Owner-Occupied Residential & Non-Commercial

What it is:

- *GST Rebate for Renovation of Substantial Value* - Currently a rebate equal to 36% of the GST (i.e. 1.8% of the total cost) is given for substantial renovations (at least 90% of the interior of a building must be removed/replaced to qualify). This could be amended to provide a rebate equal to 36% of the GST for renovations, of whatever magnitude, that increase the value of the property by 90%.
- *HST/GST/PST Rebate for Heritage Rehab* – Provide a rebate equal to HST/GST/PST on building materials for the repair, restoration, or improvement of a heritage property.

How it works: Certified property appraisal before and after renovation and the submission of building material invoices to tax authorities once work is completed.

Advantages: Is a predictable measure and rewards maintenance and additional property value created.

Comments: Would be limited to owner-occupied residential properties, as commercial ventures already receive an input tax credit for the GST (or HST portion) directly.

Example: Nova Scotia Heritage Property Rebate for owner-occupied and non-commercial properties. The rebate equal to the 10% provincial portion of the HST on building materials for the repair, restoration, or improvement of a heritage property paid by non-profit community, charitable, fraternal, educational, recreational, cultural or sporting organizations or institutions.

F. Property Tax Abatement for Heritage Properties Provincial/Municipal

Building Type: Commercial & Owner-Occupied Residential

What it is: *Property tax abatements* compensate the owner of designated heritage property for any increase in property taxes following a rehab project.

How it works: Any tax increase due to rehab project is phased in over several years.

Advantages: Provides period to adjust to property tax increase.

Disadvantages: May not be substantial enough to provide an incentive to initiate work.

Example: New Brunswick Property Tax Abatement program provides a four-year tax reduction: no increase in property tax the first year, 25% of increase the 2nd, 50% the 3rd and 4th, and 100% the 5th.

G. Property Tax Credits for Heritage Properties Provincial/Municipal

Building Type: Commercial & Owner-Occupied Residential

What is it: *Property tax credits* compensate the owner of designated heritage property for the costs of a rehab project. Rather than providing a grant for project costs, the municipality provides a one-time credit on property taxes.

How it works: A tax credit will be issued for 35 - 50% of the value of rehab work on a heritage building, which can be applied to property taxes for up to 10 years.

Advantages: Compensates work completed rather than increased property value.

Disadvantages: Some property owners prefer up-front grants to tax credits.

Examples: Cities of Edmonton, Winnipeg, Victoria, Regina.

H. Ongoing Property Tax Relief for Heritage Properties Provincial/Municipal

Building Type: Commercial & Owner-Occupied Residential

What is it: *Property tax relief* rewards the owner of designated heritage property for designating and conserving the property by providing a fixed percentage reduction in property taxes (e.g. 10 - 40%) over a period of years. As long as the owner continues to conserve the heritage property, he/she can continue to apply for and receive tax relief.

How it works: Owners must be subject to a heritage easement under which the owner agrees to carry out regular conservation work to nationally accepted standards.

Disadvantages: The need to reapply periodically undermines the predictability of the measure. Also, condo (strata) residential developers will not be able to recoup the full value of this relief from prospective purchasers.

Example: The Ontario Heritage Tax Relief Program, where over 30 municipalities have adopted this measure.

I. Tax Benefit in Exchange for Conservation Easement or Covenant Federal/Provincial

Building Type: Commercial & Residential

What it is: Expand the existing EcoGifts Program (currently for ecologically sensitive lands) to allow for a private agreement between the owner of a heritage property and heritage body (e.g. government org., NGO or municipality) in which the owner agrees not to undertake any activities that might affect the heritage character of the property without the approval of the easement holder. The agreement is registered on title and binds the present and subsequent owners. In return, the donor of the easement receives a tax benefit.

How it works: For donating a heritage conservation easement on their property, individual donors receive a non-refundable tax credit against their annual income, calculated by the value of the property before and after the easement. Corporate donors deduct the amount directly from their taxable income. Taxable capital gain realized on disposition of property is nil. Covenants are held by organizations with the legal ability and capacity to enforce them.

Advantages: It is a donor-driven and completely voluntary measure. The elimination of capital gains realized on disposition of property would be a strong incentive.

Disadvantages: Long-term restriction on a property may have an impact on liquidity.

Model: EcoGifts Program (Canada) established 1995 for ecologically sensitive lands.

J. Heritage Rehabilitation Grants Federal/Provincial/Municipal

Building Type: Commercial & Owner-Occupied Residential

What it is: Typically matching funds up to a certain percentage of rehab work on heritage properties (sometimes limited to facades).

How they work: Application process with funds forwarded on project completion.

Advantages: Typically helps address up-front costs and enables stronger ROI.

Disadvantages: Usually involves a rigorous front-end review process with approval sometimes taking twice as long as a tax credit approach. Moreover, approval may not be guaranteed and the funding available may not provide an adequate incentive to initiate the project.

Examples:

- *Federal (Canada)* – The former Commercial Heritage Property Incentive Fund (2003-08) a \$30 million fund that contributed a grant for 20% of eligible conservation costs (max. \$1 million)
- *Federal (US)* – The former Save America’s Treasures program provided matching funds to state and local governments and non-profits (average 2006 grant was \$223,000) for nationally significant historic structures.
- *Provincial-Territorial* – Heritage Resource Conservation Grants (Alberta). Maximum grants are \$100,000 for Provincial Historic Resources; \$50,000 for Municipal Historic Resources, \$5,000 for Non-Designated Historic Resources.
- *Municipal* – Rehabilitation and Maintenance Grants (Edmonton) for residential (max. \$75,000 rehab and \$10,000 maintenance) and commercial properties (max. 50% project costs rehab and \$50,000 maintenance).

Potential Measures: Improved Access to Financing

K. Revolving Fund for Heritage Rehab

NGO

Building Type: Commercial & Owner-Occupied Residential

What: A pool of capital created and reserved for the conservation of structures, and loaned on condition that the funds will be returned for reuse in similar activities. Often involves conservation related conditions (e.g. protective easement/covenant). Typically used for “at-risk” or low-return properties that otherwise might not be funded.

How: Loans are usually at a lower interest rate and secured by a mortgage registered against the title to the land.

Advantages: Measure provides more flexible terms than traditional lenders.

Disadvantages: Demand may outstrip the funding supply and conditions typically placed on property as basis for loan.

Models: Architectural Heritage Fund (UK) or Historic Ottawa Development Inc. (Ontario).

L. Venture Capital Fund (Leveraging Heritage Property Tax Relief)

Building Type: Commercial

Federal/Provincial/Municipal

What: Ability to direct municipal heritage property tax relief benefits so as to allow project borrowing, and ensure rehab to heritage standards.

How: Assign receipt of heritage property tax rebates over a period of years (e.g. \$50,000 in tax relief for 10 years enables approximately \$800,000 – \$1,000,000 in borrowing power) to institutional lenders as security for financing.

Advantages: The measure would provide timely, up-front project financing and build on existing programs and institutions.

Disadvantages: There are a limited number of Canadian municipalities with heritage property tax relief programs: all of Quebec, approx. 30 in Ontario, and 15 elsewhere.

M. Loan Guarantees for Heritage Rehab

Federal/Provincial/Municipal

Building Type: Commercial & Owner-Occupied Residential

What: A level of government would insure private financing (typically low-cost) for the purposes of purchasing and revitalizing significant heritage property by guaranteeing all or part of a loan or mortgage.

How: Lender registers a lien to the amount of the loan against the title of the property

Advantages: The measure would provide timely assistance for projects.

Comments: Typically small amounts available to loan.

Examples: Hamilton (Ontario) Community Heritage Fund Loan Program & Markham (Ontario) Heritage Loan Fund. (Markham \$15,000 max.; Hamilton \$50,000 max.).

Other Measures That Would Encourage Heritage Development

N. Preferential Leasing of Heritage Properties

Federal/Provincial/Municipal

Building Type: Commercial

What: Government departments and agencies giving preference to heritage buildings and districts when leasing short- or long-term office space.

How: Policy gives priority to locating government activities in historic and other existing buildings when appropriate.

Advantages: The measure provides the potential for long-term public sector leases, thereby creating a market for heritage space.

Models: Legacy Vision Policy (federal US General Services Administration) and 7 US State Governments (e.g. Oregon State).

Additional Municipal Measures

- **Density Transfers** – The municipality offers bonus development rights and permits the transfer of bonus and/or residual development rights off-site in exchange for the retention and upgrade/restoration of heritage buildings. The City of Vancouver created the Vancouver Heritage Density Bank (1993) by which heritage property owners could deposit “airspace” into the bank which could be purchased for use at another site. The payment for banked “airspace” compensates the heritage property owner for additional costs associated with restoring the building and lost development potential.
- **Heritage Property Tax Relief** – see Discussion Paper above.
- **Municipal Heritage Grants** – see Discussion Paper above.
- **Planning Measures** – Encourage designation and rehab through relaxation of parking, loading and amenity requirements, zoning and sub-division bylaw, and permit fast-tracking.
- **Tax Increment Financing (TIFs)** – The TIF mechanism uses anticipated growth in property taxes from a development project to finance public sector investments in an area. TIFs have been used extensively for brownfield and distressed area redevelopment in the US but remain relatively underutilized in Canada.
- **Waived Development Fees** – Some US cities have reduced building fees and waived other planning fees for historic buildings.

Questionnaire:
Financial Measures to Encourage Heritage Development

Name: _____

City: _____

Province/Territory: _____

Part 1: Privacy

Note: Completed questionnaires will NOT be made public, and any data reported in future analysis and reports will NOT be attributed to specific respondents. However respondents may be named in future reports unless they request anonymity. Please initial one of the following to indicate your choice:

____ Please feel free to list my name as a participant in this study.

____ Please DO NOT include my name in any listing of participants in this study.

Part 2: Your Background

1. The geographic area you typically operate in (e.g. the city, region, province(s)):

2. What percentage of your projects are:

- Commercial _____%
- Residential _____%

3. Value of a typical development project you would undertake:

- Less than \$1,000,000
- \$1,000,000 to \$4,000,000
- \$4,000,000 to \$10,000,000
- >\$10,000,000

4. What percentage of your projects are:

- Designated heritage buildings _____%
- Older buildings but not designated _____%
- New construction _____%

Part 3: Evaluate Factors that Discourage Heritage Development

Please rank the impact of these factors on your decision to invest in/rehabilitate a heritage property:

Factor		No impact ----> Large impact Unknown						
a	Low return on investment	0	1	2	3	4	5	?
b	Delayed return on investment	0	1	2	3	4	5	?
c	Limitations/controls on development potential	0	1	2	3	4	5	?
d	High cost of heritage workers	0	1	2	3	4	5	?
e	High cost of heritage construction materials	0	1	2	3	4	5	?
f	High site remediation costs	0	1	2	3	4	5	?
g	High cost of accessibility and energy efficiency measures	0	1	2	3	4	5	?
h	Difficulty of obtaining financing from Canadian banks	0	1	2	3	4	5	?
i	Difficulty of obtaining other forms of financing	0	1	2	3	4	5	?
j	The “unexpected” involved in adapting heritage buildings	0	1	2	3	4	5	?
k	Long timelines for heritage approval process when compared to non-heritage projects	0	1	2	3	4	5	?
l	Limited heritage professional and trades workforce	0	1	2	3	4	5	?
m	Complexity of building code compliance	0	1	2	3	4	5	?

Comments _____

Other factors not included above?

Part 4: Evaluate Potential Measures to Encourage Heritage Development

Please help evaluate the potential impact of these measures on your decision to invest in/rehabilitate a heritage property.

A. Non-Refundable Income Tax Credits for Heritage Rehabilitation

Federal/Provincial

The measure: An income tax credit (e.g. 20%) for certified rehabilitations for certified heritage buildings, and 10% for substantial rehab of non-heritage buildings at least 50 years old. For instance, for a \$100 eligible expenditure, the business would be able to claim a \$20 tax credit, but only against any income taxes owing that year. Once income tax was reduced to zero by the credit, any remainder would be carried forward to reduce income taxes in future years.

1. Is the measure clearly explained? Yes No (please explain below)

2. If this measure were in place, what impact would it have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

B. Refundable Income Tax Credits for Heritage Rehabilitation

Federal/Provincial

The measure: An income tax credit for certified rehabilitations for certified heritage buildings (e.g. 20%) and for the substantial rehab of non-heritage buildings at least 50 years old (e.g. 10%). For a \$100 eligible expenditure, the business would be able to claim a \$20 tax credit, first against any income taxes owing and, once tax was reduced to zero, be eligible for a refund for the remainder of the credit. Refundable tax credits are similar to grants in that the business benefits from the credit in the current year independent of tax status.

1. Is the measure clearly explained? Yes No (please explain below)

2. If this measure were in place, what impact would it have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

are amortized over periods up to 40 years. Having access to a CCA rate higher than the normal 5% for buildings results in a cash flow benefit for firms in a taxable position. It provides an interest free loan over the life of the investment, with the loan being “repaid” once the normal depreciation of a building is taken into account. Value to the property owner/developer will depend on his/her cost of funds and tax status.

1. Is the measure clearly explained? Yes No (please explain below)

2. If this measure were in place, what impact would it have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

E. Sales Tax (HST/GST/PST) Rebates for Heritage Rehab

Federal/Provincial

The measure: GST Rebate for Renovation of Substantial Value. Currently a rebate equal to 36% of the GST (i.e. 1.8% of the total cost) is given for substantial renovations (90% of the interior of a building is removed/replaced). This could be amended to provide a rebate equal to 36% of the GST (i.e. 1.8% of the total cost) for renovations that increase the value of the property by 90%.

1. Is the measure clearly explained? Yes No (please explain below)

2. If this measure were in place, what impact would it have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

The measure: PST Rebate for Heritage Rehab. Provide a rebate equal to PST (or provincial portion of the HST) on building materials for the repair, restoration, or improvement of a heritage property.

1. Is the measure clearly explained? Yes No (please explain below)

2. If this measure were in place, what impact would it have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

F. Property Tax Abatement for Heritage Properties

Provincial/Municipal

The measure: Property tax abatements phase in the tax increase resulting from a successful rehabilitation project over several years to reduce the negative property tax impact of investing in the property.

1. Is the measure clearly explained? Yes No (please explain below)

2. Does this measure exist in your jurisdiction? Yes No

If yes, please rank the current impact

What impact does this measure have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

If no, assess the potential impact

If this measure were in place, what impact would it have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

G. Property Tax Credits for Heritage Properties

Provincial/Municipal

The measure: Property tax credits compensate the owner of designated heritage property for the costs of a restoration or rehabilitation project. Rather than providing a grant for project costs, the municipality provides a one-time credit on property taxes.

1. Is the measure clearly explained? Yes No (please explain below)

2. Does the measure exist in your jurisdiction? Yes No

If yes, please rank the current impact

What impact does this measure have on your decision to take on a project?

No impact -----> Large impact
1 2 3 4 5

If no, assess the potential impact

If this measure were in place, what impact would it have on your decision to take on a project?

No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

H. Ongoing Property Tax Relief for Heritage Properties

Provincial/Municipal

The measure: Property tax relief rewards the owner of designated heritage property for designating and conserving the property by providing a fixed percentage reduction in property taxes. As long as the owner continues to conserve the heritage property, he/she can continue to apply for and receive tax relief.

1. Is the measure clearly explained? Yes No (please explain below)

2. Does the measure exist in your jurisdiction? Yes No

If yes, please rank the current impact

What impact does this measure have on your decision to take on a project?

No impact -----> Large impact
1 2 3 4 5

If no, assess the potential impact

If this measure were in place, what impact would it have on your decision to take on a project?

No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

I. Tax Benefit in Exchange for Donation of Conservation Easement Federal/Provincial
The proposed measure: The owner of a heritage property donates a heritage easement to a heritage body and agrees not to undertake any activities that might affect the heritage character of the property without the approval of the easement holder. In return, the donor of the easement receives a tax benefit. Individual donors receive a non-refundable tax credit against their annual income, equal to the difference between the value of the property before and after the easement. Corporate donors deduct the amount directly from their taxable income. Taxable capital gain realized on disposition of property is nil.

1. Is the measure clearly explained? Yes No (please explain below)

2. If this measure were in place, what impact would it have on your decision to take on a project? No impact ----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

J. Heritage Rehabilitation Grants Provincial/Municipal/Federal

The measure: Governments provide direct funding to assist eligible projects, to a certain limit. Pre- and post-certification of the work is usually imposed to ensure quality and control costs.

Is the measure clearly explained? Yes No (please explain below)

Municipal Grants

1. Does the measure exist in your municipality? Yes No

If yes, what impact does this measure have on your decision to take on a project?

No impact -----> Large impact
1 2 3 4 5

If no, assess the potential impact it have on your decision to take on a project?

No impact -----> Large impact
1 2 3 4 5

2. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

Provincial/Territorial Grants

1. Does the measure exist in your province or territory?

Yes No

If yes, what impact does this measure have on your decision to take on a project?

No impact -----> Large impact
1 2 3 4 5

If no, assess the potential impact it have on your decision to take on a project?

No impact -----> Large impact
1 2 3 4 5

2. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

Federal Grants

1. If this measure were in place, what impact would it have on your decision to take on a project?

No impact -----> Large impact
1 2 3 4 5

2. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

K. Revolving Fund for Heritage Rehab

NGO

The measure: A pool of capital loaned on condition that the funds will be returned for reuse in similar activities. Often involves conservation related conditions (e.g. protective covenants). Loans are usually at a lower interest rate and secured by a mortgage registered against the title to the land.

1. Is the measure clearly explained? Yes No (please explain below)

2. If this measure were in place, what impact would it have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

L. Venture Capital Fund (Leveraging Heritage Property Tax Relief)

Federal

The measure: Ability to leverage municipal heritage property tax relief benefits (e.g. Ontario Heritage Tax Relief Program) so as to allow project borrowing. E.g. \$50,000 in annual tax relief for 10 years would enable approx. \$800,000 – \$1,000,000 in borrowing power.

1. Is the measure clearly explained? Yes No (please explain below)

2. If this measure were in place, what impact would it have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

M. Loan Guarantees for Heritage Rehab

Federal/Provincial/Municipal

The measure: A level of government would insure private financing (typically low-cost) for the purposes of purchasing and revitalizing significant heritage property by guaranteeing all or part of a loan or mortgage.

1. Is the measure clearly explained? Yes No (please explain below)

2. If this measure were in place, what impact would it have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

N. Preferential Leasing of Heritage Properties

Federal/Provincial/Municipal

The measure: Government policy helping ensure a market for heritage properties by giving preference to heritage buildings and districts when leasing space, be it for offices, conferences or accommodation.

1. Is the measure clearly explained? Yes No (please explain below)

2. If this measure were in place, what impact would it have on your decision to take on a project? No impact -----> Large impact
1 2 3 4 5

3. Please explain your assessment of impact above (advantages, disadvantages, etc.)?

Part 5: Prioritizing

Of the measures discussed above, please indicate the TOP THREE MEASURES that you feel would have the greatest impact in encouraging heritage development:

- A. Non-Refundable Income Tax Credits for Heritage Rehabilitation
- B. Refundable Income Tax Credits for Heritage Rehabilitation
- C. Capital Cost Allowance – Clarify Current Rules for Repair or Betterment to Encourage Heritage Rehabilitation
- D. Capital Cost Allowance – New Accelerated Class for Heritage Rehab
- E. HST/GST/PST Rebates for Heritage Rehab
- F. Property Tax Abatement for Heritage Properties
- G. Property Tax Credits for Heritage Properties
- H. Ongoing Property Tax Relief for Heritage Properties
- I. Tax Benefit in Exchange for Donation of Conservation Easement
- J. Heritage Rehabilitation Grants
 - o Municipal Grants
 - o Provincial/Territorial Grants
 - o Federal Grants
- K. Revolving Fund for Heritage Rehab
- L. Venture Capital Fund (Leveraging Heritage Property Tax Relief)
- M. Loan Guarantees for Heritage Rehab
- N. Preferential Leasing of Heritage Properties

Are there additional measures to encourage heritage development that should be explored? Please explain.

Thank you!

Revenue Impacts of Income Tax Credit (ITC) and Capital Cost Allowance (CCA) Simulations (“Appendix B”)

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Introduction

The Discussion Guide reviewed a number of different measures to encourage the renovation and restoration of heritage buildings. A simulation model has been developed to assess the revenue impact of different approaches designed to achieve this result. A technical appendix describes the workings of this simulation model in more detail.

The simulation model assesses the tax impact of various depreciation allowances and tax credits that might apply to the cost of the project. The focus is on the capital cost elements of the project i.e. it is not a full project finance model that would take into account the impact of revenues, operating costs, and interest expenses, in addition to the capital costs. The basic question that is being asked is how much of the project costs will be supported by the tax system i.e. how much of the cost of the capital expenditure will be offset by lower federal and provincial/territorial taxes. A present discounted value approach is used so that the impact of changes over multiple years can be summarized in one metric.

The company making the investment is assumed to be able to fully utilize the tax benefits in the year that they are provided. The greater the government support of overall project costs through the tax system, the less the private sector has to finance to make any particular project viable. The model is particularly useful in assessing the relative impact of different approaches to encouraging the renovation of heritage buildings, with the impact broken down between the federal and provincial/territorial governments. Given the assumption of full tax utilization, the impact of a grant or a refundable tax credit would be the same as that shown here for a non-refundable tax credit.

Project Assumptions

The specific project that is analyzed has a total cost of \$1 million divided into two components – \$500,000 for restoration costs and \$500,000 of betterment costs. The model allows for different depreciation allowances to be applied in respect of each type of cost. The impact of providing tax credits at both the federal and provincial/territorial levels for each type of cost can also be simulated.

For any simulation, decisions need to be made with respect to the following:

- should the additional incentive focus on restoration, or both restoration and betterment costs;

- should the additional incentive be provided through accelerated depreciation allowances i.e. capital cost allowances (CCA); or should the additional incentive be provided through investment tax credits, and,
- how much of the additional assistance should be provided by the federal government and how much should be provided by the provincial/territorial government.

Restoration versus Betterment

There may be a stronger rationale for government assistance for restoration expenses since these are inherent in the conservation of heritage buildings. It is this conservation of heritage buildings that provides the public good i.e. the additional benefit to society to be able to see their “living history”; which is not captured in terms of the private benefit to the developer in terms of his or her investment. Arguably, expenditures related to the “betterment” of a building are more likely to be recouped by the developer in terms of subsequent rents and lease payments. However, distinguishing between restoration and betterment expenses may be difficult and impractical and result in significant additional administrative burdens to both project developers and the Canada Revenue Agency.

Accelerated CCA versus Investment Tax Credits

An accelerated CCA provision provides an interest-free loan to the developer by reducing taxes at the start of a project and then recouping these taxes towards the end of the project, given that the building ultimately will be fully depreciated over time¹⁴. Accelerated CCA provisions reduce taxes paid to both the federal and provincial/territorial governments since they follow the definition of income subject to tax as set out by the federal government¹⁵.

Investment tax credits can be provided by either the federal or provincial/territorial governments. Investment tax credits interact with the capital cost allowance structure in that any assistance provided by governments reduces the capital cost amount that can be depreciated. Furthermore, the base for any federal investment tax credit is reduced by any other federal or provincial/territorial assistance including a provincial/territorial investment tax credit.

¹⁴ To better grasp the concept of an interest-free loan, imagine an asset worth \$100 that is to be written off over a five-year period i.e. \$20 in each year. At an overall corporate income tax rate of 25%, taxes would be reduced by \$5 in each year. Providing an accelerated write off of 100% in year one would reduce taxes by \$25 instead of \$5 – a \$20 benefit, but this would then be “paid back” since tax levels would be \$5 higher than otherwise in the next four years. In other words, the \$100 investment will always reduce taxes by \$25 and the only issue is the timing.

¹⁵ All provinces except for Alberta and Québec are obligated to accept the federal definition of taxable income under the Federal Provincial Tax Collection Agreements. Alberta and Québec generally follow the federal definition of taxable income but have no legal requirement to do so.

Federal versus Provincial/Territorial Assistance

Arguably, both levels of government should have an interest in encouraging the preservation and rehabilitation of heritage buildings.

Simulation Results

Seven different simulations have been examined in order to provide some insights into their relative impact on project economics, and are described as follows:

1. 10% Federal Investment Tax Credit (ITC) for Restoration Costs
2. 20% Federal ITC and a 10% Provincial/Territorial ITC for Restoration Costs
3. 20% Federal ITC and a 10% Provincial/Territorial ITC for both Restoration and Betterment Costs
4. Treatment of all Restoration Costs as a Current Expense
5. Provision of a 30% CCA rate for Restoration Costs
6. Provision of a 30% CCA rate for both Restoration and Betterment Costs
7. Combination of a 30% CCA rate for Restoration Costs plus a 10% Federal and a 10% Provincial/Territorial ITC for Restoration Costs

The impact of these various measures are shown in Table 1 both in terms of the present discounted value (PDV) of the measure, as well as its proportion of the total project costs that are being supported by governments.

Base Case

The 5% CCA rate provided to restoration and betterment costs results in a benchmark of tax support equal to 8.5% of project costs, divided as to 5.1% from the federal government and 3.4% for the provincial/territorial government with the proportionate share reflecting their respective corporate income tax rates of 15% and 10% respectively. Note that a higher provincial/territorial tax rate of 11.5% (the rate in Ontario) would result in a proportionate increase in the provincial tax support amount. However, a higher provincial/territorial tax rate also means that revenue is taxed at a higher rate, and certain projects, which might have been viable at a 10% provincial/territorial tax rate, may not proceed at a higher statutory provincial/territorial corporate income tax rate.

Simulation # 1: Federal Investment Tax Credit (ITC) for Restoration Costs

The first simulation provides a 10% federal investment tax credit focused on restoration costs. This credit almost doubles the federal tax support for the project to 9.8% of total project costs - an increase from 5.1%. The provincial/territorial tax support drops slightly from 3.4% to 3.2% since the federal ITC reduces depreciation allowances, which impacts both federal and provincial/territorial taxes.

Simulation # 2: 20% Federal ITC and a 10% Provincial/Territorial ITC for Restoration Costs

In this simulation, a higher federal investment tax credit of 20% is provided together with a 10% provincial/territorial ITC again focused only on restoration costs. The overall level of support with these credits is increased to about 1/5 of total project costs (21.2%); with 13.3% coming from the federal government and 7.9% from the provincial/territorial government.

Simulation # 3: 20% Federal ITC and a 10% Provincial/Territorial ITC for both Restoration and Betterment Costs

This is the most generous of the options simulated with a significant level of credit provided to both restoration and betterment costs. With these credits in place, the overall level of support for the project increases to essentially a one third (33.4%) of total project costs. The increment over the base case is double that of Simulation 2 given that the base for the two credits has doubled.

Simulation # 4: Treatment of all Restoration Costs as a Current Expense

As reviewed in the Discussion Guide, one challenge in respect of investments in heritage buildings is that restoration costs are often viewed as capital costs by the CRA. Arguably, the restoration of building could be viewed as “repairing” the building i.e. bringing the building back to a previous state, as opposed to improving the building i.e. a betterment.

The impact of making restoration costs a current expense would be to increase the level of support by 8.3 percentage points to an overall level equal to 16.7% of total project costs.

Simulation # 5: Provision of a 30% CCA rate for Restoration Costs

Under this option, rather than treating as restoration costs as the current expense, these costs would be eligible for an accelerated 30% CCA rate. This type of assistance would provide support equivalent to 5.6% of overall project costs, increasing the overall level of support to 14.1%.

Simulation # 6: Provision of a 30% CCA rate for both Restoration and Betterment Costs

Under this option, both restoration and betterment costs would be eligible for the more generous 30% CCA rate. This doubles the incremental benefit (as expected given the assumed split of restoration versus betterment project costs) to 11.2% with overall tax support then rising to 19.7% of total project costs.

Simulation # 7: Combination of a 30% CCA rate for Restoration Costs plus a 10% Federal and a 10% Provincial/Territorial ITC for Restoration Costs

This option provides a combination of incentives focused on restoration costs. This includes an accelerated 30% CCA rate and both the federal and provincial/territorial governments providing a 10% ITC for restoration costs. The overall impact is to add 13.1 percentage points to the level of support bringing overall support to 21.6% of total project costs.

Conclusion

The simulation model can be used to explore a number of different relativities between types of assistance (CCA versus ITC) as well as changing the overall level of federal and provincial/territorial support for the project. The model is flexible and reflects interactions that occur between the different types of tax incentives.

Summary of Results - Revenue Impacts of Income Tax Credit (ITC) and Capital Cost Allowance (CCA) Simulations								
Simulation Number		1	2	3	4	5	6	7
Simulation Description	Status Quo	Non-refundable Federal ITC for Restoration	Non-refundable Fed + Prov ITC for Restoration	Non-refundable Fed + Prov ITC for Restoration and Betterment	Restoration Repairs Deductible	Higher CCA Rate for Restoration	Higher CCA Rate for Restoration and Betterment	Higher CCA Rate + Fed / Prov ITC for Restoration
CCA - Restoration	5%	5%	5%	5%	5%	30%	30%	30%
CCA - Betterment	5%	5%	5%	5%	5%	5%	30%	5%
% Restoration Costs Capitalized	100%	100%	100%	100%	0%	100%	100%	100%
ITC Federal - Restoration	0%	10%	20%	20%	0%	0%	0%	10%
ITC - Provincial - Restoration	0%	0%	10%	10%	0%	0%	0%	10%
ITC - Federal - Betterment	0%	0%	0%	20%	0%	0%	0%	0%
ITC - Provincial - Betterment	0%	0%	0%	10%	0%	0%	0%	0%
Revenue Impact (PDV)	Base Case	Difference	Difference	Difference	Difference	Difference	Difference	Difference
Federal	44,650	41,458	72,281	144,561	43,377	29,415	58,829	58,537
Provincial	29,767	1,562	39,427	78,853	28,918	19,610	39,219	56,546
Total	74,417	39,895	111,707	223,414	72,296	49,024	98,049	115,083
Revenue Impact (% of Project Costs)	Base Case	Impact	Impact	Impact	Impact	Impact	Impact	Impact
Federal	5.1%	9.8%	13.3%	21.6%	10.0%	8.5%	11.8%	11.8%
Provincial	3.4%	3.2%	7.9%	12.4%	6.7%	5.6%	7.9%	9.9%
Total	8.5%	13.0%	21.2%	34.0%	16.7%	14.1%	19.7%	21.6%
PDV of Project	876,033	876,033	876,033	876,033	876,033	876,033	876,033	876,033
Revenue Impact (% of Project Costs)		Difference from Base	Difference from Base	Difference from Base	Difference from Base	Difference from Base	Difference from Base	Difference from Base
Federal		4.7%	8.3%	16.5%	5.0%	3.4%	6.7%	6.7%
Provincial		-0.2%	4.5%	9.0%	3.3%	2.2%	4.5%	6.5%
Total		4.6%	12.8%	25.5%	8.3%	5.6%	11.2%	13.1%

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