



City of Vancouver *Land Use and Development Policies and Guidelines*

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HERITAGE BUILDING REHABILITATION PROGRAM POLICIES AND PROCEDURES FOR GASTOWN, CHINATOWN, HASTINGS STREET CORRIDOR AND VICTORY SQUARE

*Adopted by City Council on July 10, 2003
Amended July 29, 2003 and July 19, 2005*

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1 Introduction

City Council has approved a program of incentives to facilitate the conservation and rehabilitation of buildings in Gastown, Chinatown, the Hastings Street Corridor and Victory Square (refer to map for area of eligibility). The program will be available for a 5-year period (2003-2008) to kick start economic activity in these important historic areas through work on individual heritage buildings. The incentives that comprise the Building Rehabilitation Program are:

Property Tax Exemption
Bonus Density
Residual Density.

This document outlines policies and procedures for the Building Rehabilitation Program.

For information on the Facade Grants, refer to the document [Heritage Facade Rehabilitation Program Policies and Procedures for Gastown, Chinatown, Hastings Street Corridor and Victory Square.](#)

The City strongly recommends that applicants consult with City staff, to review the proposal and submission requirements, before applying for incentives. The City also notes that it anticipates federal heritage incentives in the near future. When the federal incentives are in place, they will be applied before the municipal incentive programs and the funding available from the City of Vancouver will be decreased accordingly.

2 Principles

In preparing the methodology to determine heritage incentives, staff applied the following guiding principles:

- **Balance between objectivity and accuracy** – The methodology and assumptions used for calculating heritage incentives are designed to best approximate actual costs and values, while at the same time have, as much as possible, been selected to be objective and consistent over time and across projects, as well as readily accessible to all participants.
- **Equal treatment of equals** – All applicants and applications will be treated in the same manner in terms of the application process and incentive calculations.
- **Negotiated process with City having ultimate approval** – The scope of the project being submitted for a heritage incentive and all relevant figures submitted by the applicant as part of the application process will be reviewed by City staff, and may have to be revised so that City staff ultimately agree with them in terms of accuracy, reasonableness and economic and program viability.

3 Building Rehabilitation Program Policies and Procedures

The City intends to provide incentives to meet the “shortfall cost” or the amount required to make a project viable (when a major building upgrade is completed) through a combination of property tax exemption and bonus density.

4 Program Objective

The City’s main objective is to encourage the full upgrading of heritage buildings to ensure their long-term conservation while stimulating economic development within the area. The specific objective of the Building Rehabilitation Program is to provide incentives to property owners who wish to upgrade their heritage buildings and meet the criteria for this program. The total value of the incentives provided are intended to meet the “shortfall cost” of the renovation project, defined as the amount required to make a project viable when a major building upgrade is completed. Incentives will be provided by the City through a combination of property tax exemption and bonus density.

The City will determine the amount of each incentive through site-specific analysis based on objective measures of market values and costs, and anticipates that there will be some negotiation of the inputs to the incentive calculations between the applicant and the City. The Director of Planning, with advice from Real Estate Services, is responsible for making recommendations to City Council on the appropriate type and amount of incentive for each individual project. The City may also apply a facade grant toward the shortfall (see facade improvement program for details). Owners may apply for the incentives on a coordinated basis.

5 Property Tax Exemption Program

This program will provide a 100% property tax exemption for up to 10 years to cover the shortfall costs. Applicants will be able to apply for this program during the 5 year period (2003-2008). Tax exemptions will apply to property tax levies as per Section 396A of the *Vancouver Charter* but not to local improvement fees, business improvement fees, utility charges, or other like fees or charges.

The material under the “Bonus Density Program” below regarding eligible work, eligibility criteria, application criteria, application costs, application consideration and evaluation criteria apply to both the “Property Tax Exemption Program” and “Bonus Density Program” except where otherwise indicated.

6 Bonus Density Program

At the time of the application, should the estimated value of the tax exemption (as calculated below) be less than the agreed to shortfall cost of an applicant’s project, the difference will be awarded to the applicant through a transferable density bonus.

Relief or variance to Development Cost Levies may also be provided through the Heritage Revitalization Agreement. For more information refer to Section 592(2)(b)(ii) of the *Vancouver Charter* and the *Development Cost Levies Administrative Bulletin*.

7 Eligible Work

To apply for the incentive program the following work must be included - heritage restoration work and a major building upgrade which involves upgrading to meet Building By-law requirements. This can include but is not limited to, structural and foundation repair, seismic upgrades, and voluntary upgrades. Refer to the section on Calculation of Shortfall Costs for a description of costs that can be included.

8 Eligibility Criteria

- The site must be within the HA-1, HA-1A (Chinatown), HA-2 (Gastown) Zoning District, on Hastings Street between Cambie Street and Heatley Avenue or in the Victory Square area (refer to map on last page).
- Buildings listed on the Vancouver Heritage Register are automatically eligible. Council may add buildings to the Register if they meet the City’s evaluation criteria.
- To receive property tax exemption (as enabled under section 396A of the *Vancouver Charter*) and bonus density incentives, properties must be subject to a Heritage Revitalization Agreement (HRA) under section 592, of the *Vancouver Charter*. The HRA enables the bonus and residual density incentives, if applicable, and establishes the owners obligations with respect to ongoing maintenance obligations as well as replication of the heritage building in the event of destruction. The City may also require other legal agreements with respect to bonus densities.
- The property owner must not be in arrears in payment of taxes.
- The applicant must complete the work in accordance with the approved permit, and must comply with all heritage conservation standards, design guidelines, policies, by-laws, or complementary standards and provisions that apply before the City disburses the incentives to the applicant.
- The City will not consider retroactive funding for work completed prior to submission of the grant application.

9 Application Requirements

Applications must include:

- a completed application form
- a cover letter describing proposed work (including how it complies with program objectives) and request for property tax, bonus density and residual density incentives as applicable
- a Conservation Rationale describing the approach used to preserve the core heritage values and character defining elements of the heritage building
- an outline conservation specification
- architectural/conservation drawings and coloured renderings, accurately describing the existing condition and proposed work
- a development pro forma (as described in this document)
- current colour photographs of the building
- archival photographs and historical documentation.

In addition to these criteria, the City may require additional historic research, engineering, or other studies in support of the application. Applicants are also responsible for providing any further information the City requires to determine the incentive amount. All conservation related work (e.g. research, approach, architectural drawings, specifications, and site supervision) to be carried out by an architect, engineer or equivalent professional, each having substantive experience and expertise in heritage conservation.

The development application and development pro forma will be prepared and submitted by the applicant. The City will review the submission and reserves the right to redefine the scope of development if it determines the proposal can be made more economically viable and/or revise the inputs into the pro forma to accurately reflect market conditions. The authority for approving all incentives rests with City Council.

10 Application costs

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

11 Application consideration and evaluation criteria

The City will use the following criteria to evaluate applications:

- Level and quality of heritage conservation work proposed.
- Heritage quality of building (based on Heritage Register evaluation).
- Relationship of building to groupings of heritage buildings.
- Relationship to other heritage conservation projects being undertaken.
- Compliance with design guidelines, conservation standards and principles, and by-laws.
- Amount of incentive being sought as a proportion of capital investment (those projects proposing higher level of private investment will be considered more favourably).

City staff will review each application and determine the value of any heritage incentives it decides to provide concurrently with the review of a development permit application. All applications will be carefully considered, but will not necessarily receive incentives at all, or to the level being requested. For each application, City Council must pass a by-law for a Heritage Revitalization Agreement and another for a property tax exemption. The latter requires approval by a two-thirds majority of City Council.

Important Notes

- Applications will be processed on an “as received basis”; there is no annual deadline.
- Approval by Electors: The Vancouver Charter specifies that by-laws providing tax exemptions greater than one year (but not greater than 10 years) must receive assent or approval of the electors. This requires notices to be published in a newspaper at least 30 days before Council adopts the by-law. If more than 1/20 of the electors petition Council the by-law would require assent of the electors. If the petition is less than 1/20 of electors, assent is deemed (refer to sec. 396A of the Vancouver Charter).
- Any incentive provided by the City to an applicant is a subsidy, and there is a risk that changes in the market over time may result in an owner being either over- or under-subsidised. By entering into an Heritage Revitalization Agreement with the City of Vancouver, the owner bears all risks associated with the ultimate adequacy of compensation.

12 Calculating shortfall costs and incentive amounts

12.1 Shortfall Costs Calculation

Owners of heritage buildings in Gastown, Chinatown and the Hastings Street Corridor completing major upgrades (including seismic and life safety) can apply for incentives. The amount of incentive to be provided will be based on the “shortfall cost” or the amount required to make a project viable in a restoration and re-use project. Shortfall cost is determined by deducting the costs of the project, land/building and profit from the Projected Market Value After Renovation (PMVAR) of the completed project. A development pro forma analysis (prepared by the applicant and agreed to by Real Estate Services) will be utilized to determine the amount of incentive required as follows:

	projected market value after renovation (PMVAR)
less	total costs (hard and soft costs + contingency)
less	property value (land and improvements)
less	profit
equals	shortfall cost (incentive needed)

- where, up to March 15, 2004, the input for the property value figure to be included in the pro forma will be the assessed value published by BC Assessment Authority + 20%. Applications received after March 15, 2004 will use the assessed value published by the BC Assessment Authority.

12.2 Total Tax Exemption Received by Applicant

The total cumulative tax exemption will be equal to either (a) the agreed-on shortfall cost, or (b) ten years of tax exemptions, whichever is met sooner. The tax exemption period will cease fully at the earlier of the following two points in time: (i) the applicant has received a tax exemption for ten years, or (ii) the discounted value of the actual tax exemptions received is equal to the shortfall cost, as described in Section 1 of this document

12.3 Bonus Density

If the Estimated Total Value of the Tax Exemption (ETVTE) (see Section 12.3.1) does not allow for recovery of the shortfall cost, a density bonus may also be provided (see Section 12.3.2).

12.3.1 Estimated Total Value of Tax Exemption

The estimated total value of the tax exemption (ETVTE) will be equal to the net present value of ten years of exempted gross property taxes (local improvement charges and utility fees are not exempted), calculated as follows:

- For the purposes of calculating the ETVTE, the **baseline taxable value** is assumed to be equal to the **projected market value after renovation** (PMVAR), as determined in the pro forma. This taxable value will be assigned to the appropriate property tax classes, per the *BC Assessment Act* definitions.
- The **baseline tax rate** is defined as the combined property tax rates associated with all tax levies from which the property will be exempted. These include the City of Vancouver general levy, the provincial school tax levy, the BC Assessment Authority levy, the Municipal Finance Authority Levy, the GVRD levy, the Translink (GVTA) levy, plus any other property tax levies that would be exempt under Section 396A of the *Vancouver Charter*. Those tax rates that have most recently been approved by City Council at the time the application is received will be used.
- To arrive at the ETVTE, the **estimated annual tax exemption** for each of the ten years will be calculated by multiplying the baseline taxable value by the baseline tax rate for ten years. In this calculation, the baseline tax rate will be inflated (compounded) each year by an **index** which is equal to the three-year average of the Council-directed annual increase to the tax levy, per the latest three years at the time the application is received.
- Finally, the ETVTE will be the net present value of the ten years of estimated annual tax exemptions, using a discount rate of 2.00% over the yield on a five-year Government of Canada bond, as published by the Bank of Canada, on the first day of the month the application is received by the City of Vancouver. If this information is not available from the Bank of Canada, the five-year Government of Canada yield published by a major Canadian financial institution will be used instead.

See Table 1 for summary of steps.

TABLE 1. Calculation of the Estimated Total Value of the Tax Exemption (ETVTE)

						ETVTE = NPV OF THE SUM OF THIS COLUMN
Year 1:	[Baseline Taxable Value/1,000]	x	[Baseline Tax Rate	x	(1+ Index) ⁰]	= Est. Tax Exemption Year 1
Year 2:	[Baseline Taxable Value/1,000]	x	[Baseline Tax Rate	x	(1+ Index) ¹]	= Est. Tax Exemption Year 2
Year 3:	[Baseline Taxable Value/1,000]	x	[Baseline Tax Rate	x	(1+ Index) ²]	= Est. Tax Exemption Year 3
Year 4:	[Baseline Taxable Value/1,000]	x	[Baseline Tax Rate	x	(1+ Index) ³]	= Est. Tax Exemption Year 4
Year 5:	[Baseline Taxable Value/1,000]	x	[Baseline Tax Rate	x	(1+ Index) ⁴]	= Est. Tax Exemption Year 5
Year 6:	[Baseline Taxable Value/1,000]	x	[Baseline Tax Rate	x	(1+ Index) ⁵]	= Est. Tax Exemption Year 6
Year 7:	[Baseline Taxable Value/1,000]	x	[Baseline Tax Rate	x	(1+ Index) ⁶]	= Est. Tax Exemption Year 7
Year 8:	[Baseline Taxable Value/1,000]	x	[Baseline Tax Rate	x	(1+ Index) ⁷]	= Est. Tax Exemption Year 8
Year 9:	[Baseline Taxable Value/1,000]	x	[Baseline Tax Rate	x	(1+ Index) ⁸]	= Est. Tax Exemption Year 9
Year 10:	[Baseline Taxable Value/1,000]	x	[Baseline Tax Rate	x	(1+ Index) ⁹]	= Est. Tax Exemption Year 10

where:

- Baseline Taxable Value projected market value after renovation (PMVAR), from pro forma
- Baseline Tax Rate combined property tax rates associated with all taxes from which the property will be exempted; rates that have most recently approved by City Council at the time the application is received
- Index three-year average of the Council-directed annual increase in the tax levy, per the latest three years at the time the application is received
- NPV Discount Rate 2.00% over the yield on a five-year Government of Canada bond, as published by the Bank of Canada, on the first day of the month the application is received by the City of Vancouver

Important Notes

- (i) The estimated total value of the tax exemption may not equal the actual total tax exemption, since it is an estimate at the time of projection. No later adjustment will be made to incentives granted as a result of actual deviations from this estimate.

- (ii) Gross taxes are fully exempt for up to ten years, with the total payout not to exceed the total shortfall cost, as approved in the pro forma submitted in the application process. For the purposes of this comparison, the total actual payout will be discounted to the first year the tax exemption is to be applied, using the same discount rate that is used in the ETVTE calculation in the application.
- (iii) Tax exemptions will cease fully at the earlier of the following two points in time: (i) the applicant has received a tax exemption for ten years, or (ii) the discounted value of the actual tax exemptions received is equal to the shortfall cost, as described in the previous point.
- (iv) If the total shortfall cost is recuperated via tax exemptions before the tenth year, there may be a transition year in which the applicant pays partial taxes so that the net present value of the total tax exemptions received is equal to, but does not exceed the shortfall cost.
- (v) If shortfall costs have not been fully recovered by the tenth year of the exemption, the applicant will not have access to further tax exemptions nor to any claim on the difference between the shortfall cost and total tax exemptions received in ten years.
- (vi) The property tax exemption commences in the year following issuance of the final occupancy permit. If the final occupancy permit is issued after October 31, the tax exemption will commence in two years. This is due to legislation governing the BC Assessment Authority, the agency responsible for implementing the exemption. Tax exemptions will only begin at the time of the City's main tax billing, in July of each year.

12.3.2 Bonus Density Calculation

The value of the density bonus will be calculated as follows:

- The maximum amount of bonus density provided will be the difference between the calculated **shortfall cost** and the **estimated total value of the tax exemption (ETVTE)**, calculated as described in the following steps.

	shortfall cost
less	estimated total value of tax exemption (ETVTE)
equals	maximum bonus density value
divided by	value per sq. ft. of transferrable density
equals	amount of bonus density available for transfer

where:

- ETVTE = NPV of ten years of estimated tax exemptions, discounted to the first year the tax exemption is to be applied
- value of transferrable density is established by Real Estate Services, and is currently set at \$25 per sq.ft. of buildable area.

Important Notes

- (i) The value of transferable density may be recalibrated at the discretion of Real Estate Services at any point in time to reflect market conditions.
- (ii) City Council must approve the bonus density and the owner must enter into a Heritage Revitalization Agreement which creates the bonus density.

12.4 Residual Density

In addition to providing incentives to meet shortfall costs, heritage buildings with a total density less than 5.5 FSR are eligible to apply for a residual density incentive, except in Victory Square where buildings with a total density of less than 5.0 FSR are eligible. When a major upgrade of a building listed on the Heritage Register is completed, the owner can apply to transfer the residual density amount. The property must be a protected heritage property, and subject to a Heritage Revitalization Agreement. The amount will be the difference between the existing built density and 5.5 FSR, or 5.0 FSR in Victory Square, as mentioned above.

12.5 Summary of Incentives

The following summarizes the incentives available under the heritage building rehabilitation program:

	total shortfall cost
less	National incentives (when available)
less	facade grant
less	property tax exemption (as required)
less	bonus density (as required)
plus	residual density (if applicable)

Process Chart for Property Tax and Density Bonus Incentives for Heritage Properties in Gastown and Chinatown

	MILESTONE/ ACTION	PARTICIPANTS	INPUTS	OUTPUTS
1	Inquiry - meeting to discuss concept	- project scoper - heritage staff - applicant	- concept - approach to heritage conservation	- preliminary feedback & issue identification
2	Pre-application (scoping) meeting	- project facilitator - staff from dept's that will review application - applicant	- detailed project proposal - review of major issues - heritage conservation - urban design - impact on neighbours - pro forma analysis - process	- advice on proposal and process
3	Applications for grant and development permit submitted	- applicant	- architectural drawings - request for incentives - financial pro forma - supporting documentation/ reports as required	
4	Review & assessment of - development application - financial pro forma	- staff - advisory committee - public	- review/evaluate for compliance with policies, by-laws, regulations and incentive program criteria	- calculation of shortfall costs - value of tax exemption and bonus density determined
5	Preliminary decision on development and incentive applications	- staff	- receive feedback	- staff recommendation (incorporating input from public and neighbourhood advisory body) on development and incentives application - "draft" prior-to letter
6	Legal Agreements and By-laws Prepared	- staff - applicant		- reach consensus on agreements

Process Chart for Property Tax and Density Bonus Incentives for Heritage Properties in Gastown and Chinatown (Continued)

	MILESTONE/ ACTION	PARTICIPANTS	INPUTS	OUTPUTS
7	Advertise for tax exemption (if necessary) and public hearing as per Vancouver Charter	- staff		newspaper ad - on at least 2 days at least 30 days prior to adopting by-law for tax incentive (when by-law exempts property tax for more than 1 year) - on 2 consecutive days at least 7 and not more than 14 days prior to Public Hearing for HRA/designation
8	Public Hearing for Approval of Incentives and Heritage Revitalization Agreement	- staff - City Council	- report to Council	Council Decisions - HRA - tax exemption by-law (requires 2/3 majority)
9	Decision on development application by Director of Planning or DP Board decision		- staff recommendation and/or report	- development application approved with conditions or not approved
10	Revisions as required	- applicant	- revisions responding to conditions	- revised application
11	Development permit issued and legal agreements completed	- staff		- development permit (including heritage alteration permit) issued - legal agreements registered on title
12	Obtain other permits (building, electrical etc.) as required	- applicant - staff	- application and supporting material as required	- permits issued
13	Construction begins	- applicant		
14	Project completed and heritage work certified	- applicant - staff	- review for compliance with approved scheme	- work inspected and certified - occupancy permit issued

Process Chart for Property Tax and Density Bonus Incentives for Heritage Properties in Gastown and Chinatown (Continued)

	MILESTONE/ ACTION	PARTICIPANTS	INPUTS	OUTPUTS
15	density available for transfer off site		- as per terms of HRA	- owner able to sell density
16	property tax exemption begins		- as per terms of tax exemption by-law	- tax exemption for specified period
17	tax exemption ends*			

* The tax exemption period will cease fully at the earlier of the following two points in time: (i) the applicant has received a tax exemption for ten years, or (ii) the discounted value of the actual tax exemptions received is equal to the shortfall cost, as described in Section 1 of this document.

