



## BRIEF TO STANDING COMMITTEE ON FINANCE

### RECOMMENDATIONS FOR TAX AND SPENDING MEASURES TO STIMULATE PRIVATE SECTOR INVESTMENT IN HERITAGE PROPERTIES

#### Executive Summary

As the nation's leading heritage conservation organization, the Heritage Canada Foundation (HCF) has long demonstrated that investment in built heritage is good for people, communities, the environment and the economy. Today, Canada faces important economic and environmental challenges. HCF's recommendations to the House of Commons Committee on Finance focus on actions to stimulate the economy in a way that will also support climate change goals and contribute to more liveable and sustainable communities. Two stimulus measures introduced in Federal Budget 2009 inspire the recommendations in this brief:

**Recommendation 1: Build on the Home Renovation Tax Credit, introduced as an economic stimulus in the 2009 Budget, by introducing a more substantial Heritage Rehabilitation Tax Credit for properties on the Canadian Register of Historic Places.**

**Recommendation 2: Build on the success of the National Historic Sites of Canada Cost-Sharing Program Funding, introduced as an economic stimulus in the 2009 Budget, by creating a national heritage conservation endowment fund.**

Measures to encourage rehabilitation of historic buildings would have the following positive impacts:

- encourage private sector investment in the protection of national treasures;
- stimulate employment: renovation generates more than 2 times the number of jobs as new construction;
- stem the tide of demolition: already 20 percent of Canada's pre-1920 heritage buildings have been demolished over the last 30 years;
- reduce the 10 million tons of construction material Canada sends to the landfill every year; and
- reduce the consumption of annual energy and raw materials and greenhouse gas emissions associated with new construction.

#### Heritage Building Rehabilitation Offers Economic Stimulus Potential

In its recent Economic Action Plan, the Government of Canada recognized the importance of Canada's cultural heritage and tourism sectors as means for stimulating growth across Canada. National Historic Sites contribute to tourism in over 400 communities across Canada through direct spending, visitor spending and spin-off economic activity. The rehabilitation of historic buildings and sites represent an important opportunity to stimulate private investment and create new jobs, with significantly less environmental impact than other stimulus measures – and with the added benefit of preserving and enhancing liveable neighbourhoods and communities and attracting tourism spending.

There is a pressing need to encourage this kind of investment on a number of levels. In addition to the environmental and economic rationales, it should be noted that Canada has lost more than 20 percent of its pre-1920 heritage buildings to demolition over the last 30 years, despite polls that consistently show Canadians care deeply about these places. Collectively, historic places across Canada define our national identity and shape our environments. Lighthouses, grain elevators, barns, residential districts, schools, post offices, place of worship, hockey rinks, ranch buildings – these are just a few of the historic buildings types named on the Canadian Register of Historic Places.

**Recommendation 1:** Build on the Home Renovation Tax Credit, introduced as an economic stimulus in the 2009 Budget, by introducing a more substantial Heritage Rehabilitation Tax Credit for properties on the Canadian Register of Historic Places.

One of the economic stimulus measures included in the Federal Budget 2009 is a temporary Home Renovation Tax Credit (HRTC). The HRTC will provide a one-year, 15% income tax credit on eligible home renovation expenditures exceeding \$1,000 but not more than \$10,000, and will provide up to \$1,350 in tax relief. The HRTC is designed to encourage investments in Canada's housing stock, provide employment for tradespeople, and boost sales for those who make and sell building products. About 4.6 million families in Canada are expected to benefit from the credit, which will provide some \$3 billion of fiscal stimulus.

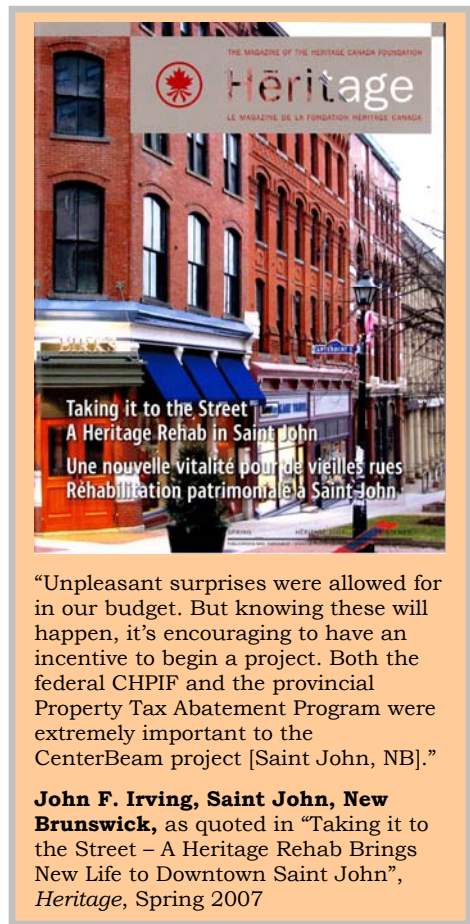
### **A Heritage Rehabilitation Tax Credit Would Stimulate the Economy**

The HRTC is a great model for a more substantial tax credit targeting the rehabilitation of revenue-generating historic buildings owned by taxable entities. In fact, such a program was introduced in the United States as a stimulus measure under the Tax Reform Act of 1976, including 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. The US Historic Rehabilitation Tax Credit Program continues to the present day and is internationally recognized for its continuing success at stimulating private investment and revitalizing communities.

Results are visible in every region of the United States:

- over 32,000 properties rehabilitated by the private sector;
- over \$36 billion in private investment in historic buildings leveraged (with a 5 to 1 ratio of private investment to federal tax credits);
- and an average of 45 new jobs created by each project; and
- 350,000 housing units created, 60,000 of them low and moderate income housing.

The US federal tax credit has led the way for other levels of government. Half of the American States now have a state tax credit for rehabilitation that can often be 'stacked' with the federal tax credit. These have also achieved remarkable success. In Maryland, the heritage tax credit program assisted more than 1,000 rehab projects, leveraging \$400 million in private investment from \$90 million in tax credits. Virginia and Missouri report similarly impressive ratios of private investment to tax credits.



## **There is broad support in Canada for such a tax measure.**

In 2005 the Provincial-Territorial Ministers responsible for Culture and Heritage called on the federal government to introduce tax incentives to preserve historic places. Since January 2007, over 25 city councils have passed resolutions requesting that the federal government introduce financial incentives which would encourage private sector investment in the rehabilitation of historic places, including Vancouver, Winnipeg, Region of Niagara, Region of Waterloo, Toronto, Charlottetown and St. John's. In the past year, the board of the Federation of Canadian Municipalities (FCM) and the Royal Architectural Institute of Canada (RAIC) passed resolutions calling on the federal government to introduce tax measures for heritage property rehabilitation.

The great benefit of this kind of measure is its potential to kick-start historic places into revenue-generating, self-supporting enterprises, and reduce the reliance on the voluntary sector and governments to keep heritage properties alive.

### **Tax Measures for Rehabilitation Would Help the Environment and Other Goals**

Aside from the contribution this would make to protecting national treasures, the rehabilitation of historic buildings has many spin-off benefits. A rehabilitation tax incentive will:

Improve overall economic prosperity: The economic benefits of incentives include the creation of jobs, revitalization of older communities, and generation of net tax revenue for municipalities, provinces and territories, and the federal government. Looking south of the border, between 2002 and 2005 the Rhode Island Historic Preservation Investment Tax Credit generated 5 times the value of tax credits in total economic activity.

Act as a Revitalization Catalyst: The renewal of income-producing properties attracts new businesses and residents, and increases property values. A 2003 study showed that investments in the rehabilitation of the historic Stanley Theatre in Vancouver, B.C. stimulated a 21 percent increase in restaurants, cafes and bars in the nearby area; retail sale increases of 107.7 percent, or \$112 million, which generated an additional \$8 million in sales taxes and \$9 million in GST; and real estate price increases of 72 percent outstripped Vancouver residential market increases.

Reduce greenhouse gas emissions: A 2004 study in Montreal found that the rehabilitation of a heritage building consumed less than half the energy and produced half the CO<sub>2</sub> than if it had been demolished and a new building erected. The Prince's Regeneration Trust in the UK found that rehabilitation requires 38 times less energy and carbon than new construction.

Address the fiscal imbalance with municipalities: Provinces and municipalities are doing their part but they cannot protect Canada's historic places on their own. In 2003, Vancouver introduced a comprehensive program of tax relief, bonus development rights, and direct grants. In just four years the city has provided \$91 million in incentives for 20 rehabilitation projects, which has leveraged over \$400 million in private investment. Unfortunately, rising land values in Vancouver and other cities are rapidly eroding the effectiveness of existing municipal measures, leaving municipalities with few options.



**Jordan and Jeremy Grant beside the newly-restored tower roof at Alton Mill**

"Our firm is the owner of the Alton Mill in Caledon, Ontario, a complex of stone buildings dating back to the 1880s. After years of vacancy and deterioration, the Alton Mill is undergoing rehabilitation into an arts and heritage centre that is expected to be a major economic and cultural engine for the community of Alton and surrounding region. This renewal would simply not have been possible without government support to bridge the gap between the cost of rehabilitation and the private sector funding that could be generated based on the projected rental revenues. [The project received funding from the former Commercial Heritage Properties Incentive Fund]."

**Jordan Grant, President, The Alton Development Inc., Toronto, Ontario**

## A Canadian System is Already in Place to Support a Rehabilitation Tax Credit

In a pilot program designed to ‘test’ the appetite and benefit of a potential tax incentive, the former Commercial Heritage Properties Incentive Fund (CHPIF) offered financial incentives to attract developers to rehabilitate historic buildings. The results were impressive: total of \$21.5 million in federal contributions spread across 49 projects leveraged more than 8 times that amount in private sector investment (\$177.2 million) and gave empty, derelict buildings vibrant new uses.

Thanks to the CHPIF program pilot, the tools are in place to administer a Canadian rehabilitation tax credit:

- the Canadian Register of Historic Places is online and being populated with properties eligible for incentives;
- conservation standards have been published and adopted nationally; and
- trained agents are in place in every province to certify whether the work meets these standards.

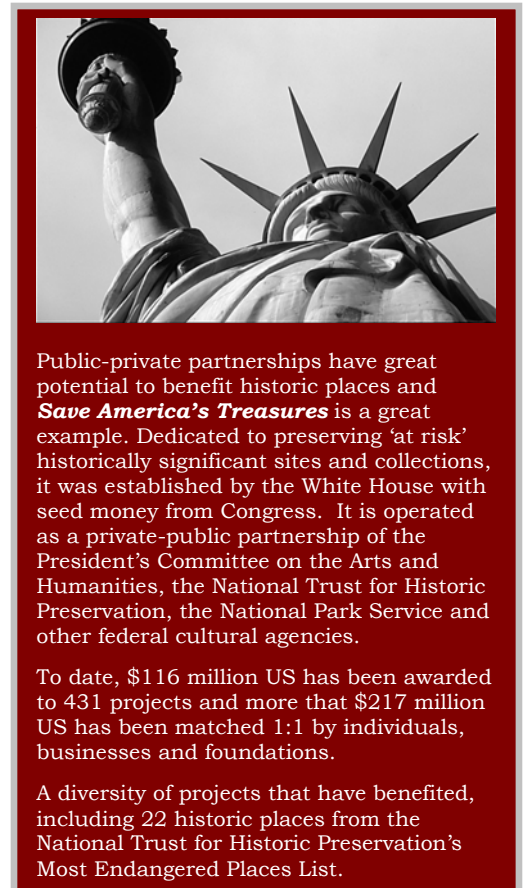
### Expected Cost to the Federal Government

The cost of such a program to the federal government can be managed by setting eligibility criteria around the size of eligible project and by setting a maximum on the available tax credit per corporation. A further means of managing the cost of such a measure is to limit it to properties inscribed on the Canadian Register of Historic Places. It is estimated that there will be some 20,000 heritage properties on the Canadian Register of Historic Places when it is fully populated. Approximately 20,000 properties, therefore, would potentially be eligible for federal rehabilitation incentives. Based on the CHPIF pilot project cited above, one could assume approximately 50 projects per year each receiving an average tax credit of \$400,000. This would comprise \$15-20 million per year in tax credits, which could be expected to leverage 8 times that amount (\$120-\$160 million) in private sector investment, create local jobs, and stimulate adjacent development.

Experience with heritage tax incentives in other jurisdictions shows emphatically that increased tax revenue offsets the tax credits extended. Studies at the state level in the United States show that fiscal and economic returns are paid, in effect, before the credit is paid out – from construction period taxes, real property taxes, plus post-construction sales and income taxes. In Maryland, for every dollar of tax credit earned, the heritage tax credit program generates an average return to the State of approximately \$1.02 during the first year after a project’s completion, and \$3.31 within five years after project completion.

### Build on National Historic Sites of Canada Cost-Sharing Program

The recent renewal of the National Historic Sites of Canada Cost-Sharing Program, with a budget of \$20 million over 4 years provided in part by Canada’s Economic Action Plan, reflects the government’s desire to support job creation in the built heritage sector by providing funding for



the conservation of National Historic Sites. The Cost-Sharing Program is a contribution program providing up to 50% of eligible costs incurred in the conservation and presentation of a national historic sites to a maximum of \$1,000,000.

The renewed Cost-Sharing Program has already proven its worth as a stimulus measure that supports the local economy while helping preserve and improve Canada's irreplaceable national historic sites, and stimulate growth in the tourism sector. As of August 2009, 127 applications for the funding have already been received from a potential universe of 700 eligible properties, seeking a total of \$38 million in stimulus that would leverage an impressive \$180 million in construction investment. Unfortunately only \$8 million in stimulus funding is available this year, making it possible to respond to less than one-quarter of the demand.

**Recommendation 2:** Build on the success of the National Historic Sites of Canada Cost-Sharing Program funding, introduced as an economic stimulus in the 2009 Budget, by creating a national heritage conservation endowment fund.

A modest increase of \$10-20 million per year to the budget for the Cost-Sharing Program would build on the success of this stimulus measure. This, or additional funding, could become the seed funding for a more substantial National Heritage Revolving Fund or National Endowment Fund. Seed funding to kick start a national fund could be used to attract private sector funders, and could ultimately result in a high profile and sustainable source of assistance for projects and organizations saving Canada's historic places. HCF would be prepared to play the role of facilitator, fundraiser and private sector partner.

## Conclusions

The rehabilitation of Canada's heritage buildings dovetails with the Government of Canada's current environmental and sustainability goals as well as fostering economic revitalization. Polls consistently show that Canadian's want their governments to support the preservation of heritage properties. The two measures recommended in this brief are proven approaches to encouraging and leveraging private sector investment and kick-starting viable and sustainable futures for Canada's historic places.

## About the Heritage Canada Foundation

The Heritage Canada Foundation is a registered charity and voluntary organization created in 1973 as Canada's National Trust to encourage the conservation and use of heritage buildings and historic places for the benefit of all Canadians.

We believe that historic places are an integral part of memory, community and identity, telling the stories of who we are and where we come from. Every citizen benefits from a dynamic environment that includes historic places, and shares the responsibility to help protect and sustain that environment. [www.heritagecanada.org](http://www.heritagecanada.org)

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