

# THE NEED FOR A FEDERAL TAX INCENTIVE FOR THE REHABILITATION OF HERITAGE PROPERTIES IN CANADA

Submitted to the Standing Committee on Finance by Heritage BC, August, 2007

## Executive Summary

This brief proposes that it is time for the Government of Canada to introduce a federal income tax credit program to encourage the rehabilitation and conservation of heritage properties. It summarizes the key factors for success, and the economic and social motivations for government heritage conservation programs. It further maintains that the Historic Places Initiative, introduced by the federal government in 2001, has already set the stage for the implementation of an income tax incentive, which is particularly relevant today in British Columbia due to the current realities of the property development market.

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As Canadians, we care about our heritage. Across the nation, in every province and territory, historic buildings, sites and districts make a unique contribution to our quality of life and sense of place.

This irreplaceable heritage cannot be taken for granted. To preserve this remarkable legacy, to pass it on to coming generations, we must take action.

Much has already been done. Governments, particularly at the local and provincial levels, have made significant strides toward creating a positive environment for heritage conservation. But still the record is less than reassuring. In 30 years we have lost one fifth of our heritage. At this rate, most of our heritage legacy will be gone in a couple of generations.

Until recently, the federal government lagged behind with the heritage agenda. Then in 2001 this changed dramatically with the introduction of the Historic Places Initiative (HPI). Backed by significant resources and genuine political commitment, in just a few years the HPI has established the first truly Canadian program to conserve heritage.

Through a national coalition of provinces and territories, the HPI has achieved a number of fundamental objectives. Accomplishments include the Canadian Register of Historic Places, creation of the Historic Places Branch, publication of the Standards and Guidelines for the Conservation of Historic Places in Canada, and a draft Historic Places Act.

Yet the most important item on the HPI agenda, a much-anticipated federal heritage rehabilitation incentive, has been repeatedly deferred, and is now at risk of being sidelined indefinitely. A three-year pilot project to test the incentive

concept, the Commercial Heritage Property Investment Fund, was terminated abruptly last fall as part of a federal house-cleaning of “wasteful” programs.

Support for the HPI has so far been strong and enthusiastic across Canada, but there is a limit to patience. Provincial, territorial and local governments need to see very soon a genuine commitment from Ottawa to shoulder a share of the responsibilities and costs of conserving Canada’s heritage resources. Nonetheless, since last fall’s announcement there has been no further indication of what the federal government intends to do. Vacillation at this point will most certainly undermine the unprecedented national coalition that has grown up around the HPI process. Regression now would threaten to set Canada’s heritage program back a generation, and render the federal government as largely irrelevant in the day-to-day business of conserving the nation’s heritage.

To understand the basis of this conclusion, we need to consider what heritage conservation is really about.

For many people the term “heritage conservation” probably conjures up an image of experts fastidiously researching and restoring elegant vintage buildings. This is in fact a very small part of the business. To a considerable extent, heritage conservation involves measures to influence the world of property purchase, development and management. Market forces largely determine the fate of most of Canada’s heritage resources. Because public heritage agencies seldom own or control these resources, they must necessarily rely on policies, programs and regulations to influence how owners and managers treat their heritage property.

At the heart of this process is the question of cost. Property development and maintenance are expensive, and costs have been rising at an alarming rate. With heritage property, costs are often higher still as result of considerations to conserve the special values and attributes that make them unique. Since conserving these heritage values is a public benefit, using the public purse to cover incremental costs is deemed appropriate. Consequently, a number of government or government-backed heritage incentive programs have emerged across Canada over the last several years, designed to influence the economics of heritage property rehabilitation. To be effective, these must take into account current economic realities and be prepared to make significant investments.

An example from British Columbia may serve as an illustration. For several years Vancouver’s historic districts of Gastown and Chinatown were unable to attract investors. Properties were in decline, upper floors remained vacant, and the districts’ economies were stagnant. To reverse this trend, in 2003 the City introduced a comprehensive incentive 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. This successful program was soon expanded to other districts in need of revitalization.

What motivates a city government to make this kind of investment? While we have said that Canadians care about their heritage, there is much more to it than that. Local government decision makers need measurable payback on every dollar they spend. Here are some reasons why heritage is a good investment:

- Rehabilitation brings heritage buildings in line with current codes and regulations, increasing their safety, usability and capacity to contribute to the economy
- Reusing existing buildings is an efficient use of existing infrastructure
- Historic district revitalization is an important tool in urban renewal
- Heritage rehabilitation raises property values, encourages investment in adjacent properties, and increases the municipal tax base
- Heritage rehabilitation uses locally-available labour and materials, boosting the local economy
- Heritage rehabilitation can provide market and non-market housing
- Putting empty places back to work strengthens investor and business confidence
- Heritage conservation builds community pride and increases tourism
- Demolition adds millions of tons to landfills in Canada each year; reusing a building makes as much sense as recycling a can
- The embodied energy in a building, the energy it took to build and maintain it for many years, is lost when that building is destroyed – therefore the greenest building is the one that already exists

Considering these benefits, it is not surprising that community heritage programs have become commonplace in B.C. The provincial government likewise has fostered this process through enabling legislation, programs, support and funding.

By contrast, until recently the Government of Canada remained almost entirely uninvolved with heritage conservation on the front lines, limiting its role to manager of national historic parks and caretaker of federally-owned heritage properties. Endowing Heritage Canada in 1973 and later funding the Mainstreet Program were significant measures, but the last investment happened 17 years ago.

It is time for the federal government to fulfill the promise of the Historic Places Initiative and become an active partner in conserving Canada's heritage resources, and the taxation mechanism is the best tool at its disposal. A U.S. federal tax incentive program introduced 25 years ago has shown just how effective such a tool can be, resulting in the rehabilitation of over 30,000 properties and the creation of a third of a million housing units.

Parks Canada, in consultation with the Department of Finance, has already thoroughly investigated the federal heritage tax incentive concept. We have a

clear indication of the number of potential candidates for such a program. As a result of the Commercial Heritage Property Incentive Fund there is an application process and a country-wide team of trained certification agents in place. Project grants awarded under the pilot project have provided invaluable experience. We have never been better prepared to proceed with such a program, and there has never been a more urgent need than now, as a recent consulting study in Victoria has clearly demonstrated.

The City of Victoria has one of Canada's most effective and respected heritage programs. The Old Town District is the heart of the city, and a key to its thriving tourism industry. For years Victoria has managed to promote appropriate development and rehabilitation in Old Town through a program of grants and property tax incentives. But under current development pressures and record costs for property and construction, Victoria's heritage program is facing dramatic new challenges.

A recent consulting report ("Downtown Victoria Heritage Building Economic Study", Coriolis Consulting Corp., June 2007) concluded:

*Full renovation of heritage buildings in Old Town is becoming increasingly challenging from a developer's perspective. Rising construction costs and rising property acquisitions costs (due in part to relatively strong existing retail rents in many buildings) are making renovation un-viable even at current high residential values and strengthening office rental rates.*

The study further concludes that without additional incentives there will be very few circumstances in which full rehabilitation of heritage properties will be viable.

### Conclusions

Even under ideal circumstances, conserving our heritage resources is a considerable challenge. At present in British Columbia local governments bear a disproportionate share of the burden to create the right economic climate to ensure that heritage properties attract the kind of investment necessary for them to remain useful and valued, and to survive well into the future. It is time for the Government of Canada, as envisioned under the Historic Places Initiative, to begin to take a direct and active role in conserving our heritage resources through the introduction of a long-overdue program of income tax incentives for revenue-producing properties with recognized heritage status.

### Heritage BC

*Incorporated in 1981, Heritage BC is a non-profit umbrella organization that represents 165 community-based heritage associations around the province.*

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