

WOODCLIFFE

PROFITABLE & SUSTAINABLE HERITAGE PROGRAMS A NEW PARADIGM IN CANADA

Executive Summary

Woodcliffe Corporation has developed and manages Canada's largest privately-owned portfolio of landmark heritage properties. Our portfolio includes the head offices of The Senate of Canada and the National Capital Commission in Ottawa; the Westmount Post Office in Montreal; Toronto's Flatiron Building and the LCBO's flagship store in the North Toronto Station.

The costs of properly restoring and maintaining heritage properties are significantly higher than the costs to construct and maintain new buildings. This increased cost burden is a disincentive for the private sector to restore and properly maintain heritage properties. Our company has never availed itself of any government funding or other forms of financial assistance. We believe that these programs typically provide little benefit relative to their costs and that they do not adequately fulfill their respective program objectives. They inadvertently foster poor quality workmanship and substandard levels of maintenance.

Opportunities exist to create new federal programs that:

- are effective in meeting Canada's heritage and cultural objectives;
- will significantly improve the built-form and quality of life for Canadians;
- will be significantly and immediately economically stimulative;
- can be quickly and cost-effectively implemented; and,
- can be cost-neutral and potentially profitable for all levels of government and the private sector.

This brief outlines how existing Heritage Property Tax Rebate Programs can be modified and expanded to provide the benefits noted above, in accordance with the Government of Canada's Economic Action Plan. It is recommended that the efforts of all three levels of government be consolidated under a federal umbrella program to create a unified heritage program that will be self-funding and will simultaneously fulfill cultural, environmental, quality of life and economic objectives.

WOODCLIFFE

Background

The restoration of heritage properties and places is typically administered under the auspices of cultural agencies. It is always difficult to allocate scarce budgetary resources to fund cultural endeavours and particularly so in trying economic times. New opportunities must therefore be exploited to facilitate these programs on a cost-neutral and wherever possible, profitable basis.



Not all cultural programs can be sustained on an economically viable basis at all times. However, those that can be should be required, to do so, wherever desirable and appropriate.

Aside from tax-incented private donations, most of Canada's cultural endeavours are publicly funded through either direct budgetary allocations or alternate forms of taxation, such as municipally mandated public art contributions. Most of these programs are woefully inadequate and fail to meet their stated objectives in a meaningful way. However, other programs consistently meet and exceed their objectives while providing significant economic benefit.

One such program is the mortgage insurance program administered by Canada Mortgage and Housing Corporation ("CMHC").

CMHC's mortgage insurance program, created and administered under the National Housing Act, has stimulated residential construction and has made housing more affordable for Canadians for more than 70 years. Property purchasers are prepared to pay application and significant insurance fees because the levels of financing and the relative costs of borrowing are significantly enhanced with CMHC mortgage insurance. Financial institutions offer their most favourable rates and terms on CMHC insured loans. CMHC generates significant profits from the program and generates self-evident levels of economic benefit for all Canadians. The program succeeds because the interests of all parties are fully aligned and the program is administered at a national level. Similar principles can be applied to certain heritage programs in Canada. A heritage tax incentive plan can be developed to emulate CMHC's success.

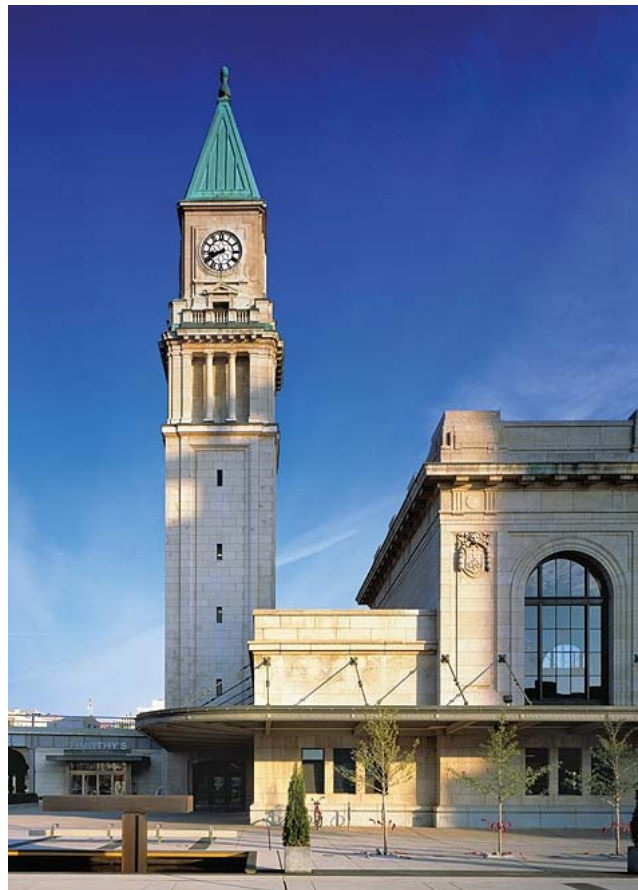
WOODCLIFFE

Heritage Property Tax Rebate Programs

Various Heritage Property Tax Rebate Programs (“HPTR Programs”) exist today. While these programs are an important first step in a new approach to providing incentives for compliance rather than just penalties for non-compliance, they are generally a drain on the public purse that provides very little measurable value.

As an example, the City of Toronto passed its HPTR Program on August 15th, 2005, as By-law No. 1043-2005. The purpose of the program is to stimulate private sector activity in the restoration and conservation of historically significant properties, through the provision of realty tax rebates that meet narrowly-defined criteria. There are three fundamental problems with the existing plan:

1. There is no incentive to reinvest tax rebates in qualifying properties, so the tax rebates are frequently just a windfall for their respective recipients. The existing HPTR Program does not even require that qualifying properties be restored or maintained to a specific standard, other than the minimum requirements of Heritage Easement Agreements.
2. There is no guarantee as to the amount and duration of the rebates so it is difficult to commit to long-term capital programs.
3. Most importantly, the city is not receiving a measurable return, economic or otherwise, on the annual tax revenue it is foregoing (or reallocating).



Toronto’s HPTR Program is indicative of other municipal programs. Municipalities do not have the legislative authority to enact all of the legislation that is necessary to make these programs more valuable. Provinces are reticent to enact legislation that will rectify the deficiencies for reasons that are less-evident. A coordinated federal program is needed to facilitate rapid implementation of an effective HPTR Program.

WOODCLIFFE

A National Strategy

The levying and expenditure of realty taxes does not typically fall within the purview of the federal government. However, like CMHC, a coordinated national policy is necessary in order to facilitate and administer an effective program that will provide immediate and direct economic stimuli.

The dollar values of property tax rebates under existing HPTR Programs are currently too insignificant to justify the costs of properly maintaining and restoring heritage properties. However, if legislation were enacted that would permit owners of qualifying properties to irrevocably direct the proceeds of these rebates to lenders over long periods of time, the rebates could be leveraged to facilitate the highest standards of workmanship and maintenance. For example, a rebate of 40% on a property paying \$200,000 in realty taxes would not go very far in a comprehensive restoration plan. However, if that annual rebate of \$80,000 were assignable to a lender, the property owner would be able to borrow in excess of \$1 million against that cash flow, at current interest rates.

If a precondition of assignment of the rebates were that the resulting proceeds of borrowings had to be reinvested in an expanded list of qualifying properties, the resulting increases in taxes may be sufficient to off-set the amounts being refunded under the HPTR Program. Additionally, a CMHC-like agency that is federally mandated and locally administered would be able to charge significant fees to property owners for administration of the program. Fees could be levied on a lump-sum and/or annual basis.



WOODCLIFFE

Costs of the Program

According to the Heritage Canada Foundation, the Canadian Register of Historic Places will list approximately 20,000 heritage properties when it is fully populated. If these properties were permitted to assign HPTR rebates to qualified financial institutions, the resulting borrowings would generate billions of dollars of construction activity.

Capital investments of this magnitude would result in significant increases in property values, which would in turn equate to higher realty taxes. The resulting increases in property taxes would significantly off-set the potential reductions in revenues at the municipal and provincial levels. Income and sales taxes would benefit all levels of government. A properly administered program could be cost neutral and would likely generate significant net revenues.

Benefits of the Program

The benefits of a federally mandated and locally administered HPTR Program are significant and measurable. Private owners of qualifying heritage properties will be motivated to restore and maintain their properties to the highest standards under locally administered heritage easement agreements. New jobs will be created, environmental and energy conservation objectives will be met and a historic renaissance will be fostered with the interests of both the public and private sectors being fully aligned. The resulting cultural benefits and tourist attractions will significantly improve the quality of life for all Canadians. A federally mandated program will be cost neutral and has the potential to generate significant profits for both the public and private sectors.

Woodcliffe Landmark Properties

Woodcliffe Corporation is a privately owned company specializing in the restoration, ownership and management of landmark heritage properties in Canada. The company has received The Heritage Canada Foundation Corporate Prize for "outstanding stewardship of heritage buildings" and its properties have been widely published and received numerous awards, including The Governor General's Award for Architecture and the BOMA Building of the Year Award.

With our tradition of excellence, Woodcliffe has played a leadership role in celebrating and preserving the future of Canada's past. Please view our website at www.woodcliffe.ca