

Brief to the Standing Committee on Finance

Tax Credits for Heritage Buildings:

A powerful lever to ensure Economic, Cultural, Social, and Environmental benefits for all Canadians

Executive Summary

The advantages of introducing tax credits for the rehabilitation and renovation of heritage buildings will have enormous benefits to the country in four key areas:

Economy:

- Twice as many jobs (well paid and highly skilled) are local on a rehabilitation project than on a “new-build”.
- A great many of the jobs on new construction are frequently in other countries and the final product is shipped here for assembly on site.
- Heritage tax credits would reduce the financial capital drain from Canada to the United States.

Society:

- Creating capital assets and long-term stability to the charitable and not-for-profit sector.

Culture:

- Retaining and improving Canada’s unique culture in the form of its built environment.

Environmental:

- Significant reduction in the size and number of landfill sites.
- No loss of embodied energy contained in existing buildings.
- Reduced CO² production as materials will not need to be re-created.
- Most existing buildings (particularly pre-WW2) are actually far more energy efficient than buildings built today.

Background

As a private developer of heritage properties in Toronto for the past fifteen years – I would like to encourage the Federal Government to implement a tax credit system, like the one that exists currently in the United States.

I have visited and studied many of the projects that have utilized these credits and can verify that a huge percentage of them would not exist without the 20% tax credit that developers can access through the national tax system when they rehabilitate an historic structure. Were this program unavailable many of these buildings would now be located in landfill sites (as indeed they are in Canada).

Taxes are surely among the most powerful levers to change behaviour (incent good, and discourage bad) in any society. The implementation of such a program in Canada would provide multiple benefits to many sectors of our society. I would like to illustrate just a few of these which fall under four broad topics: Economic, Social, Cultural and Environmental benefits.

Economic Benefits:

The economic benefits of rehabilitation vs. new construction have been well documented by many. Most notably Donovan Rybkema, an American economist who has written several in-depth studies, which prove that when buildings are rehabilitated more local jobs are created and typically twice as much money is spent within the community as would be if the structure were new construction.

A sad fact is that several Canadian developers prefer to invest their capital in buildings in the United States because these tax credits make the development of historic properties more economically attractive. Often they mean the difference between a project which makes business sense and one that does not.

Other economic benefits include the development of new jobs.

The construction jobs for rehabilitation projects are highly skilled and well paid. They are rewarding and interesting jobs. The experience in the United States has been the development of a whole cadre of skilled labour that hardly existed 25 years ago.

Social Benefits:

One of the social benefits of this system is that it will allow not-for-profit organizations to become more stable and sustainable.

Lest you think I am advocating strictly for the benefit of the private sector, let me tell you about my experience over the past several years with an organization called the “Non-Profit Centers Network.” This American organization connects literally hundreds of centres across the country, the vast majority of which are owned and operated by the

“Third Sector.” How is it that all of these charities and not-for-profit organizations could afford to get into the game of real estate development? Tax credits. The initial 20% financing required to get the project going can be obtained by partnering with a for-profit company that can take advantage of the tax credits (which vest over the seven-year post-construction period). The for-profit partner will typically pay 90 to 95% on the dollar to the not-for-profit organization at the beginning of the project which gives them the capital to get started. This gives organizations with no capital assets the money to embark on such an endeavour. In the US these centres are home to literally tens of thousands of organizations doing social, cultural and environmental work. It means that these organizations can develop capital assets that will provide not only the obvious benefits of having hard assets, but the stability of long-term tenure for their organizations in wonderfully restored historic buildings. This phenomenon has given strength to this increasingly essential sector in our society and has allowed it to grow and develop, in the U.S., in ways which would otherwise be unimaginable. It has helped them to become more sustainable and less dependent on government grants and investments from the public sector.

Cultural Benefits

Built heritage is the most visible and tangible aspect of any society’s culture. Canada is loosing its built heritage at a rapid rate. What we loose can never, ever be replaced. Much of our historic built-fabric it is quite literally impossible to build with the same architectural detail, materials and skilled craftsmanship that was possible even 70 or 80 years ago. Once these buildings are lost – they can never be replaced. If one looks at the most attractive and vibrant districts of any international city or even of small communities – it is invariably the historic districts that people are drawn to and that are the most beneficial to that community or city’s economy. Drove of tourists flood the historic towns and districts of European cities to experience these areas. If we want our communities in Canada to have an authentic and unique character, which will attract not only our own population, but also attract international travelers and the associated economic benefits that they bring – we must ensure that we communicate that Canada is “somewhere” (read "unique") and not “anywhere” (i.e. the same as thousands of faceless places that exist in North America today). One of the best ways to achieve this goal is through the restoration and rehabilitation of historic buildings and districts.

Environmental:

Again a great deal of research has been done recently about the economic benefits of retaining existing buildings, be they historic or not. In the case of Toronto (and I would assume the statistic would apply to many Canadian cities) 53% of the CO² emissions produced are a result of the construction, demolition and operation of buildings. One of the key reductions in CO² emissions can be achieved by retaining the embodied energy in existing buildings. If buildings are re-used not only will we reduce our landfill sites by 25% - 40% (these are the estimated volumes of building demolition debris that wind up in landfill across the country) but we won’t need to pollute the environment a second time, by reproducing all the materials necessary to rebuild the same amount of space

again. To quote “Heritage Works” - a British study compiled by the Royal Institute of Chartered Surveyors - *“The embodied energy contained in a single Victorian townhouse is the equivalent of driving a car around the world five times. None of this is wasted if the building is reused.”*

It is a myth that old buildings use more energy than new ones and are not environmentally sustainable. It would be difficult to find a building that was built in the last few decades that was more energy efficient than a building built before the Second World War. Our own experience has been that the 110-year old factory building that we first rehabilitated 15 years ago in downtown Toronto uses half the number of kilowatt hours per square foot than that of a modern office building. Studies in the United States have shown that to be as energy efficient as a building constructed before the 1940s – a new building must be built to LEED Platinum standards (Canada currently has only one or two such buildings).

If we are serious about doing our bit to tackle our world’s most pressing problem – climate change – the retention of existing buildings is essential.

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