Agenda - Executive Policy Committee - September 3, 2008

REPORTS

Item No. 11 Heritage Conservation Tax Credit - Frost and Wood Warehouse, 230 Princess Street (Point Douglas Ward) File G-3.1.5

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That City Council:

    a) approve a Heritage Conservation Tax Credit of up to a maximum of $764,000, to undertake conservation and rehabilitation work on the Frost and Wood Warehouse, 230 Princess Street, and to be utilized by the owner over a maximum ten-year period, following completion of the project, subject to the owner beginning the work on or before July 7, 2008 and completing the work on or before December 31, 2009;

    b) require the owner to retain and preserve original and significant material as a condition of the Heritage Conservation Tax Credit;

    c) approve the Heritage Investment Reserve as the source of funding;

    d) approve the Heritage Conservation Tax Credit pending further approval by the City's Historical Buildings Committee on the exact means for rehabilitating the building as outlined in the applicant's Conservation Report; and;

    e) require that no work may proceed without design/heritage approval and/or prior to the issuance of all relevant development permits.

2. That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council; and,

3. That the Proper Officers of the City do all things necessary to implement the intent of the foregoing.

RE: REQUEST FOR A HERITAGE CONSERVATION TAX CREDIT FOR 230 PRINCESS STREET, FROST AND WOOD WAREHOUSE

FOR SUBMISSION TO: Executive Policy Committee

ORIGINAL REPORT SIGNED BY: Director of Planning, Property & Development

REPORT DATE: July 3, 2008

RECOMMENDATION:

1. That City Council:
   a) approve a Heritage Conservation Tax Credit of up to a maximum of $764,000, to undertake conservation and rehabilitation work on the Frost and Wood Warehouse, 230 Princess Street, and to be utilized by the owner over a maximum ten-year period, following completion of the project, subject to the owner beginning the work on or before July 7, 2008 and completing the work on or before December 31, 2009;
   b) require the owner to retain and preserve original and significant material as a condition of the Heritage Conservation Tax Credit;
   c) approve the Heritage Investment Reserve as the source of funding;
   d) approve the Heritage Conservation Tax Credit pending further approval by the City's Historical Buildings Committee on the exact means for rehabilitating the building as outlined in the applicant's Conservation Report; and;
   e) require that no work may proceed without design/heritage approval and/or prior to the issuance of all relevant development permits.
2. That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council; and,
3. That the Proper Officers of the City do all things necessary to implement the intent of the foregoing.

Report Summary

Key Issues:

- The owner, 5456003 Manitoba Inc., wishes to rehabilitate this heritage building at an estimated cost of $5 million.
- The Public Service estimates that the owner will undertake $4.3 million in eligible conservation and renovation work on the structure normally allowing for a Heritage Conservation Tax Credit (HCTC) up to a maximum $2.15 million under the By-law.
- The assessed value and the municipal taxes of the property will be positively influenced following conservation while there are other attribute policy benefits as a result of this project including; the support for the re-use of underutilized

buildings within the downtown, as well as the conservation of this heritage building.

- The Public Service recommends a HCTC of up to a maximum of $764,000 based upon the estimated future incremental portion of municipal realty taxes (estimated $76,400 annually).
- The owner is asking that the tax credit be made available for a 20-year time period, not 10 years as is the usual approved time period.

Implications of the Recommendation(s):

General Implications

( ) None

( ) For the organization overall and/or for other departments

(X) For the community and/or organizations external to the City

( ) Involves a multi-year contract

Comment(s):

- This Report recommends a Heritage Conservation Tax Credit to the owner, 5456003 Manitoba Inc.
- Heritage Conservation Tax Credits may be allocated over a maximum ten-year period, or such other period as may be approved by Council.

Policy Implications

(X) No

( ) Yes

Comment(s):

Regulatory Implications

(X) None

( ) Eliminates or reduces regulatory impact

( ) Proposes regulatory impact

Comment(s):

Environmental Implications

(X) No

( ) Yes

Comment(s):

Human Resources Implications

(X) No

( ) Yes

Comment(s):

Financial Implications

(X) Within approved current and/or capital budget

( ) Current and/or capital budget adjustment required

Comment(s):

- The Heritage Conservation Tax Credit (HCTC) as shown within the Financial Impact Statement can be accommodated within the Heritage Investment Reserve.
- The HCTC would be available for use by the applicant over a ten-year period (2010 -2019).
- Per Council policy, the incremental portion of the Municipal portion of the tax received from this project will be redirected to the Heritage Investment Reserve until the investment is repaid.

Report

REASON FOR THE REPORT:
In March 2008, 5456003 Manitoba Inc. made an initial application to the Planning, Property and Development Department for a Heritage Conservation Tax Credit (HCTC) under By-law 7155/98 (as amended) for the Frost and Wood Warehouse, 230 Princess Street.

On June 16th 2008, the applicant provided material to complete the application for a tax credit.

City Council retains sole responsibility for accepting or rejecting applications and for approving the amount of tax credit to be allocated to each authorized project.

HISTORY:
On September 10, 2002, the City of Winnipeg, recognizing the special significance of this structure, listed the Frost and Wood Warehouse, 230 Princess Street, on the Buildings Conservation List under the terms of the Historical Buildings By-law 1474/77 (as amended) as a Grade III structure.

DISCUSSION:
Background:
In the early 1900s, as western settlement mushroomed, so too did Winnipeg's pivotal role as a regional supply and distribution centre for all types of goods. The city's downtown, in turn, was physically transformed as new warehouses and railway lines were built to accommodate the growing demand.

The warehouse district initially was concentrated around City Hall/Market Square (in the Main-Princess-William-James area) and on nearby streets such as Albert, McDermot and Bannatyne. After 1900, however, the district quickly expanded to the north, west and east, often displacing houses or other established land uses. The northwest corner of Princess Street and Pacific Avenue joined that expansion when the Frost and Wood Company Ltd., a farm implement manufacturer, erected a four-storey warehouse on the site in 1906.

Ebenezer Frost and Alexander Wood of Smith Falls, Canada West (Ontario), organized their firm in 1846. Over time, it grew into one of the country's largest implement dealers. Its Winnipeg branch opened in c.1890 in the Grain Exchange Building, 164 Princess Street.

To plan its new structure, the company hired James Henry Cadham, one of a handful of architects who were instrumental in shaping the warehouse district at the turn of the nineteenth century. Cadham (1850-1907) was born near London, Canada West, and trained as a carpenter. He came to Manitoba as a militiaman in the Wolseley Expedition, organized by Canadian authorities in response to the Red River Rebellion of 1869-70. Upon discharge from service, Cadham began to work in the local building trade and by the mid-1890s was practicing architecture as well.

The Frost and Wood Warehouse was built by contractor Philip Burnett for some $50,000. It is of mill construction with a rubble stone foundation, thick brick walls, an interior frame of large wooden beams and posts, and vertically laid plank floors. The front (east) and south façades are clad in red brick, with contrasting rough-cut stone at the base and as window trim. The rear (west) wall consists of common clay brick. To the north is a party wall shared with 238 Princess Street.

The finished elevations, which are designed in the Romanesque Revival style, display strong vertical and horizontal lines through the use of brick pilasters, large rectangular windows, heavy stone sills and lintels, and a corbelled brick cornice. The five-bay front façade features display windows along the first floor and paired openings on the upper levels. The main pedestrian entrance is elevated and recessed within a round arch. The nine-bay south wall is dominated by single openings. Its first floor includes a display window at the east corner and a round-arched loading door near the west end. The rear elevation has several segmental-arched windows with stone sills and two loading doors.

Few major changes have been made to the structure over the years. Front and rear entrance/loading areas have been altered, interior showroom space has been modernized, and there is a small office area on the second floor. The rest of the interior retains much of its original layout and finishes.

The Frost and Wood Company were taken over by the Cockshutt Plow Company of Brantford, Ontario, in a process that began in 1909. The Frost and Wood name soon disappeared from local directories, but the firm continued as owner of record for 230 Princess Street until the mid-1940s. Its successors included the Manitoba Co-operative Wholesale Ltd., Federated Co-operatives Ltd., Eastern Smallware and Stationary Ltd., and Williams Restaurant Supply Ltd. (later known as Williams-Cassidy's Restaurant Supply). The building was vacant as of spring 2002.

The Heritage Conservation Tax Credit Program (HCTC)

The HCTC incentive strategy was adopted by City Council in 1998 on a pilot basis for three years with a review during the third year. The purpose of the program was to assist a limited number of projects selected for their ability to:

- increase property assessment values; and
- fulfill functions not likely to be displaced from other parts of the city.

Another criterion that has been established previously by Council is that heritage incentives should be used primarily for vacant or underutilized heritage buildings.

Council retains sole responsibility for accepting or rejecting applications and for setting the amount of tax credit to be allocated to each authorized project.

To date, Council has approved the following tax incentives under this program:

Building Name	Work	Amount of Incentive	Status
300 Carlton St, Former Free Press Building	exterior restoration	$400,000	work complete
136 Market Avenue, Marshall Wells Building	interior upgrade	$3 million	work complete
311 Portage Ave., (A&B Sound) Portage Village Inn	interior upgrade	$835,000	work complete
146-164 Princess Street (Red River College)	downtown technical campus	$15 million	work complete
211 Bannatyne Avenue (formerly 476 Main Street, J.H. Ashdown Hardware Store	commercial offices, studios, and artists live / work spaces	$1.715 million	work complete
222 Broadway, Hotel Fort Garry	interior upgrade	$2.68 million	work underway
500/504 Main Street, Union Bank Tower and Annex	restoration & rehabilitation	$2 million	work underway
361 Hargrave Street, former Film Exchange Building	rehabilitation & construction of addition	$800,000	work complete
167 Lombard Avenue, Grain Exchange Building	rehabilitation & restoration	$765,000	work complete
228 Notre Dame, The Lindsay Building	rehabilitation and restoration	$110,000	work complete
283 Bannatyne Avenue, Travellers Building	conservation and rehabilitation work	$250,000	work complete
130-132 James Avenue, Victor Fox Foods Building	conservation and rehabilitation work	$250,000	applicant not proceeding
331 Smith Street, Ramada Marlborough Hotel	renovations and redevelopment	$405,300	work complete
275-281 McDermot Avenue, Bedford Building	conservation and rehabilitation work	$500,000	application expired
319 Elgin Avenue, former Scott Fruit Company Warehouse	conservation and rehabilitation work	$140,000	work complete
234 Portage Avenue, Former Oldfield, Kirby, & Gardner Bldg.	conservation and rehabilitation work	$100,000	work complete
110 Princess Street, Sterling Cloak Bldg. (Fairchild Bldg.)	conservation & rehabilitation work	$1,300,000	work complete
65 Rorie Street/140 Bannatyne Avenue, Northern Electric Building	Phase I – 2-storey addition above existing heritage building; Phase II – adjoining 8-storey addition	$1,900,000	work underway
332 Bannatyne Avenue, Henderson Building	Rehabilitation and conservation	$259,000	work underway

Building Name	Work	Amount of Incentive	Status
352 Donald Street, Canada Building	Rehabilitation for commercial/residential	$1,200,000	work not started
678 Main Street, Dominion Bank Building	Rehabilitation for commercial	$110,000	work underway
40 Osborne Street, Roslyn Court Apts.	Rehabilitation and conservation	$252,000	work underway
54 Arthur Street, Silpit Building	Rehabilitation, conservation & stabilization	$1,350,000	work underway
250 McDermot Avenue, Merchant's Bldg. (G.D. Wood & Co. Warehouse)	Rehabilitation & conservation	$585,000	work underway

Scope of Work

The program is intended to support work that:

- conserves significant architectural or other heritage elements;
- repairs and stabilizes City-designated structures;
- extends the life of such structures; and/or
- rehabilitates space to meet contemporary requirements, but in the process makes minimal changes to a structure's historical integrity, including its defining design characteristics, site and environment.

Based on a submitted Conservation Report, the applicant advises that subject to the approval of an HCTC that they will invest approximately $5 million to upgrade the building.

The current vacancy rate is 100%. The HCTC is needed to upgrade the infrastructure to current state-of-the-art standards. Currently there is no heating and cooling system in the building. The existing electrical service is a single panel. There are no functioning washrooms.

It is the intent of the owner to develop the main floor of the property into the Canadian corporate offices, showroom and a design centre for an international window and door manufacturer.

The upper floors will be developed into over 40 studio and one bedroom lofts at affordable rates for students and young professionals. The owners also propose to build a rooftop addition to the building which would be divided into 3-4 residential penthouse condos.

The work that the owner proposes will ensure that the exterior architectural elements are repaired and have a long-term life expectancy while having minimal impact on the historical integrity of the building.

Eligible Work

The applicant proposes to undertake a major stabilization effort on the property. Work is to start on or before July 7, 2008 and be completed by December 31, 2009.

Exterior Work:

- Brick repointing
- New roof and drainage
- New rooftop addition of 4,000 square feet
- New windows and doors

Interior Work:

- New passenger elevator and lift
- New staircases for second means of egress
- Gypcrete topping on all floors
- Steel stud wall and gypsum board for interior walls
- New heating, cooling and ventilation systems throughout
- New electrical distribution system with fire alarms and emergency power

FINANCIAL IMPLICATIONS:

The owner proposes to invest approximately $5 million to rehabilitate this building with eligible heritage work estimated at $4.3 million. The owner has requested an HCTC of $2.15 million based upon the maximum allowable tax credits under the By-law (i.e. 50% of eligible costs). The Public Service recommends an HCTC of $764,000, based upon our estimates of the future incremental portion of municipal property taxes for the restored and fully occupied building for a ten-year period.

The owner has requested that the tax credit be awarded for a twenty-year period. The attached business plan from the applicant points out the need for an extension of the incentive for an additional ten years. The Public Service does not have the authority to recommend an incentive beyond ten years. However, subsection 3(2) of The Heritage Conservation Tax Credit By-law No. 7155/98 states:

> 3(2) The tax credit may be used at the applicant's discretion for up to 10 years, or such other period as may be approved by Council, to reduce City property or business taxes accruing to the designated structure and land upon which the structure is situated or to reduce grants paid in lieu of taxes on institutional lands pursuant to subsection 335(1) of *The Municipal Act*.

Existing 2008 Tax Year information

Total Assessment	Municipal Realty Taxes
$125,000	$2,067.65

Tax Information following Redevelopment

Total Assessment Estimated	Municipal Realty Taxes Estimated
$ 2,325,000	$76,400

The Public Service would therefore recommend an HCTC for approximately the same value as the municipal portion of the realty taxes over a ten-year period. The proposed total heritage incentive package is up to a maximum of $764,000, which is approximately 15% of the total estimated value of the project ($5 million). The project provides a leverage of approximately 6.5:1 private investment to public support, which is within the very favorable range of support.

Should Council wish to provide a 20-year tax credit the incentive package would be up to $1.5 million, which is approximately 30% of the estimated value of the project and a leverage of 3.3:1, a less favourable ratio of support.

The Public Service also recommends that the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council. This project is being proposed without a future tenant in place. The Public Service wishes to ensure that the restoration work begins and ends in a timely manner so that the Tax Credit authority within the Heritage Investment Reserve is not held indefinitely. In this regard, the Public Service will prepare a Heritage Agreement that requires the Applicant to begin and complete the work within a 17-month timeframe; that is, the work must be started on or before July 7, 2008 and completed on or before December 31, 2009. In the event of nonperformance by the Applicant, the HCTC would expire.

The future property taxes as estimated will provide for some new incremental revenues to the City of Winnipeg (assumed as a result of a successful appeal). Council policy requires that incremental taxes attributable to this project be redirected to the Heritage Investment Reserve until its capacity is restored. As such, the HCTC recommended within this Report can be accommodated within the Heritage Investment Reserve.

Financial Impact Statement

Date: July 3, 2008

Project Name: **First Year of Program** **2010**

REQUEST FOR A HERITAGE CONSERVATION TAX CREDIT FOR 230 PRINCESS STREET, FROST AND WOOD WAREHOUSE

	2010	2011	2012	2013	2014 to 2020
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 76,400	$ 76,400	$ 76,400	$ 76,400	$ 458,400
Less: Incremental Revenue/Recovery	-	74,400	74,400	74,400	540,800
Net Cost/(Benefit)	$ 76,400	$ 2,000	$ 2,000	$ 2,000	$ (82,400)
Less: Existing Budget Amounts	76,400	2,000	2,000	2,000	(82,400)
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Direct costs beginning in 2010 represent the tax credits to be provided to the proponent, which will be funded from the Heritage Investment Reserve (HIR). Incremental revenues beginning in 2011 represent the incremental portion of municipal property taxes, which will be credited back to the HIR.

"Original signed by"
Mike McGinn, CA
Manager of Finance

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:
Property Assessment Department; Finance Department, Legal Services

External Consultation With:

THIS REPORT SUBMITTED BY:

Department: Planning, Property and Development
Division: Planning and Land Use/Office of the Director
Prepared by: Giles Bugailiskis \ Barry Thorgrimson
PPD File No. HTC 32-2008

Document name: O:\Reports Directive\Planning and Land Use\Heritage\2008 reports\HCTC-230 Princess 2008 07 03 R1.doc

230 princess

projected operating revenue and expenses — **table two**

base year 2008

june 10, 2008

suite revenue:

# Units	Unit Type	Size	Monthly Rental (hot rents) per/ft2	Suite	Total
3	type 1	505	$1.20	$606	$1,818
3	type 2	440	1.20	528	1,584
3	type 3	415	1.20	498	1,494
3	type 4	410	1.20	492	1,476
3	type 5	624	1.20	749	2,246
3	type 6	645	1.20	774	2,322
3	type 7	630	1.20	756	2,268
3	type 8	630	1.20	756	2,268
3	type 9	645	1.20	774	2,322
3	type 10	535	1.20	642	1,926
3	type 11	610	1.20	732	2,196
3	type 12	490	1.20	588	1,764
36					

total suite revenue		$23,684
additional revenue	storage @$12.50/mo	450
	parking @ $65/mo	2,340
total monthly revenue		26,474
less vacancy of 2%		529
total effective revenue		25,945
annual effective revenue		$311,339

operating costs	per suite	total
management fees	346	12,454
property taxes	900	32,400
repair & maintenance	550	19,800
utilities	1,150	41,400
insurance	65	2,340
contingency & sundry	139	5,000
capital replacement reserve	173	6,227
	3,323	119,620

net income (before debt service)	191,719
cash return on projected development costs	4.47%
market gap assumming a minimum 6% cash on cash return	**$1,092,271**
market gap per residential unit	$33,099

notes:
1. Management fee is assummed to be 4% of the total effective revenue.
2. Property Taxes are estimated to be $900 per residential unit.
3. Repair & Maintenance is estimated to average $550/unit/annum.
4. Utilities are estimated at $1,150/residential unit.
5. Insurance is estimated at $65/unit/yr.
6. Capital replacment reserve estimated at 2% annual gross effective revenue.

16/06/08
Rental Proforma

5 4 6 8 7 9 6
210 63 albert street WPG MB R3B1G4
t 204 680 8621 f 480 8876 5668796.ca

Giles Bugaliskis
Heritage Planner
Planning, Property and Development
65 Barry St.

16.06.08

re: **230 Princess**
heritage tax credit

Dear Giles,

Please see find the attached document supporting our request for an additional 10 years of tax credits (to a total of 20 years). This business model outlines the overall development costs including the projected shortfall of approximately $1.1M. It is our understanding that 20 years would be required at the assessed rate to compensate for this projected shortfall.

We will also forward a brief summary, in the next few days, of the history and current activities of DirectFocus within the exchange district. This illustrates their commitment to Winnipeg's core and its restoration and redevelopment. We would be available and pleased to present both this project, and DirectFocus' involvement in the exchange district to the city as required.

Please let us know if there is anything else you require at this time to proceed with our application. Thank-you very much for your time and help in this matter. Please keep us informed of any developments or opportunity to present.

Thank you,

colin neufeld

5668796 ARCHITECTURE INC.

230 princess

projected development costs
rental development
june 10, 2008

Table One

	project costs			
	per ft [2.]	per unit [3.]	total	% total
land & building [1.]	$22.81	16,667	$600,000	13.99%
construction costs [4.]	103.00	75,276	2,709,930	63.20%
development costs				
development fees	2.58	1,882	67,748	1.58%
technical consulting fees [5.]	6.70	4,893	176,145	4.11%
legal and accounting fees	1.33	972	35,000	0.82%
operating costs during constr & lease up	3.42	2,500	90,000	2.10%
administration	0.19	139	5,000	0.12%
total development costs	14.21	10,386	373,894	8.72%
marketing costs [6.]	2.85	2,083	75,000	1.75%
finance costs				
interim financing fees	0.67	486	17,500	0.41%
permanent financing fees	5.70	4,167	150,000	3.50%
interim interest	3.53	2,578	92,813	2.16%
total financing fees [7.]	9.89	7,231	260,313	6.07%
project contingency	5.15	3,764	135,497	3.16%
total costs	157.91	115,406	4,154,633	96.90%
add gst [8.]	5.05	3,693	132,948	3.10%
total costs incl. gst	162.96	$119,099	$4,287,581	100.00%

notes:
1. The Land and Building has been purchased for a cost of $800,000.
2. Building area is approximately 35,072 ft2 or .
3. Number of units is assumed to be 44, 33 residential units and the equivelent of 11 units for the 8,500 ft2 of commercial area.
4. Construction costs are estimated to be $103/ft2 of gross building area.
5. Technical Consulting Fees include architectural & engineering estimated to be 6.5% of the construction costs.
6. Marketing Costs are assumed to be 75,000..
7. Interim interest assumes a drawdown construction mortgage of $3,300,000 at 7.5% for eight months.
8. Net GST is assumed to be 3.2% after taking into account the new residential tax credit.
9. Assuming tax credits of $7,400 /unit.

16/06/06
.Rental.DevCosts