TORONTO

STAFF REPORT
ACTION REQUIRED

Queen Street West Fire Site: Options for the City to Assist Redevelopment of Properties Destroyed by Fire on Traditional Shopping Streets

Date:	March 31, 2010
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer Chief Planner and Executive Director, City Planning Division
Wards:	All
Reference Number:	ec10013

SUMMARY

This report responds to Executive Committee's request that staff report on the challenges of redeveloping properties on traditional shopping strips in Heritage Conservation Districts, particularly those destroyed by fire, and on the options available to the City to assist such redevelopment through a Community Improvement Plan (CIP), including grants, loans and land assembly, as well as through general tax policy.

The City could use a CIP to address challenges facing owners who wish to redevelop properties on traditional shopping streets, but it would require either direct funding from the City's operating budget or forgoing a portion of the property taxes from this new commercial development. Given these considerations staff do not support providing any special assistance to the owners of the Queen Street West fire site to redevelop their properties.

RECOMMENDATION

The Chief Planner and Executive Director of the City Planning Division and the Deputy City Manager and Chief Financial Officer recommend that Executive Committee:

1. Receive this report for information.

Financial Impact

There are no financial impacts arising from this report.

DECISION HISTORY

In November 2008, the Toronto and East York Community Council directed the Chief Planner and Executive Director, City Planning, in consultation with the Deputy City Manager and Chief Financial Officer, to report on the feasibility of establishing a Community Improvement Plan to provide financial assistance for the redevelopment of the properties at 611- 625 Queen Street West with ground floor commercial space and in a building form that is consistent with the Guidelines for the Queen West Heritage Conservation District.
http://www.toronto.ca/legdocs/mmis/2008/te/decisions/2008-11-18-te20-dd.pdf.

In a report to the June 2009 meeting of Executive Committee, the Chief Planner and Chief Financial Officer recommended that the City not proceed with a CIP.
http://www.toronto.ca/legdocs/mmis/2009/ex/bgrd/backgroundfile-21527.pdf

When it considered this report Executive Committee referred the item back to staff for a report on the challenges for owners to redevelop properties on traditional shopping strips in Heritage Conservation Districts, particularly those destroyed by fire, and on the options available to the City to assist such redevelopment through a Community Improvement Plan, including grants, loans and land assembly, as well as through general tax policy.
http://www.toronto.ca/legdocs/mmis/2009/ex/decisions/2009-06-02-ex33-dd.htm (EX 33.21).

ISSUE BACKGROUND

Six buildings at 611 to 625 Queen Street West were destroyed by fire on February 20, 2008. The buildings consisted of ground floor retail space with residential uses on the second and third floors. They were part of a traditional shopping street that stretches along most of Queen Street.

The properties are part of the Queen Street West Heritage Conservation District (HCD), which runs from Simcoe Street to Bathurst Street.

Rebuilding the fire site is important for the health and liveability of this section of Queen Street West, and ideally the new buildings will continue the functions of the lost buildings – ground floor retail with residential on the second and third floors. This is consistent with the City's Official Plan and the HCD guidelines noted above.

An obstacle to achieving the desired future for this area of Queen Street West is the impact of redevelopment costs and higher property taxes on the marketability of the rebuilt retail space, especially for small / independent / start-up businesses.

The only means for the City to provide financial assistance to the owners of the Queen Street properties, including mitigating the higher tax burden, is to use the authority provided by the Planning Act to provide grants or loans through a Community Improvement Plan (CIP). Other more direct forms of financial assistance would be considered bonusing, which is prohibited by the *City of Toronto Act, 2006*.

A CIP of this nature would represent a significant departure from current policy, and there is the risk that other areas could later be identified that would look to this as a positive precedent. On balance, staff do not support proceeding with a CIP.

The Mid-Rise Buildings Action Plan

In May 2007, Council endorsed the development of a Mid-Rise Buildings Action Plan, now known as the Avenues and Mid Rise Buildings Study, as a response to the challenges of achieving the mid-rise vision of redevelopment on the Avenues. The Mid-Rise Buildings Interdivisional Team was established to investigate methods to reduce obstacles and promote the development of mid-rise buildings. Many of these problems and barriers are also faced by owners contemplating redevelopment of properties on traditional shopping strips. They include:

- Fees and levies that have to be paid;
- Property taxes for retail commercial space;
- Technical issues such as loading and garbage pick-up;
- 'Red tape' associated with multiple approvals (Site Plan, Right-of-way permits, etc).

In November 2009, in response to an update on the work of the Mid-Rise Buildings Interdivisional Team, Executive Committee directed the Chief Planner to report on the possibility of reducing development charges for smaller scale avenue intensification projects. (http://www.toronto.ca/legdocs/mmis/2009/ex/decisions/2009-11-02-ex36-dd.htm. Item EX36.13)

The Avenues and Mid-Rise Buildings study is focussed generally with the challenges of achieving the mid-rise vision of mixed residential – commercial redevelopment on the Avenues across the City. The present report, however, will focus more specifically on the challenges facing redevelopment for retail and office space on older retail strips.

COMMENTS

These comments will address the main elements of the Committee's referral direction:

- Challenges for owners to redevelop properties on traditional shopping strips
    - In Heritage Conservation Districts
    - Especially those destroyed by fire
- Options available to the City through a CIP
- Role of general tax policy

Overview

Owners contemplating redevelopment on traditional shopping strips face numerous challenges, both on the supply side (development costs) and demand side (limited appeal in the market). The requirement for new commercial space to pay full CVA taxes rather than the lower capped taxes payable by other nearby commercial space is one among many challenges. Heritage Conservation District requirements should not pose an additional major disadvantage.

The challenges faced by owners whose properties are destroyed by fire may not be as great as those for other owners, as long as they have adequate insurance coverage that provides for replacement cost of the buildings. Although they will be required to pay full municipal CVA property taxes for commercial space, they will also benefit from a lower education commercial tax rate for new commercial development, as well as the targeted reduction in the City's tax rates for all small businesses in the City.

The challenge of paying full CVA taxes for new commercial development applies to redevelopment on all traditional shopping strips, not just those in Heritage Conservation Districts or with properties destroyed by fire. For example, it is one of the many problems and barriers that are being considered in the Avenues and Mid-Rise Buildings Study. It should be addressed in a larger city-wide context that considers all the challenges facing redevelopment on the strips in a single 'package.'

Challenges for Owners to Redevelop Properties on Traditional Shopping Strips

The existing developed fabric of the strips is generally made up of two to four storey buildings on relatively small lots with retailing and commercial on the ground floor and offices or residential on the upper floors. The lots tend to be small (20 ft wide is typical), and individually owned. The zoning regulations generally try to perpetuate this pattern, with controls on height.

Market Challenges

The fundamental challenge facing any owner interested in redeveloping their property is whether or not the redevelopment will be successful in the market place. Will future rents and income from the redeveloped property cover the costs of redevelopment and also support profitable business operations?

There are major limitations affecting both sides of this equation—the "demand" side (rents, who will occupy the space) and the "supply" side (how this space will be developed). None of these factors, taken individually, is a major impediment to developing any particular site along a strip. Taken as a group, however, they show the difficulty of providing multi-storey development.

Supply side considerations include:

1) Hard construction costs are typically higher due to demolition costs, constricted sites, and smaller overall sizes of developments, which raise the per sq.ft. costs
2) Soft costs (planning consultants, architects, legal, condominium registration) may also be considerably higher. Although fees may be partly based on project size, there is often a fixed fee or ‘base’ fee which means that these costs are higher when expressed on a per sq.ft. basis for a small site.
3) Elevator costs can be relatively high for this form of development. In the North American market, getting people to walk up more than a single flight of stairs has proven to be a challenge in this form of development. Providing elevators for 3 or 4 floors adds greatly to the cost per sq ft. In addition, the small lot size may restrict building floorplate size so that a relatively greater amount of space is used for elevators than for buildings on larger lots.
4) The difficulty of providing required parking for customers and employees, as well as access to this parking, can be a major limitation.

Demand side considerations include:

1) The general office market in the city has been limited for the past couple of decades, which increases the challenge of finding tenants for small office buildings and second floor office space.
2) Small office buildings can only attract small tenants, who can also find space in larger office buildings providing both large and small space.
3) Small tenants have their own problems. They are often start-ups, and have limited cash flow and availability. Consequently, landlords see them as riskier tenants.
4) For residential above retail, the supply side considerations will result in higher construction costs, which in turn demand higher rents or higher selling prices if sold as a condominium.
5) Small buildings tend to have no common building amenities, therefore limiting the market to which they might appeal.
6) Views from small buildings will be limited, whereas they are often a major selling feature for high-rise condominium developments.
7) Small buildings offer only limited numbers of units, therefore limiting the appeal to the substantial investor/speculator.

Again, all of these limitations can be overcome, but each of them means targeting a smaller potential market ‘niche,’ and overcoming these limitations involves additional costs which in turn raises rents or selling costs to the end user. Higher rents or selling costs may not be supported by current market conditions in the area.

These market conditions are partly a function of the attractiveness of the strip, which is related to the types of stores and their merchandise offerings as well as the ambience and amenity of the strip. More attractive strips will support higher rents and selling prices than less attractive strips.

Land Assembly

Some of the challenges outlined above may be overcome by larger buildings on larger sites. Although small stores are integral to the character of the traditional shopping strips, the small lots can be a challenge for redevelopment, and assembling them into larger lots that would support more efficient development (larger stores or office buildings, large residential developments, shared or underground parking, etc) may also be difficult, and may take a long time. Existing owners may not wish to sell to prospective developers, or not at prices that would support redevelopment; they may be happy with the present income it generates for them, or they may see the possibility of ‘holding out’ for a higher price.

Development Charges

To the extent that redevelopment is increasing the amount of floorspace then it will have to pay Development Charges for retail and residential space. They are another cost that may affect the ‘marketability’ of the new space, and Executive Committee has previously directed staff to report on reducing them for smaller scale avenue intensification projects. If the redevelopment is simply replacing existing space, as might be the case for buildings destroyed by fire, then it will not have to pay development charges.

Property Tax Issues

New retail-commercial development is also liable to pay the full municipal CVA property taxes. Existing older buildings on the strips generally pay ‘capped’ taxes, which are currently somewhat lower than the full CVA taxes. Rents and/or revenues for new space may consequently need to be that much higher compared with surrounding space paying capped taxes. Over time, this disadvantage will disappear as the capped taxes gradually increase to their full CVA rate.

For example, at the time of the Queen West fire, the affected properties commercial taxation level ranged from about 33% to 63% of the full CVA taxes payable. In the absence of the fire, these properties would have experienced tax increases equivalent to 5% of their prior year’s CVA taxes plus any municipal tax increase. The properties would have reached their full commercial taxation level sometime after 2016.

This obstacle doesn’t affect everyone equally: it is more of a challenge on less attractive / struggling strips than on the more successful strips, and less of a challenge for chain stores with greater financial resources and broader appeal in the market. This makes it difficult to establish a policy to address the issue that would apply fairly and equitably to all property owners while ensuring that the City uses its resources wisely and efficiently.

There is some good news regarding property taxes:

- The commercial component of any of redevelopment on traditional shopping strips will be eligible for a 20% reduction in the education portion of their property taxes. This is a new program which is not available to older existing properties.

- Furthermore, as part of the 2009 CVA reassessment, Council adopted a policy to accelerate the small business tax reductions on the municipal property tax side, which if continued will see the small business tax rate fall to 2.5-times the residential tax rate by 2013-2014.

- As noted above, the capping system is being phased out as fast as possible to bring existing properties up to full CVA taxes and reduce the disadvantages faced by new retail development on the strips.

These actions together will help mitigate the tax impacts arising from the removal of the caps for new commercial space.

Heritage Conservation Districts

Queen Street West between University Ave and Bathurst Street is the only traditional shopping street in the City that is also a Heritage Conservation District. The Queen Street West Heritage Conservation District was designated in recognition of the area's cultural heritage value and is subject to a plan adopted by bylaw. The district designation and plan ensure that alterations and additions within the district are an appropriate fit that contributes to the conservation of the district's cultural heritage values and unique sense of time and place.

The guidelines for the HCD require that new buildings have one-storey commercial facades and that they are sympathetic to distinct heritage attributes, through massing, rhythm of solids and voids, significant design features and high quality materials. Although ground floor commercial uses are desirable they are not mandatory as long as the building form includes a one-storey commercial façade consistent with the design guidelines and policies of the plan.

In the Queen West case, the HCD guidelines are no more restrictive than the existing zoning; and generally speaking the existing MCR zoning provides for densities, heights and massing similar to the existing development.

Overall, being in a Heritage Conservation District brings with it a 'base' standard for new development that is entirely reasonable for all the traditional shopping streets. It should not pose an additional major disadvantage to redevelopment.

Properties Destroyed by Fire

The challenges faced by owners whose properties are destroyed by fire may not be as great as those for other owners, as long as they have adequate insurance coverage that provides for replacement cost of the buildings. As such, much of the high cost of redevelopment will be borne by the insurance rather than the future rents and/or income of the buildings. The City can reasonably expect that property owners would protect their business interest with fire insurance appropriate for their circumstances, and not have to turn to the City to support redevelopment where insurance is not adequate.

If insurance coverage is adequate, owners may still face challenges:

- They will have to pay full CVA taxes, with the impacts noted above on the rents they charge, though they will also benefit from the reduced education tax and overall lowering of the commercial tax ratio. Their ‘business plan’ is unlikely to encompass a sudden move to paying full CVA taxes.
- The ‘replacement’ cost may not include any special requirements of the HCD guidelines for building details, though they are unlikely to add much to the cost.

If insurance is inadequate, then the owners will face the full range of challenges outlined above.

Options Available to the City Through a CIP

The Planning Act authorizes municipalities to prepare Community Improvement Plans for Community Improvement Project Areas providing that the City’s Official Plan contains provisions relating to community improvement in the municipality.

Section 5.2.2 of the City’s Official Plan states that “Community Improvement Plans will be prepared to promote the maintenance, rehabilitation, revitalization and/or conservation of selected lands, building and communities facing challenges of transition, deficiency or deterioration or for any other environmental, social or community economic development reason”.

A Strategy for Improvement
Generally, CIPs provide a tool to set out an action plan or strategy to improve an area, usually involving public action and expenditure that will stimulate or leverage private action or development. The King-Spadina CIP is an example where the City has set out a program of street improvements.

A CIP for a traditional shopping street could set out a strategy for improvements that would increase the strip’s attractiveness, and thereby support private reinvestment in the area. An effective CIP requires adequate public funding.

Grants or Loans for Businesses

One of the key provisions of CIPs is that they can be used to provide grants or loans to private businesses to help pay for the costs of community improvement. The City provides grants through two programs.

- The IMIT program uses Tax Increment Equivalent Grants (TIEGs) to stimulate economic development in the City by providing incentives to targeted sectors, such as manufacturing and the creative sector. The locally focussed economic activities typically found on the strips, such as retailing and household and personal services, are not eligible for assistance under this program. The grants are funded through the increased property taxes (tax increment) the development generates, which but-for the grants would not have occurred, and in this way does not directly impact the City's operating budget.

- The Façade Improvement Program uses matching grants to fund improvements to storefronts and so increase the attractiveness of shopping areas with BIAs. It is paid for from a fund generated from general tax revenues.

These programs are used to provide grants to businesses. Similar programs could also be used to provide low (or no) interest loans, which would still provide a subsidy to private businesses to spur local improvement. The City's cost would be the difference between its lost investment earnings on the funds used for the loans and the amount of interest it was paid, plus loan defaults by those receiving the loans. This cost would need to be funded, either out of the general tax base or perhaps through the tax increment resulting from the development supported by the subsidy.

Land Acquisition and Disposal

CIPs can also be used to enable the City to acquire land, and sell or lease it at below market rates. The Planning Act allows a municipality to acquire and dispose of land 'for the purpose of developing any feature of the official plan,' without using a CIP. A CIP would be required, however, to dispose of any land so acquired at below market rates. The City could use such a mechanism to assemble and develop land for public purposes. Public purposes may be broadly defined to include development by private interests that have an overriding public benefit, particularly where such purpose is guided by a CIP. The City used a CIP for this purpose in assembling land for the Dundas Square redevelopment.

A CIP could be used to assemble small sites into larger sites that would overcome some of the challenges to redevelopment on the strips. Nevertheless, funding is required to acquire land. Such funding will be from the general tax base. American cities have used Tax Increment Financing to fund land acquisition. The funds are borrowed against the promise of increased tax revenues from subsequent development being used to pay down the loan. However, the practice is not common in Canada.

CONCLUSION:

A CIP Could Help but Would Require Funding
The City could use a CIP to address challenges for owners to redevelop properties on traditional shopping streets, but it would require either direct funding from the City's operating budget or forgoing a portion of the property taxes from this new commercial development.

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