

**DOWNTOWN RESIDENTIAL CONVERSION: CONSTRAINTS AND
OPPORTUNITIES**

FINAL REPORT

2004-MAR-18

Prepared by

**City of Nanaimo
Development Services Department**

1.0 PREFACE

The project documented in this report received an Affordability and Choice Today (ACT) grant. ACT is a housing regulatory reform initiative delivered in partnership by the Federation of Canadian Municipalities (ACT administrator), Canada Mortgage and Housing Corporation (ACT funder), the Canadian Home Builders' Association, and the Canadian Housing and Renewal Association.

ACT, launched in 1990, encourages housing affordability and choice through regulatory reform. The United Nations Centre for Human Settlements recognized ACT in 1998 as one of the top global best practices for improving the living environment.

Over the years, ACT has created an impressive body of knowledge others can use to facilitate regulatory change in their communities. Projects range from innovative housing forms, secondary suites and streamlined approval procedures to NIMBY, alternative development and renovation standards, and more. ACT projects contribute in many ways to sustainable development. They have also served to enhance working relationships between local governments, the building industry and non-profit organizations.

In summary, ACT promotes regulatory reform through

- its database of solutions, which others may borrow from and adapt freely to meet their needs (see Web site address below).
- grants to local governments, builders, developers, architects, non-profit organizations and others across Canada to help facilitate the development of innovative solutions;
- other means of promoting regulatory solutions, such as workshops that highlight ACT solutions and address specific regulatory barriers.

For more information, visit ACT's website at www.actprogram.com, or contact:

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2.0 General Project Overview

2.1 Project Context

In 1999, Nanaimo was in the midst of an economic recession. Overall construction and business activity was down significantly from the early and mid-1990s. The City's downtown commercial core was particularly hard hit by the recession. Many of the City's older buildings were empty or only partially occupied. To mitigate the effects of the economic downturn on the City's Downtown, Nanaimo City Council created a Downtown Economic Revitalization Strategy Committee. The Committee identified a number of economic revitalization initiatives, including the need to promote a greater number and range of housing options in the City's downtown core. This particular initiative was consistent with the housing objectives of the City's Community Plan (adopted in 1996) and also the recommendations of a Housing Needs Assessment commissioned in 1999. At the time, Downtown's housing stock consisted mainly of high-end and mid-range condominium and rental units. Affordable housing opportunities were limited in availability and quality.

While the need for greater housing opportunity in the City's downtown was well established by 1999, the solutions to this need were not. One solution of particular interest to the City was residential conversion of the downtown's existing heritage building stock. At the time, residential conversions had rarely been attempted in the downtown core. In fact, the only recorded conversion was in 1997 to the Globe Hotel, one of the area's turn-of-the-century single room occupancy hotels.

The City reviewed the issues relating to constructed and proposed residential conversion projects in the downtown core and determined that the lack of residential conversions likely stemmed from the following constraints:

- Costs associated with building upgrade requirements (specifically related to seismic and fire safety requirements, and permit processing time);
- The absence of a comprehensive financial incentive program (including grants and tax exemptions) designed to encourage residential conversion;
- High residential parking requirements contained within the City's Zoning Bylaw; and
- Downtown and heritage building design requirements that were outdated and contradictory.

Historically, the City has dealt with residential conversion proposals on a case-by-case basis and there has been no comprehensive attempt made to identify the specific constraints affecting this form of development or to promote residential building conversion in the City's downtown core. The Act Project presented a golden opportunity for the City to address this issue in a comprehensive manner.

2.2 Project Objectives

The primary objective of the project was to find ways to eliminate potential constraints to residential conversion in the City's downtown core; thereby improving housing affordability and choice in this area. This primary objective was to be achieved by:

- Reducing the amount of time required to obtain development approvals for residential conversion permits;

- Identifying and encouraging innovative alternatives to existing building code, design guideline and zoning requirements; and
- Creating and promoting a financial incentive program for residential conversion.

It is the City’s belief that all three objectives were achieved through the work completed on the ACT project.

2.3 Project Methodology

Action
<p><u>Phase 1 – Constraint and Opportunity Identification</u></p> <ul style="list-style-type: none"> • The Advisory Project Team analyzed the City’s existing development approval process as it applies to residential conversion projects. • A residential conversion feasibility study of two specific building sites, including one heritage building and one non-heritage building, was completed by the Project Consultant to help focus the Advisory Project Team review. Within the study, constraints to and opportunities for residential conversion were identified by the Project Consultant at the building code, land use regulation and design guideline levels. • In particular, the results of the Association for Preservation Technology’s 1995 ACT project entitled “Code and Approval Process for Residential Renovation” and the subsequent historical building equivalencies section added to the National Building Code were reviewed and applied during the feasibility study in order to identify potential cost savings. • The requirements, policies and processes of the following municipalities were reviewed for comparison purposes by the Project Consultant: <ul style="list-style-type: none"> • City of Kelowna, B.C. • City of New Westminster, B.C. • City of Victoria, B.C. • City of Kamloops, B.C. • City of Guelph, Ontario • City of Calgary, Alberta • A questionnaire and workshop were conducted with selected downtown property owners and developers to solicit feedback on perceived barriers to downtown residential conversion. Thirty-one local property owners, developers, and related businesspeople were asked to respond to a one-page questionnaire prepared by the project consultant, and were invited to participate in a workshop. Response to the questionnaire was excellent (67.74%), with twenty-one respondents. Twenty-three owners/developers plus eight City staff members and one City Councillor attended the workshop.

Phase 2 – Design of a Streamlined Approval Process

- Based on the finding in Phase I, several recommendations for improving the speed, ease and efficiency of the development approval process as it applies to residential conversion were developed by the consultant and presented to the project team, including an analysis of costs and benefits.
- Recommendations for improving the cost-effectiveness of residential conversion in general was also presented by the Project Consultant and formed part of the Project Action Plan.
- Finally, the Action Plan was considered by the Advisory Project Team and referred to City Council for implementation.

Phase 3 – Design Guideline Review and Update

- The intent of this phase of the project was to use information gained in Phase I to create a consolidated and updated version of the City's existing downtown and heritage building design guidelines. Unfortunately, this phase was not completed. The primary reason for delaying completion of this phase was the City's desire to first put in place new downtown zoning regulations. This process has taken considerably more time than anticipated and will likely only be completed in 2005. The City is committed to launching the design guideline update upon adoption of the new zoning regulations.

Phase 4 – Design of a Financial Incentive Program

- Working with the Project Consultant and Advisory Project Team, City staff examined opportunities for developing a municipally funded grant/tax incentive program designed to offset cost constraints associated with residential conversions. A tax exemption program was developed in consultation with the City's Finance Department and submitted to City Council for endorsement.

Phase 5 – Adoption

- Recommendations of Advisory Project Team endorsed by Council.

2.4 Advisory Project Team Members

An Advisory Project Team was formed during the project to act as a forum for presenting the consultant's findings on the City's permit processes and on the case study reviews completed by the Project Consultant. The recommendations of the team ultimately formed part of the Project Action Plan produced by the Project Consultant and presented to Council for implementation. Members of the Advisory Project Team were:

- Ron Cantelon – City Councillor
- Jay Cousins – Realtor
- Art Crape – Downtown Property Owner/Contractor
- Les Deacon – Downtown Property Owner/Manager
- Jerry Ellins – Architect

- Chris Erb – Superb Homes, Nanaimo Home Builders Association
- Dave Francis – Downtown Management Team; Development Process Review Committee; Urban Development Institute; Coast Canada Construction
- Ross Fraser – Chair, Downtown Management Team; Downtown Strategy Team
- John Hofman – Heritage Commission/Structural Engineer
- Alastair Kerr – Senior Preservation Consultant, B.C . Heritage Branch
- Alison Millward – Social Planner, City of Nanaimo
- Gary Noble – Development Approval Planner, City of Nanaimo
- Robert Patterson – Robert M. Patterson & Associates (consultant)
- William Patterson – Citta Construction (consultant)
- Toby Seward – Senior Manager, Permits, Bylaw and Property Services, City of Nanaimo
- Chris Sholberg – Heritage Planner/Land Use Planner, City of Nanaimo
- Catherine Umland – Project Consultant
- Frankie Victor – Building Code Specialist/Plan Checker, City of Nanaimo
- Chuck Wong – Downtown Property Owner/Manager

The Project Team held five meetings, including one tour of Downtown Victoria, B.C. In addition, the Project Team hosted a Property Owner/Developer Workshop devoted to identify constraints and opportunities for residential conversion in the Downtown Core (see Appendix I)

3.0 Project Results

3.1 Project Impact – Reforms Initiated

The following project recommendations from the Project Action Plan have been implemented by the City of Nanaimo:

- Reduced downtown parking requirement for multiple family development. Parking requirement reduced from 1.25 spaces per unit to 0 spaces per unit for residential conversion projects, and for new infill development - 0.5 spaces per unit for studio and one-bedroom units, and 1 space per unit for 2+ bedroom units.
- Staff delegated authority to approve Heritage Alteration Permits for residential conversion projects. This has reduced the average approval process timeframe from 4-6 weeks to 2-4 weeks.
- Financial Incentive Program focused on residential conversion created for downtown core. Allows full tax holiday (up to 10 years) for residential conversion projects completed in a recognized heritage building. Political commitment from City Council ensured and system set up to review tax exemption applications.
- Amendments to the City's Downtown Zoning regulations to ensure regulations do not work counter to City's revitalization efforts or heritage building conservation objectives.
- Development Cost Charges entirely eliminated in the downtown core. If not exempted, downtown residential conversion projects would pay the same DCC rate as any other multiple family project in the City: \$86.75 per square metre of residential floor area. (See Appendix J)
- Policy adjustments to the seismic evaluation system have been made. In particular the National Research Council seismic evaluation system has been adopted by the City of

Nanaimo. This allows for a slightly more flexible method of evaluating structural requirements for seismic upgrade in the case of a residential conversion. (See Appendix K).

- Building Code Use Categories have been blended. City Council has recognized the advantage of allowing changes of occupancy between compatible uses without requiring seismic upgrading. By categorizing compatible uses, such as retail and office, changes in uses under those categories will no longer trigger seismic upgrading. It is also possible to change from an office or retail to light industrial uses, such as storage, without triggering seismic upgrades. Life safety upgrades determined by the building code are still required. (See Appendix L)
- Seismic upgrade/Sprinklering costs not included in calculation of Works and Services (i.e. sidewalk, utility upgrades, etc.). In order to not penalize a property owner for undertaking seismic upgrading or sprinklering of a building, the cost of seismic upgrading and sprinklering is no longer included in the trigger calculation for Works and Services or sprinklering upgrading. Works and Services requirements are triggered where the value of an improvement to a building exceeds \$100,000 or 25% of the assessed value of the building. Sprinkler upgrades are triggered when the value of an improvement exceeds 50% of the assessed value of the building. Works and Services and sprinklering upgrades are costly and in the past have acted as a significant deterrent to residential conversion. (See Appendix M).

The following project recommendation has not yet been implemented by the City of Nanaimo:

- Updated and consolidated downtown design guidelines. The primary reason for not completing this objective was the City's desire to first put in place new downtown zoning regulations. This process has taken considerably more time than anticipated and will likely only be completed in 2005. The City is committed to launching the design guideline update upon adoption of the new zoning regulations.

3.2 Lessons Learned

In retrospect, the primary difficulty faced by the municipality did not centre on the removal of regulatory constraint (such as permit streamlining, reduction of downtown parking requirements for residential uses, or seismic and building code policy adjustments). For the most part, the need to remove these constraints was self-evident and quickly implemented by the City on the recommendation of the Advisory Project Team. The most problematic phase of the project turned out to be Phase 4 – design of a financial incentive program. In particular the debate over a tax exemption versus cash grant program extended over the period of many months. At the end of the project process, the project consultant created models for both programs and the Advisory Project Team and the City's Development Services Department recommended implementing the cash grant program. After further debate at Council level, with a number of Downtown property owners, and with the City's Finance Department, it was determined that a tax exemption program, rather than a cash grant program, would be most supportable by Council and the most likely to achieve the objectives identified by the Project Action Plan in the long term. The cash grant program was considered to be too expensive from a program startup perspective. Money would need to be budgeted each year by Council and based on the large amount of money required per building conversion as indicated by the case study analysis very few projects would be funded. On the other hand, the tax exemption strategy required fewer dollars up front and would spread the program cost incrementally over a period of time.

3.3 Project Transferability

The results of this project are very transferable to other municipalities, assuming the municipality has a significant sized bureaucracy and Provincial legislation which allows municipalities to give financial assistance to owners of heritage buildings or of properties in a revitalization or improvement area.

3.4 Final Observations

Although the Downtown Residential Conversion Tax Incentive Program has been in place for approximately two years (initiated 2002-Mar-25), there has only been one application to date for a 3-unit upper floor conversion of the Gusola Block and that was only received on 2004-Jan-21. Based on interviews with various Downtown property owners it appears that there are a number of reasons why there have been so few applications:

- Fear of the Unknown. No matter what a structural engineer might say regarding the factors and costs for seismic improvement, no one really knows what will be found until they start tearing into walls – then it's too late to turn back.
- Return on Investment. It is hard to justify spending \$100 - \$200 K for seismic improvements on a building that is worth \$200 - \$300 K and might only lease at \$8 a square foot. A similar program has had success in Victoria, at least in part because it is easier to justify spending \$100 - \$200 K for seismic improvements on a building worth \$1 million with a lease rate as high as \$75 a square foot.
- Good Tenants/Improvements. An owner with quality, established ground floor tenants who has also invested in building improvements to attract and keep those tenants, is understandably reluctant to send those tenants away so that (s)he can tear the place up for seismic and building code upgrades.
- "Two in the Bush" is better than "One in the Bush". Some property owners see that, in theory, second story commercial space leases at a higher rate than residential space. The objection is: "Why would I put all this money into my building so that I can lease it for less money?" Of course, many of these second storey spaces have been empty for years because there is very little market demand for walk up second storey office space.
- Tax Exemption is Good. Up Front Cash is Better. Sharing the Risk is Best. With tax exemption, the property owner tends to see him/herself financing the cost. Up front cash is seen as a means for reducing the need for financing. Sharing the risk is most desirable as it would allow for a review of the City's calculation of tax exemption and grant amounts in cases where there have been documented extenuating circumstances for cost overruns (e.g. the engineer's report estimated \$75 K to reinforce the roof and in deconstruction discovered that another \$50 K will be needed to brace the walls).

The City is currently considering these points and will make modifications to the existing financial incentive program if necessary. One idea currently being considered is the creation of a "primer grant" to supplement the existing tax exemption program. However, overall the City is politically and financially committed to maintaining the existing program, and looking forward to new projects materializing as the local economy continues to improve.