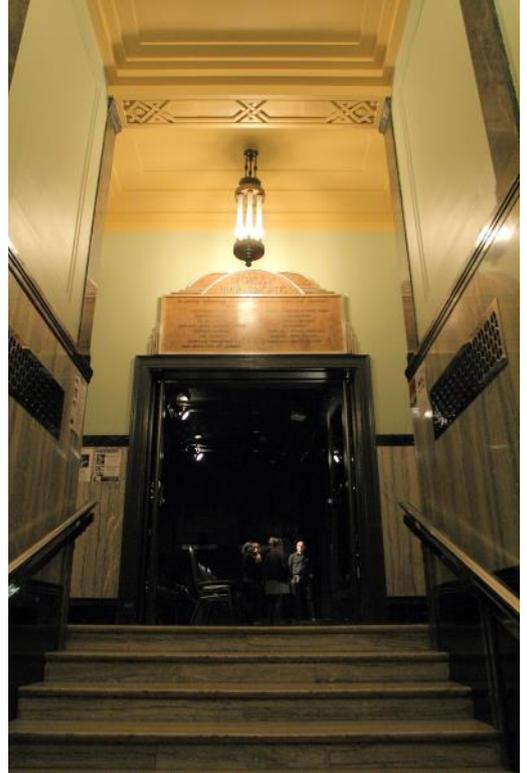


Presented by the
Kitchener-Waterloo
Association of
REALTORS® (KWAR),
in co-operation with
the Architectural
Conservancy of
Ontario North
Waterloo Region, and
sponsored by the
Regional Municipality
of Waterloo on
February 3, 2016 at
the Registry Theatre
in Kitchener, ON.



The Economics of
HERITAGE DEVELOPMENT

The “Economics of Heritage Development” event was presented by the Kitchener-Waterloo Association of Realtors (KWAR), in co-operations with the Architectural Conservancy of Ontario North Waterloo Region, and sponsored by the Regional Municipality of Waterloo on February 3, 2016 at the Registry Theatre in Kitchener, ON.

Dr. Robert Shipley, an internationally recognized expert in built and cultural heritage, made a presentation on the economics of heritage development in Ontario. Shipley is the author of a number of studies related to the topic, most notably “The Lazarus Effect: An exploration of the economics of heritage development in Ontario.”¹

Dr. Robert Shipley began his remarks by recognizing that the majority of built and cultural heritage in Canada is largely of colonial origin, and we should recognize the importance of Aboriginal heritage. In addition, we must remember that preservation is not the priority for heritage development, but that conservation is critical to our future success.



Panellists (from left to right): Peter Smith, President of Andrin Homes; Shawky Fahel, President of JG Group of Companies; Dr. Robert Shipley; Jeff Zavitz, co-owner of Tavis-Roland Development Inc.; Craig Beattie, co-founder of Perimeter Development Corporation.

Heritage should be considered an asset, which requires political will, developer support and a desire to conserve in order to retain structures for future redevelopment and expansion.



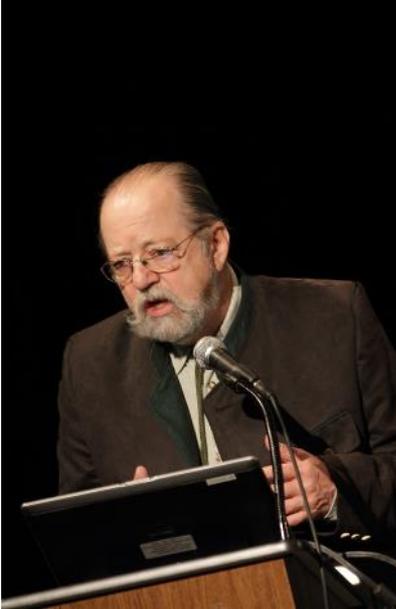
Shiplely described that preservation implies that we seek to limit change, while conservation acknowledges the importance of change balanced with retaining identity, character and key features. We must conserve the value of heritage.

Dr. Robert Shiplely began his remarks by recognizing that the majority of built and cultural heritage in Canada is largely of colonial origin, and we should recognize the importance of Aboriginal heritage. In addition, we must remember that preservation is not the priority for heritage development, but that conservation is critical to our future success. Shiplely described that preservation implies that we seek to limit change, while conservation acknowledges the importance of change balanced with retaining identity, character and key features. We must conserve the value of heritage.

In 1880, the United Kingdom Society for the Preservation of Ancient Buildings was formed, becoming the first official organization to acknowledge the importance of heritage. Later in 1964, the United Nations Educational, Scientific and Cultural Organization published the Venice Charter, laying the foundation for an international treaty on heritage conservation in 1974. The following year, the Ontario Heritage Act gave municipalities power to regulate heritage conservation, and formed the basis for our present-day system. It put into place a common review process for designation and changes to structures, and is now supported by the Provincial Policy Statement (PPS) and Planning Act, which require the consideration of heritage.

Dr. Shiplely described that it is important to not only conserve grand architecture but also smaller structures or groups of structures that contribute to the heritage fabric. This goal can be achieved through individual designation, the creation of special planning districts or the implementation of general by-laws. He noted that it is also important to clarify that heritage designation allows for the management of change to a property, but does not prevent the sale of land, change of use, or limits to public access. It simply allows for a consultation process to occur, ensuring the conservation of identified resources.

Heritage designation is achieved through the application of nine criteria, the main components of which are related to the design value of the structure, the historical value of the structure, and the contextual value to the community.



Age is not the sole determining factor in designating heritage structures or areas. For example, an older residence that was once home to a significant person, may not have high design or contextual value, but would have significant historical value. Alternatively, a large mid-20th century civic building designed with a rare architectural style would be valued for its design and contextual value, but not for its historical value.

The Architectural Conservancy of Ontario (ACO) and University of Waterloo's Heritage Resources Centre undertook research to examine 64 Heritage Conservation Districts (HCD)² in Ontario, and found that property values increased, change in the area was stabilized, and overall, the majority of residents were satisfied and supportive of the policies implemented.

There is a significant focus on heritage resources that have been officially recognized, however the majority of heritage resources are not designated or formally recognized in any way. These resources still contribute to the character of a community, and provide an area with an intangible visual style. These buildings are more likely to be incorporated into new developments, while still working to conserve the heritage of an area. For example, the use of a building may change or be physically expanded, but often certain key features are preserved. It is about giving new life to older buildings to conserve the character of an area.

The largest problem for heritage conservation in Ontario is the default solution to demolition existing structures when redeveloping a site. We should be changing the conversation to encourage reflection on the need for demolition and focus on conserving already built forms. There is an intangible value created by heritage, and the context of the past provides the identity of the present. Heritage should be considered an asset, which requires political will, developer support and a desire to conserve in order to retain structures for future redevelopment and expansion. The economic benefit and cost of adaptive reuse is comparable to new development, but the return on investment and consumer demand is significantly higher for redevelopment projects that involve historic properties.

Other barriers to implementing a successful heritage conservation market are an uncertainty in financing options, and a lack of support from banks and lenders. The majority of projects must be either self-financed or privately financed to secure funds. Also, the pursuit of long-term tenants can ensure financial viability in the future. Furthermore, a lack of communication and contradiction between different regulators and government departments results in project delays, lack of guidance and confusion for proponents. In addition, the shortage of skilled labour in the industry and lack of appreciation for practical building techniques limits potential redevelopment. Finally, better provincial and federal granting programs combined with tax relief at all levels would provide a larger incentive for developers to undertake adaptive reuse projects.

In conclusion, the formal heritage conservation process should be improved to provide certainty and incentives to drive developers, while heritage advocates should recognize their allies in the development industry to deliver high-quality outcomes.

Heritage Developers Panel Q&A



The panel was moderated by Dr. Robert Shipley and consisted of Craig Beattie, co-founder of the Perimeter Development Corporation; Peter Smith, president of Andrin Homes; Shakey Fahel, president of the JG Group; and, Jeff Zavitz, co-owner of Tavis-Roland Developments. The main themes discussed during the Q&A panel focused on the value of heritage, taxation and incentives, regulatory challenges, and project risk management.

What are the conditions that make adaptive reuse viable? What are the biggest challenges?

The age-old real estate provisions are location and market demand. Market drives the determination of after uses. You need to be in the right place and have the right market to support the development. Projects are often most viable in urban centres. Structures are sought that have “good bones” and developers should be flexible and willing to adapt their vision of the project to suit the particular structure. Structurally sound buildings allow for the largest potential of adaptive reuse. A collaborative relationship with local municipalities is also needed. Older structures are part of our heritage and part of our history. It is important to revitalize older structures and create new uses while retaining our heritage.

The biggest challenge to adaptive reuse can be the “hidden surprises” in a project, and so it is wise to have a strong contingency fund. For example, many industrial buildings have poor insulation and their existing structure may not have been designed to support the loads required of new uses. Contaminated sites are also often a factor in adaptively reused structures, and can limit the potential uses if remediation is not done correctly. Lack of cooperation between agencies is another significant barrier to developer’s taking risks on executing stellar projects.

Is heritage designation an issue for adaptive reuse projects? Are the heritage challenges more or less risky, and is the reward worth the risk?

Designated buildings often have the most character, and provide benefits to return on investment (RIO). We are also witnessing an urban renaissance that drives renewal and development within the core area. Layering the character of designated structures with newer development results in the creation of an attractive market.

Having a personal interest in the structure can also lend to reducing any issues associated with heritage. It is important to take a long-term perspective on these properties, and not view them as quick-turnover projects.

Buildings of interest and designated buildings provide for unique opportunities. It is a myth that adaptive reuse reduces ROI, older buildings are often cheaper as they are already constructed, and often with materials and practices that far exceed today's standards.

Studies could not confirm ROI or costs being less on adaptive reuse structures. Remediation costs on The Kaufman Lofts were higher but surface parking was provided instead of an underground parking lot, which reduced costs per unit. Renovation costs on heritage buildings can often exceed estimates, but if there is a sound structure with little contamination, projects can have significantly reduced costs. Sites are unique and should be treated as such.

Is heritage a selling feature?

You cannot reproduce history, story and context in new buildings, lending the advantage to older structures. In addition, the building styles and techniques are often more detailed than modern structures. People will often pay a premium to live within a heritage structure, but it is important to recognize there are trade-offs that occur, such as parking, windows, space and unit customization. In addition, site constraints often play into decisions, as well as local community concerns and impacts.



It is important to take a long-term perspective on these properties, and not view them as quick-turnover projects.

Do you actively seek properties with cultural heritage value, and if so why?

Developers look for opportunities, and heritage buildings tend to provide more of an opportunity to complete good projects. Heritage properties are never looked at as a detractor to the project, but the business case accounts for the decision to purchase a property, like any other project.

Unique well-located buildings often have a heritage designation, and tend to have strong design and community character. However, heritage designated properties are not an active part of the site selection process. In the end, developers all want to showcase good architecture and we are learning as they go. Diversity is needed in the core, with active thought given to not homogenizing everything that is developed. Sometimes sites are purchased defensively to avoid a development completely ruining the character of the area. It is always about good design that complements, but does not completely mimic, the existing structures.

At what stage and to what capacity do you bring heritage professionals onto projects? How can a heritage committee assist developers in project success?

Developers often invite stakeholders to the process early to share the project vision with them in an informal setting. It is important to establish professionalism at meetings with heritage consultants to reduce the lack of trust between groups. More education needs to be provided related to inspecting heritage projects, and it is important to build consensus between developers and heritage advocates.

Green technology, LEED and local material reuse can be a good way to reintegrate the heritage structure into a new project. Developers often hire external consultants to assist in working out the details, benefiting both the proponent and municipality.



In the United States, there are significant tax credits provided and heritage preservation is a business that requires professionals from day one. Canada, with a conservation-style model, is more collaborative and negotiable, but all levels of government need to work together to create a better heritage business.

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What can heritage activists do to better support developers?

The National Trust for Canada has provided support, but we need to look at it from a public policy perspective, and have activists support the issue. In the United States, the federal heritage tax credit has leveraged a significant amount of investment, and driven businesses in the heritage redevelopment industry. A cap and trade style model needs to be adopted for heritage tax credits in which they are sold on the open market.

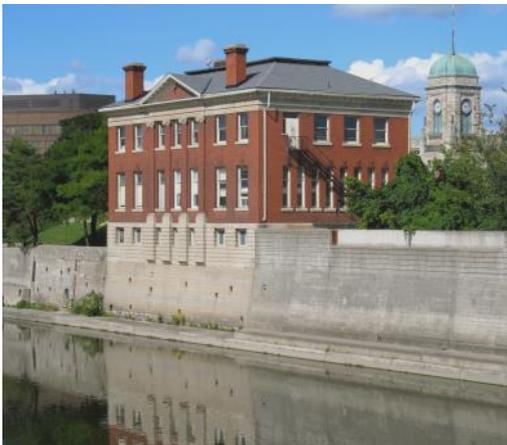
How do we recognize local residents as stakeholders?

Better education and partnership opportunities need to be formed between the developer and municipalities and shared with residents. Each group needs to trust each other in delivering high-quality urban spaces. Heritage planning is starting to become more dominant in the industry, and students are interested in it as a field.

Developers need to meet with the community, and local councillors can act as a mediator in these discussions with local neighbourhoods.



Developers feel that there should be better incentives within heritage districts to promote sustainable development and conserve existing structures.



Some communities are characterized by smaller structures that are not conducive to high-density redevelopment? How do municipalities use and conserve these vernacular style structures?

It is important to preserve smaller buildings, and retain the character of neighbourhoods. Planners currently do a good job of managing intensification and changes to an area, but there is a struggle to create effective and clear processes to manage change.

Older single-family residential structures can work with high-density projects, but developers have to be smart about form and design. Urban design guidelines need to be followed, views need to be protected and shading reviewed, and it needs to be recognized that sometimes the required density forces higher densities. The fear of density can be turned into a productive tool to retain and rehabilitate older structures. The inflation of property values makes the economics work.

Heritage development grants can often alleviate the constraints of these projects. The largest impediment is the capital gains tax that forces current owners to retain large properties, not allowing developers to purchase properties to renovate or reuse. Developers feel that there should be better incentives within heritage districts to promote sustainable development and conserve existing structures. They also suggest that development charges should be tied to the efficient use of resources, and that heritage reuse projects should be treated differently than other development projects.

Heritage advocates should provide more support for developers by promoting tax incentives and placing pressure on local governments to help in conserving buildings. In addition, smaller buildings provide the life of a city and differentiate communities from one another. It is important that agencies work together to deliver excellent projects.

What are the future developments in heritage in the Region of Waterloo given the variety of conditions coming into effect?

Light rail transit, all-day two-way GO Transit, high speed rail and a confluence of successful redevelopment projects provide ideal market conditions. However, for conservation to become attractive there needs to be incentives, such as development charges exemptions. In addition, developers are not looking for relaxed building codes or exemptions from regulations; they just want a coordinated answer from all regulatory bodies to address the problems they are facing. The decision-making process needs to be made more efficient to reduce delays for projects and the tax disincentives on heritage conservation and preservation need to be removed. The current property tax model encourages developers to knock down underused buildings and build parking lots for the benefit of reduced taxes.

Taxes tend to reward owners that do not maintain their properties, while owners that invest and improve get punished with higher taxes as their property value increases. Therefore, many heritage structures are locked up in a low tax cycle to avoid the inefficiencies in the current system.

Tax-increment grants are what developers are seeking. There should be a focus on agencies working together and forming partnerships, potentially having a P4 (public-private-professional-partnership) on specific sites. Taxes owed on structures are a huge deterrent to developers, and the provincial setup causes those structures to sit empty.

A lot of good things are happening, but the goal of heritage retention is defeated if buildings remain empty or poorly maintained. The tax structure needs to be changed, and it's not just a local issue, it is a national issue embedded in the tax structure.

How do we build new structures that are worth keeping in the future? What can we do to encourage good design?

It is important to have good-quality designers and developers that are less focused on profit and more on building great developments. The job of developers' is to force each other to build excellent structures, but also have the public and advocates voice their opinions and point to those that have done a poor job, or recognize those that do good work.

Great cities around the world have developed over centuries, and have retained the best examples from generations of architecture styles. More diversity is needed in the development industry to bring fresh ideas and new perspectives.

How do we avoid displacement in heritage areas?

Rental replacement programs are an excellent tool in ensuring people can still have access in perpetuity to redeveloped areas. We must have a mix of unit types and rental/owner properties, and should avoid just building cheap rental structures.

Heritage conservation is more than providing a token example of a particular period of architecture. It is about finding the balance between retaining examples of buildings and community character for future generations, while allowing for intensification and responsible new development to provide a mix of unit and income types. Communities can change over centuries, and proper heritage conservation can provide for character and form a component of a complete community.



Panelist Shawky Fahel (President of JG Group of Companies) presents Dr. Robert Shipley with a plaque recognizing his 46 years of service at the Heritage Resource Centre at the University of Waterloo



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