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RESIDENTIAL INTENSIFICATION CASE STUDIES

Municipal Initiatives

DOWNTOWN HOUSING INCENTIVES PROGRAM Saskatoon, Saskatchewan

SUMMARY

The original program provided two incentives:

- 1) a tax abatement that is phased in over five years (100 per cent exemption the first year, 80 per cent in year 2 and so on) for new rental housing in the downtown, and
- 2) a 50 per cent rebate of the building permit fees on the residential portion of any new development in the downtown.

This was changed later to a 100 per cent tax exemption for five years for all housing not targeted to specific types of residents (such as seniors).

Date Implemented: First implemented in 1999 and modified in 2002.

Key Outcomes: Two projects with a total of 104 rental units.

BACKGROUND

In 1998, the City of Saskatoon’s Planning and Building Department undertook a comprehensive study of housing in the city’s Central Business District (CBD) and immediate vicinity. The Downtown Housing Study examined present and future market demand, site and infrastructure issues and opportunities and constraints to developing housing in the CBD. It developed a downtown housing development strategy, including the role of and need for incentives.

City Council approved the study in December 1998, and implemented a five-year "Downtown Housing Development Action Program", which introduced a set of tax-based incentives to stimulate residential development

in the downtown. In August 2002, City Council approved enhancements to the incentives program and added limited support for renovation of existing housing.

The goal was to actively increase the population of the downtown area. High land values in the downtown discouraged development compared to cheaper sites just outside the downtown and in the suburban areas. The result was that underused or vacant lots with development potential were being ignored by developers. More generally, City Council was also concerned by the dearth of new rental units being produced in the city for some years.

DESCRIPTION AND GOALS

The program was introduced in 1999 and provided two incentives:

- 1) a tax abatement phased in over five years (100 per cent exemption the first year, 80 per cent in year 2 and so on) for new rental housing in the downtown, and
- 2) a 50 per cent rebate of the building permit fees on the residential portion of any new development in the downtown with four or more dwelling units.

The abatement was applied on the condition that supported units were not to be converted to condominiums for a further five years. This was meant to ensure that new units remain as rental for at least that long. The program was targeted to new construction, which includes development of vacant land; redevelopment of existing residential property that has been vacant for more than one year; or conversion of use from non-residential uses to residential.

At the end of 2001, a report was made to City Council recommending that the program be enhanced to increase the level of incentive, be expanded to encourage all forms of residential development rather than just rental housing and that support for the renovation of existing housing also be considered.

In August 2002, City Council approved these enhancements to the existing program and renamed it "The Downtown Housing Incentives Program". The modified program provides for a 100 per cent tax exemption for five years on all types of housing, including ownership and rental. The four-unit minimum eligibility requirement for the building permit fee rebate was dropped in the new program.

One condition of the new program is that the development not be restricted to occupancy by specific populations. For targeted developments, such as "seniors only" housing, an abatement program provides for a five-year phase in of taxes, with a 100 per cent exemption on the first year and then a gradual reduction in the abatement (80 per cent in the second year, 60 per cent in the third year and so on) for the next four years.

The development of this program was spearheaded by officials in the City Planning Branch, who worked in concert with the Downtown Business Improvement District (The Partnership) to coordinate the implementation of the program.

COMPLEMENTARY POLICIES AND PROGRAMS

The tax abatement program is complemented by the elimination or relaxation of parking requirements for multiple unit dwellings in downtown residential areas. Also, a Downtown Housing Renovation Tax Abatement Program provides partial tax abatements for five years for the renovation of existing housing in the downtown.

The incentives program is also complemented by the City's Downtown Housing Plan, which lays out the Housing First Strategy whereby the City supports the development of downtown housing through a variety of means. These include the use of flexible development standards, consideration of rezoning applications for the conversion of non-residential buildings to residential uses, the provision of residential amenities, assisting with the assembly of land for public and private housing projects in the Downtown and the ongoing upgrading of municipal infrastructure.

STAKEHOLDER RESPONSE

The Downtown Housing Study involved extensive consultation with the development community, downtown residents and businesses. The Partnership was represented on the Housing Study steering committee and there was frequent consultation with the Saskatoon Real Estate board, the Home Builders Association and the Regional Economic Development Authority. A number of public events were held over the course of the study, including a public display, information table and "walk-by" surveys in the main downtown shopping centre. To publicize the "enhanced" package of incentives now available, the City Planning Branch is working with the Partnership to design a brochure and marketing plan.

The development industry in general supported the policy initiative, as did the Saskatoon Regional Economic Development Authority and the local Chamber of Commerce. Existing rental property owners in the downtown expressed some concern that the abatement program would allow new development to charge lower rates and thus have a competitive advantage over existing buildings. In addition, there was some discussion over the definition of the geographical area to which the policy applies: some stakeholders wanted the incentives to also apply to projects just outside of the downtown.

In general, however, there seems to have been little dissension over the introduction of the incentives program. The absence of serious controversy reflects the success of the Downtown Housing Study in facilitating a broad consensus on the need for action to stimulate rental housing in the downtown.

IMPACT

Since the introduction of the original program in 1999, two housing developments have taken advantage of the incentives, adding a total of 104 units to the downtown area. These are the only housing developments that have occurred in the downtown since 1999.

The first of these to be completed was the Hampton House Apartments on 2nd Avenue (Figure 1), a classic mainstreet development that is a good example of the adaptive re-use of underutilized upper floor space in downtown buildings. The developer renovated a 77-year old, 2-storey building that once had retail uses on the first floor and bachelor apartments on the second floor. The first floor had been vacant since 1995 and the second floor was unused since 1979. The façade of the building was rehabilitated and

designated as Municipal Heritage Property. The main floor was developed into two commercial spaces and the upper floor was completely redeveloped into eight up-scale rental apartments.



Figure 1: The Hampton House – 144 2nd Avenue South
Source: City of Saskatoon

The second development to take advantage of the housing incentives was The Franklin (Figure 2), a 14-storey seniors high-rise. This was an infill development on an underutilized surface parking lot. With 96 rental units, the Franklin is a full-service retirement community.



Figure 2: The Franklin – 23rd Street & 3rd Avenue
Source: City of Saskatoon

FINANCIAL ISSUES

The Downtown Housing Study, which created the framework for the tax abatement and other downtown housing incentives, cost the City approximately \$70,000.

The incentives were designed to require minimal involvement from staff in their day-to-day administration: for example, the building inspection process is used to confirm completion and compliance with the conditions of the program. The City Housing Facilitator administers the program, requiring approximately six hours per month.

Both projects that have received tax incentives qualified under the original program and thus have phased-in taxes rather than 100 per cent exemptions. The total amount of tax abatements provided to these two projects over 2001 to 2005 is projected to be \$546,032. The amount (residential portion) of taxes that would have been paid over this time without the redevelopment of these sites would have been approximately \$61,524. The total amount of residential taxes actually paid (after the abatement) is projected to be \$364,022 over this time, a net gain of \$302,498.

The building permit program resulted in two building permits waived, at a value of \$12,163. The funds to cover the waived fees are drawn from the Downtown Housing Reserve, into which the City puts \$30,000 per year, funded from parking meter revenues. There were no large-scale indirect costs associated with implementing this policy as the infrastructure to support the resulting development was already in place.

EVALUATION

When passed in 1999, the goal of the Action Plan was to encourage the addition of 1,400 to 2,100 dwelling units (about 3,000 people) by 2025. As mentioned, the completed projects added 104 housing units to the downtown under the original terms of this initiative. Although this response is good, it does not represent as much development as the City would like. This is what motivated the recent "enhancements" to the program.

The modified program shifted the focus from abatements to exemptions. An exemption is considered a more powerful incentive than an abatement because it eliminates the need to pay the taxes entirely while an abatement requires that the property owner pay the taxes before receiving the rebate the following year.

A further three projects are now being discussed with developers and there appears to be a much higher level of interest generally in taking advantage of the benefits it has to offer.

The expansion of eligible developments from rental-only to any development means that the benefiting parties may also change. Developers often remain as long-time owners of rental buildings and therefore are the primary beneficiaries of a tax exemption. For ownership housing such as condominium developments, the benefits will now accrue to the eventual property owner (often the occupant) rather than the developer. However, the program still works as an incentive to the developer to alter his or her location decisions in favour of the downtown because the tax exemption can be used as a marketing tool in the sale of units to be built.

The potential of the incentives program to add housing to the downtown is limited by market constraints. Saskatoon is a relatively compact city with little traffic congestion, meaning that travel times from suburban locations to downtown are not long enough to encourage people to give up a suburban lifestyle for downtown living. Also, neighbourhoods adjacent to the downtown remain among the most desirable in the city and are relatively affordable. There is a persistent perception of downtown as a suitable location for singles and empty nesters but not for families.

The incentives program has helped contribute to the general awareness of the economic importance of the downtown and the role a strong downtown plays in building a healthy region. The program has had some success in influencing development decisions and promises to expand its impact under the recently added provisions of the program.

City officials point out that incentives do not by themselves cause new development to occur, but they can help overcome some of the inherent barriers to development in areas where the market is not currently active. It would be a mistake to adopt incentives to encourage development where there is in fact no market.

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City of Saskatoon. 2001. Downtown Housing Study: Phase II. Saskatoon Planning and Building Department.

City of Saskatoon. October 1998. Downtown Housing Study. Prepared by Armin A. Preisksaitis & Associates Ltd., Nicholas Applied Management, and UMA Engineering Ltd. for the Saskatoon Planning and Building Department.

City of Saskatoon. 2001. Downtown Plan. Available at <http://www.city.saskatoon.sk.ca/dtp/index.html>

WEB SITES:

<http://www.downtownsaskatoon.com>
(The Partnership)

http://www.city.saskatoon.sk.ca/org/city_planning/Housing/index.asp
(City of Saskatoon housing programs)

http://www.city.saskatoon.sk.ca/org/city_planning/index.asp
(City of Saskatoon City Planning Branch)

OUR WEB SITE ADDRESS: www.cmhc.ca

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