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RESIDENTIAL INTENSIFICATION CASE STUDIES

Municipal Initiatives

DEVELOPMENT AND REVITALIZATION FUND	Québec City, Quebec
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SUMMARY

The City of Québec, first operating through a non-profit municipal corporation and then directly through its own housing department, has provided financial assistance in the form of loans, loan guarantees and subsidies to property owners in the central area to stimulate development, including the improvement and expansion of the housing stock.

Date Implemented: 1991

Key Outcomes: Since 1991, 555 residential units have been created through new construction, conversion of non-residential or extensive renovation of existing residential buildings.

BACKGROUND

The population of Québec City began to decline in the 1960s as families moved to suburban areas outside the central city. Particularly hard hit were the older central neighbourhoods, where redevelopment projects related to the city's role as a provincial capital and major transportation works contributed to the displacement of the population. In the five years from 1981 to 1986, the central area of the city lost 4 per cent of its population. Many of those who left were younger middle-income families, leaving behind older people with smaller households and fewer resources. Schools in the older areas began to close and many properties began to decline or were demolished in order to lower real estate taxes.

To address this issue, the three levels of government along with community organizations and economic stakeholders came together in 1991 to create the Committee for Economic Revitalization and Job Creation in the Centre

of Québec (CRÉECQ in French). The committee set about to diagnose the problems plaguing the central areas of the city and to propose ways of reversing destructive trends. One of the committee's main recommendations was for steps to be taken that would stabilize the population and encourage the return of middle-income families to the central area of the city. The committee defined an area within which programs should be targeted and laid out some program options. In 1991 the City put in place a number of programs aimed at implementing the committee's recommendations.

DESCRIPTION AND GOALS

One of the initiatives launched in 1991 was a program designed to assist property owners in revitalizing target areas in the older part of the city. The purpose of the program is to encourage property owners to invest in new construction and the renovation or conversion of existing buildings to restore the urban fabric and strengthen the targeted areas. All types of projects (residential, commercial, institutional) are eligible for funding under the program, which covers costs related to new construction, the conversion of existing buildings or the rehabilitation of vacant buildings.

Originally, the program was administered by the Municipal Housing and Development Agency (SOMHADEC in French) by agreement with the City. Created in 1970, SOMHADEC is a non-profit municipal development corporation with the power to acquire, construct,

restore, rent out and sell buildings anywhere in the city of Québec. It can also offer financial assistance to developers or building owners undertaking development projects. The corporation is managed by a board appointed by the Québec City Council.

Before changes were made in 2000, property owners undertaking eligible work and who wanted to receive financial assistance under the program applied to SOMHADEC. The corporation determined whether the project was eligible for assistance under the terms of the program and undertook a financial and technical analysis of the project to establish the amount and nature of the assistance (if any). The board of SOMHADEC made the final decision regarding the offer of assistance.

Criteria for determining the level of assistance offered included:

- economic viability of the project;
- fiscal benefits to the city (increased property assessments);
- marketability of the project;
- architectural quality;
- consistency with planning objectives of the city;
- impact on the immediate vicinity in terms of the potential for stimulating further revitalization efforts;
- management ability of the applicant.

Financial assistance was available in the form of loans, loan guarantees or direct grants to the level necessary to make selected projects economically feasible. Assistance from this and other public programs could cover up to two-thirds of project costs, with a minimum of one-third coming from private sources arranged by the applicant and a minimum of 10 per cent down payment by the applicant. Disbursements were made as the work proceeded, site inspections were made and the applicant presented bills for the eligible work completed.

In June of 2000, the City undertook an administrative re-organization to reduce the number of municipal agencies operating in the real estate and housing field. It assumed direct responsibility for the program, which continued under the name Financial Assistance for Development in Central Districts, with identical provisions and geographical applicability. Program administration was provided by the Development Assistance Division of the Centre for Economic and Urban Development. The division undertook the evaluation of program applications and sent its recommendations concerning projects selected for financing to City Council for final approval.

Although it was no longer managing the program, SOMHADEC continued to act as an advisory body to City Council on this and other municipal housing programs.

When the former City of Québec was amalgamated with 12 surrounding municipalities in January 2002, the program was transferred to the new city of Québec under the rubric of Development and Revitalization Fund, which fulfils the same role as the former program except the applicable area has been expanded to include older areas of formerly adjacent municipalities (see Figure 1). The program is now administered by the Development and Real Estate Division of the Economic Development Service, and recommendations on financial assistance are made by a committee made up of seven municipal appointees, including representatives of the development and real estate industries, financial institutions, academics and public officials, including two city councillors.

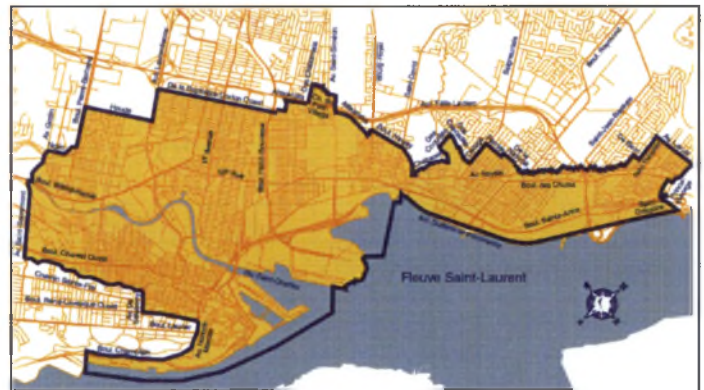


Figure 1: Program target area.

Source: City of Québec

COMPLEMENTARY POLICIES AND PROGRAMS

As a result of the recommendations put forward by CRÉECQ, the City adopted a number of housing programs involving subsidies, loans and tax breaks that focus on the central area of the city. Many of these programs are cost shared with the provincial government (e.g., through the Quebec Housing Agency under its Older Districts Revitalization Program). The key municipal programs targeting the central area of the city are:

- home ownership assistance, offers subsidies of up to \$5,000 (geared to the number of children in the family), to families that become homeowners in older districts of the city;
- tax credits to further help beneficiaries of the home ownership program;

- subsidies for rental unit renovation with controls placed on subsequent rent increases;
- subsidies to help artists transform their work environment into a live-work unit;
- subsidies (of up to 30 per cent of the admissible construction costs for a maximum of \$20,000 per unit or \$500,000 per building) for new residential construction and conversion of non-residential buildings into housing.

These programs differ from the Development and Revitalization Fund in that they are standardized programs with set criteria that determine the eligibility and funding levels merited by applicants. In contrast, the Fund works on an application-by-application basis and officials use their discretion in choosing projects and levels of funding. Typically, the projects that receive support from the Fund are those that require assistance above and beyond the levels available through the non-discretionary programs. These tend to be the larger projects in areas with specific constraints on the types of projects that will succeed.

All the municipal housing programs were examined during a comprehensive review of the City's housing policy, undertaken in 2000. The policy review recommended that the suite of programs be continued and in some cases expanded in order to reach more property owners and households in need of assistance.

The City has also created a guidebook for property owners and architects involved in development projects in the central area of the city. The guidebook sets out design principles and regulations governing each element of building construction or rehabilitation with the aim of ensuring that architectural results are in keeping with the heritage character of the district.

STAKEHOLDER RESPONSE

Property owners in the targetted area who benefit from the program have been strongly supportive of it. Without the program, they say, much of the development that has proceeded in the central area since the early 1990s would not have materialized.

However, the program—at least when it was administered by SOMHADEC—has been criticized in the media by those who disagree with public subsidies being given to private for-profit businesses. SOMHADEC was also criticized for not being subject to access to information laws and for having too much discretion in its decision-making. Some of these issues were resolved by the transfer of the program to the City proper in 2000.

Defenders of the program have pointed to the large amounts of private investment that have been leveraged through relatively small public expenditures, rising property values in the area and the increase in municipal revenues from property taxes as a result of the many successful projects supported by the program.

Promotion of the program has been undertaken in the form of pamphlets that are distributed through financial institutions such as the Caisses Populaires in the city.

IMPACT

From 1991 to 2000, 48 projects received financial aid from SOMHADEC. Of these, 18 were residential, which added a total of 555 dwelling units to the targetted area, including 316 rental and 239 condominium units. Ten of the projects were conversions of non-residential buildings to residential use, accounting for 396 of the units. A further 153 units were created through new construction and six through extensive renovation of existing residential buildings. Almost all the residential projects were in the quartier Saint-Roch, an area in decline, where developers were reluctant to venture without public support and where larger buildings were available for conversion to residential uses.



Figure 2: Les Lofts Laliberté
Source: Laliberté

A typical project is Les Lofts Laliberté, which involved the renovation and conversion of 75 per cent of a department store to create 51 rental units with commercial activities on the lower floors, including the existing department store. The building, parts of which were constructed in the 1870s, was partially vacant and deteriorating prior to its renovation. The project received a loan guarantee of \$500,000 on a mortgage with a private lender, plus a subsidy of \$2 million. The project, valued at \$4.2 million, was completed in 1999. Refer to the case study on Les Lofts Laliberté in Part 2 of this study "Residential Intensification Case Studies: Built Projects."

Since the program was transferred to the City proper in 2000, there has been a hiatus in new projects due to the many institutional changes taking place, including the transfer of the program itself, the amalgamation of the City of Québec and substantial changes in provincial housing programs. However, the City expects to begin undertaking new projects in the near future.

FINANCIAL ISSUES

The Development and Revitalization Fund is carried out by five city staff members in the Development and Real Estate Division of the Economic Development Service. This includes the program co-ordinator (.2 FTE), two financial analysts (.3 FTE each) and a technician who performs the construction cost estimates (.2 FTE), for a total of single full-time position equivalent. Beneficiaries of the program are required to pay a \$1,000 application fee, which helps defray some of the staff costs.

Since the beginning of the program in 1991, a total of \$9.611 million has been invested by the City in residential projects, with 89 per cent of that being in the form of direct grants, about 9 per cent in the form of loan guarantees and the remaining 2 per cent as loans. The average public contribution has been \$17,300 per unit. This has resulted in development with a total value of almost \$54 million: in other words each public dollar invested has leveraged \$5.60 in private investment. It is estimated that the City investment in the program will be returned over a 10- to 15-year period through property tax increases.

EVALUATION

The program demonstrates the viability of a municipal program based on financial assistance to property owners and developers to increase the housing stock in a targetted area. The program has resulted in the addition of a substantial number of housing units, leveraged large amounts of private investment and contributed

to increased municipal tax revenues. Many of the projects supported by the program involved the conversion or renovation of existing buildings and therefore contributed to the preservation and restoration of the built heritage of the area.

Much of the program activity has taken place in a particular district of the central area called the quartier Saint-Roch. Aided by changes in the housing market and the type of resurgence in central cities that is being seen across the country, the program has contributed to the transformation of this district from a declining and impoverished zone into a lively area that now attracts new residents, businesses, institutions and shops.

The program approach can be used wherever there is a market demand for housing in a specific area but where investor interest has waned because of declining neighbourhood conditions or other obstacles. The program provides an opportunity for the municipality to exercise control over changes to the built environment and to achieve planning and design objectives such as the revitalization of targetted areas and the preservation and restoration of heritage values.

FOR MORE INFORMATION

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WEB SITES:

http://www.ville.quebec.qc.ca/fr/ma_ville/vivre_quebec.shtml

OUR WEB SITE ADDRESS: www.cmhc.ca

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