City of Prince George Downtown Incentive Program Review

Final Report

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I Introduction

In 2011 the City of Prince George put into place a Downtown Incentive Program to encourage the redevelopment of Downtown of Prince George by providing financial incentives for medium and high density residential, commercial, and LEED certified development, and façade improvements.

This program was created in response to a prolonged period of economic and social deterioration of the downtown that was negatively impacting investment in the downtown and more broadly the City's pride and overall growth opportunities. The City had put into place a Revitalization Tax Exemption (RTE) bylaw in 2005 that had minimal impact on downtown investment. Changes were made to the *Community Charter* in 2007 that granted local government greater discretion and flexibility in designing and applying tax exemption programs, allowing them to incent particular kinds of development, or exempt the entire municipal tax payable on land and improvements

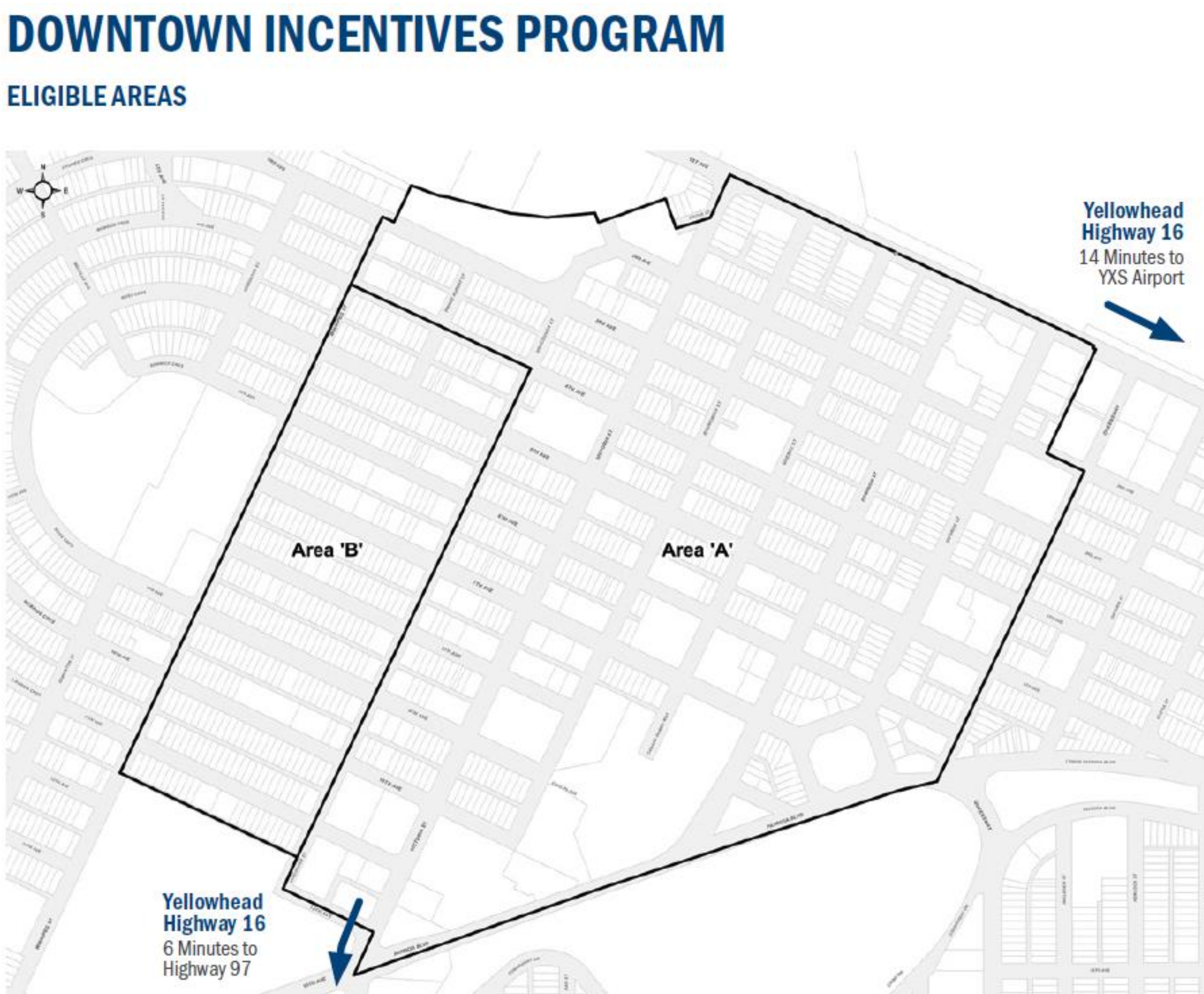
Leading up to the renewed program launch in 2011, the City reviewed and analyzed a revised Revitalization Tax Exemption (RTE) as one of several tools it could use to incent development and downtown revitalization. Consultation and research generated the conclusion that market conditions were the most important factor in stimulating investment, however that tax incentives could be effective in encouraging downtown development as part of an overall marketing program. In addition, an early benefit incentive was deemed to be a valuable alternative where the developer would receive the cumulative benefit of the tax exemption upon project completion rather than over the tax exemption period.

The Downtown Tax Incentive Program that was established in 2011 consisted of:

a) A 10 year municipal tax exemption on eligible commercial, multi-family residential and LEED developments in the downtown as defined by the "City of Prince George Downtown Revitalization Tax Exemption Bylaw 8370, 2011"
b) An RTE Early Benefit Program that, through an RTE Early Benefit Partnering Agreement between the City of Prince George and Northern Development Initiative Trust (NDIT), would provide an eligible developer the approximate value of this tax exemption up front rather than over the period allowed for under the Bylaws.
c) A Housing Contribution grant of $10,000 per door through the Northern Development Initiatives Trust for high density multi-family residential developments
d) Low Development Cost Charges in the downtown relative to other areas of the City and the province
e) Parking exemption where parking requirements are waived by the City of Prince George for new developments in the majority of the downtown
f) Flexible zoning

[The City's Development Incentives Brochure](#) summarizes the suite of benefits currently in the Downtown Incentives Program and qualifying criteria for the RTE and RTE Early benefit program.

The areas of eligibility for the downtown incentives program are defined as Area "A" and Area "B" in the map below.



The RTE incentives as they apply to residential, mixed use and commercial development are illustrated in in the Qualifying Criteria schedule below. For residential development new construction over $500,000 was eligible for a 100% exemption of land and improvements in Area A, and 100% of improvements in Area B with the highest incentive applying to new construction in the downtown core. The minimum threshold of investment for upgrades or construction was $50,000 and applied to all residential and mixed use developments in both areas. Only the value of improvements was eligible for exemption. For commercial development only construction or upgrades in Area A were eligible. The exemption applied to new construction over $500,000, and the value was restricted to 50% of land assessed values and 100% of improvements. For exterior (façade) improvements only Area A was included for eligible projects with 100% of the value of the improvement approved by the city subject to exemption. LEED certified developments that were eligible could be in either area.

QUALIFYING CRITERIA: REVITALIZATION TAX EXEMPTION AND RTE EARLY BENEFIT PROGRAM

Table A – Revitalization Tax Exemption for Residential and Mixed Use Development

Description	Residential Development Area A: Medium density mixed use or high density multi-family development Area B: Medium density multi-family development		
Minimum Investment	(a) $50,000	(b) $500,000	(c) $500,000
Location	Area A & B	Area A	Area B
Improvements	Any construction or upgrade	Any new construction	Any new construction
Exemption	100% of increase in assessed value of improvements over previous calendar year	100% of assessed value of land and improvements	100% of assessed value of improvements

Table B – Revitalization Tax Exemption for Commercial Development

Description	Commercial Development	
Minimum Investment	(d) $50,000	(e) $500,000
Location	Area A	Area A
Improvements	Any construction or upgrade	Any new construction
Exemption	100% of increase in assessed value of improvements over previous calendar year	50% of assessed value of land and 100% of assessed value of improvements.

Table C – Revitalization Tax Exemption for LEED Certified Development and Exterior Improvements

Description	LEED Certified Development	Exterior Improvements
Minimum Investment	(f) $500,000	(g) $20,000
Location	Area A & B	Area A
Improvements	LEED certified developments	Any exterior improvement
Exemption	100% of assessed value of land and improvements	100% of the value of the improvement approved by the City

Minimum investment = Minimum qualifying value of project, derived from building permit.
In all cases, the exemption granted includes municipal taxes only for a 10 year period with no decline in benefit.
High density multi-family = Minimum 3 residential units and density ≥ 90 units per ha.
Medium density multi-family = Minimum 3 residential units and density ≥ 20 < 90 units per ha.
Medium density mixed-use = Mixed use development with minimum 3 residential units and density ≥ 20 < 90 units per ha.

The incentives were intended to compensate developers for the additional risk of investing in the downtown as an emerging area with marginal market conditions compared to other parts of the city. The cost of these incentives in particular the tax exemptions have been borne by Prince George rate payers. Now that program has been in place for approximately 8 years, the impact of the program has been assessed to inform and guide its future. This can also inform the use of the RTE for other development priorities with the City of Prince George.

A. Scope and Methodology

The goal of the Downtown Incentive Program was to ultimately make the downtown more attractive for investment, and advance Prince George's reputation as a modern urban environment that has capacity and amenities to attract and retain a vibrant, culturally diverse, skilled and growing population. In order to stimulate the creation of a more attractive investment environment, the City wanted to see growth in the tax base of the downtown and assessed values while achieving progress towards development objectives for commercial and multi-family residential projects. To measure progress towards these objectives, this report summarizes the impacts of the Downtown Incentive Program on investment and the tax base as well as the development of incremental commercial and medium to high density residential real estate. The focus is on projects in Areas A and B that received the RTE and RTE Early Benefit as this was the incentive most costly to the City of Prince George and that was considered most impactful on development.

The scope of the study has three components. In the first, direct impacts of the RTE are evaluated by analyzing impacts on investment, assessed market values, municipal tax revenue, and targeted use objectives of the 10 year municipal tax exemption bylaw. The second component of the study will assess changes in investment and assessed market values of the downtown area as an indicator of improvements in the investment climate of the downtown. The third component will qualitatively assess the relative impacts of the downtown incentives program to investment decisions by developers, and perceptions of the current environment by downtown property owners.

The City of Prince George also offers a Multi-Family Revitalization Tax Exemption for incenting higher density residential development in targeted areas throughout the City. Most of the targeted neighbourhoods are eligible for a 5 year exemption with a 10 year exemption for developments in the area in and surrounding the downtown. The number of certificates issued or impact of this incentive has not been studied in this report.

II Direct Impacts of the Revitalization Tax Exemption

A. Overview of Projects

There have been 23 projects that received the RTE or Early Benefit Option under the current 10 year by-law (City of Prince George Downtown Revitalization Tax Exemption Bylaw 8370, 2011). The first approval was granted for projects in 2012 and the most recent project in May 2019.

There were approximately 15 projects approved under the previous RTE by-law introduced in 2005. This bylaw provided a 5 year exemption that could be extended to 10 years once the new by-law was introduced. Of note, there were no new builds approved for the RTE under the 2005 by-law, and the overall impact was considered minimal in the years after its introduction resulting in a stronger incentive program with the new 2011 by-law.

These projects are also a measure of private investment in the downtown. Public sector and not for profit projects are normally provided a grant in lieu of property taxes, therefore the RTE does not apply to them as an incentive.

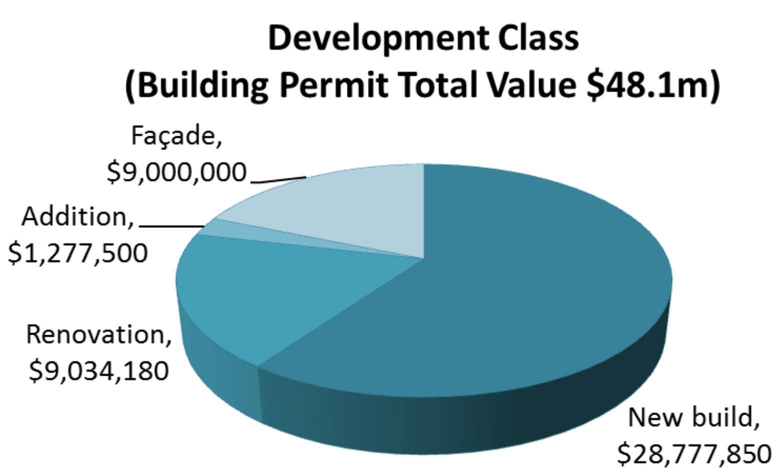
Because the developer receives the exemption on the city portion of taxes only upon project completion, there are a number of projects currently under development that are eligible to receive the RTE and not included in this assessment. This includes the Park House condominium development which is an anchor residential project that was initially imagined as the target type of investment that could be attracted to the downtown. The Park House Condominium Project consists of 4 phases and a total of 153 new residential units. The Building Permit for the first of four phases was issued in February 2019 for 37 units with construction valued at $6.765m.

Following is a summary of the 23 projects categorized by type and class of development and incentive option selected:

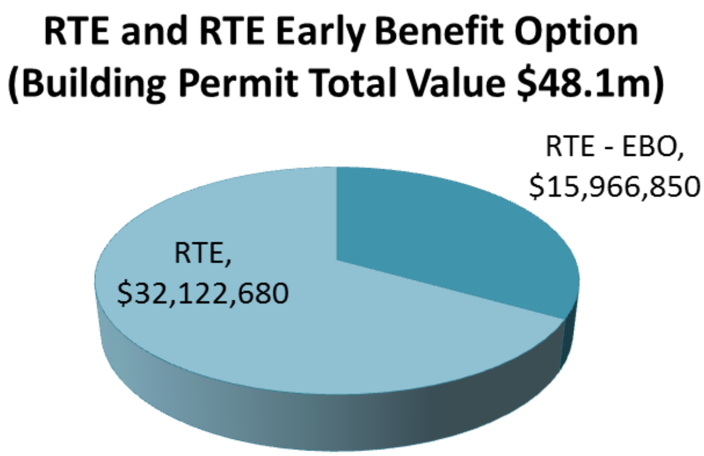
RTE Projects	Number of Projects
Residential Class 1	3
Commercial Class 6	20
RTE - Early Benefit Option	10
RTE (taken over 10 years)	13
New build	7
Renovation	12
Addition	2
Façade	2

B. Direct Impact – Investment

Direct investment is measured by building permit values for the RTE and RTE Early Benefit Option projects. The total Building Permit Value for the 23 projects was $48.1m and included more than 292,000 square feet of development. Two of these projects were façade improvements without square footage reported. Seven of the 23 projects, and 60% of the building permit values were for new builds adding 194,000 square feet of built space to the downtown area. This is significant given that the previous RTE had not resulted in any new build projects from the private sector. One of the new build projects (Marriott Hotel) made up 42% of the total investment.

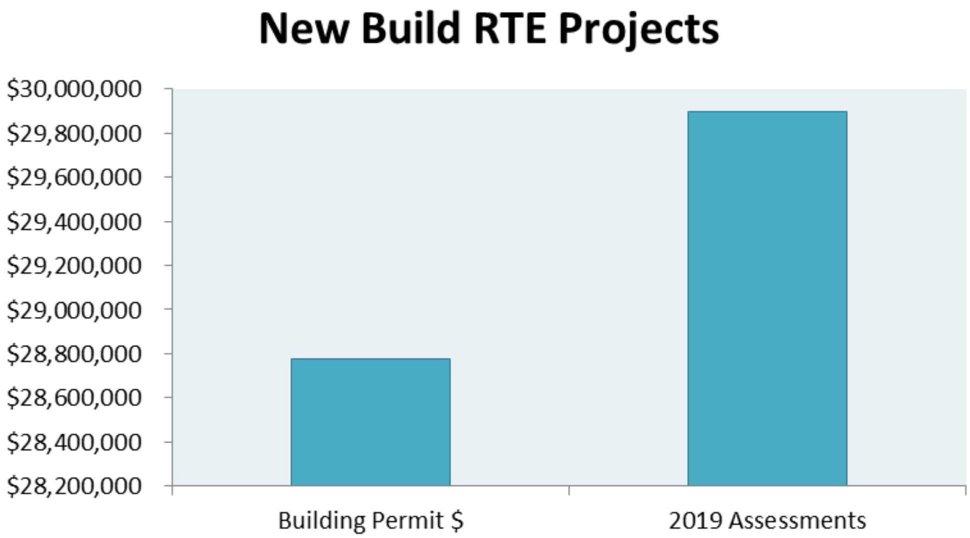


With most of the projects (13 out of 23) or 70% of the total building permit value, the developers did not opt to receive the RTE as an Early Benefit Option (EBO). However 5 of the 7 new build projects opted for EBO, suggesting that it was valuable for new construction providing up front financing support. The EBO was calculated as the value of the first year of the tax exemption multiplied by 10. Therefore under the assumption that the value of the tax exemption would increase over the subsequent nine years at an amount greater than the cost of money, the EBO would result in a lower overall incentive to the developer.



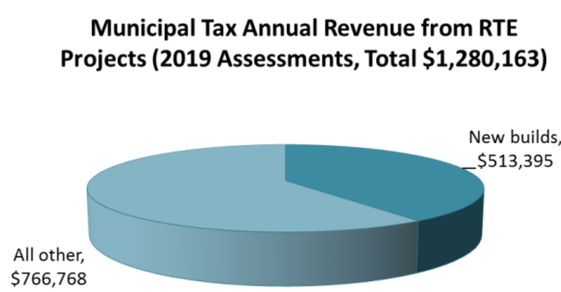
C. Direct Impact - Assessed Values

The Building Permit Values of these projects is a measure of investment while the assessments serve as a measure of market conditions for these new and renovated properties in the downtown area. Assessed values also are the basis for any impact on municipal tax revenues. The Building Permit value for the 23 projects was $48.1m while 2019 the cumulative assessed value of these properties was $74.5m. However, because building permits only refer to new investment value while assessments include the entire properties, a fairer comparison would include the seven new build projects only. The following chart illustrates that there has been an increase for these seven projects which is a positive indication that developers are receiving return on their investment.



D. Direct Impact - Municipal Tax Revenue

The 2019 assessed value of the projects is $74.5m. Applying the 2019 tax levy for commercial properties, the municipal portion of the taxes on these properties is $1.28m, 40% of this is for new builds which is completely new tax revenue. Of course the RTE incentive means that the city will not receive this revenue for ten years, or in the case of the EBO the city applies the tax revenue to repay the NDIT loan. However upon the exemption expiry the future value of the assessment for these projects will generate incremental tax revenue that may be attributed to the RTE. Other levies to the DBIA and Parking fund are not included in this evaluation and are not exempt but are directed towards downtown improvement.



E. Direct Impact – Target Development Objectives

Key objectives of the Downtown Incentive Program were to stimulate investment in commercial, mixed use and multi-family residential housing. Attracting residents to live in the downtown was considered an important target development objective in order to animate the area and create a market for restaurants, shops and other commercial businesses. Of the 23 projects, all but three were for commercial development. The largest project is a hotel and does bring tourists and business travelers into the downtown. The three mixed use/residential projects contributed a small portion to the total building permit value, and about 15 units of housing. The projects only receiving the NDIT dollars per door incentive were not included in this assessment though a number of units of social housing have been added to the downtown that received this incentive (for example the Ketso Yoh Centre temporary living).

The Park House condominium development is not included in this assessment as it is currently under construction. However it is eligible for the RTE and this project will have a major impact on downtown market housing with a planned 153 units. The building permit for the first phase was issued in February 2019. It is valued at $6.765m and will add 38,663 square feet and 37 units of market residential housing to the Prince George downtown. If the first phase alone was included as the 24th project in this assessment, residential development would have contributed 14% to the total building permit value. All four phases would bring this contribution up to 35% of total RTE project building permit value which would be estimated at $76m.

F. Summary of Direct Impacts of RTE Projects

The projects that have received the RTE have had a direct impact on:

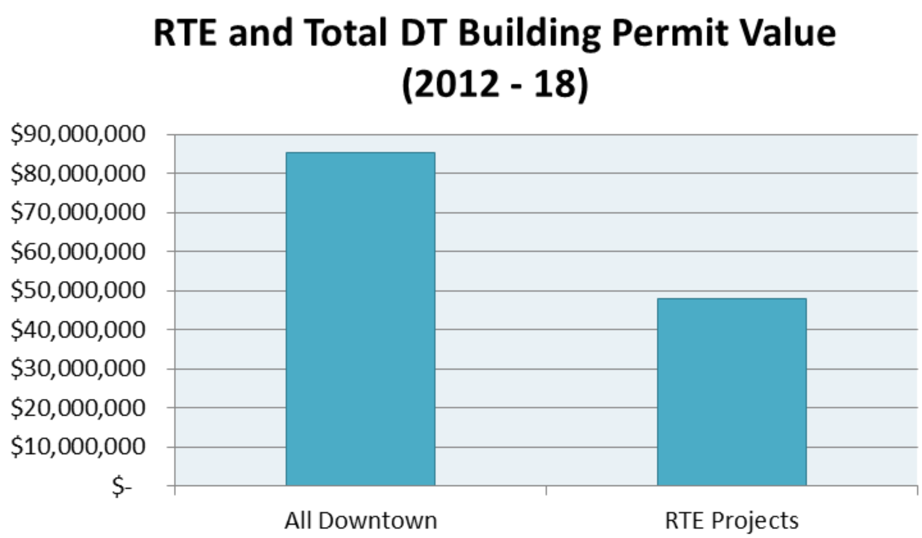
- New private investment into the downtown of Prince George (as measured by building permits)
- Increasing market values with demonstrated ROI for developers (based on assessed values)
- Contribution towards targeted development objectives
- Growth of municipal tax revenues well beyond that due to assessed values

III Indirect Impacts and City Wide Development

The second component of the study assesses changes in investment and assessed market values of the downtown area as an indicator of improvements in the investment climate in the downtown. This also considers how downtown development is contributing to city wide development and market values.

A. Total Investment in the Downtown

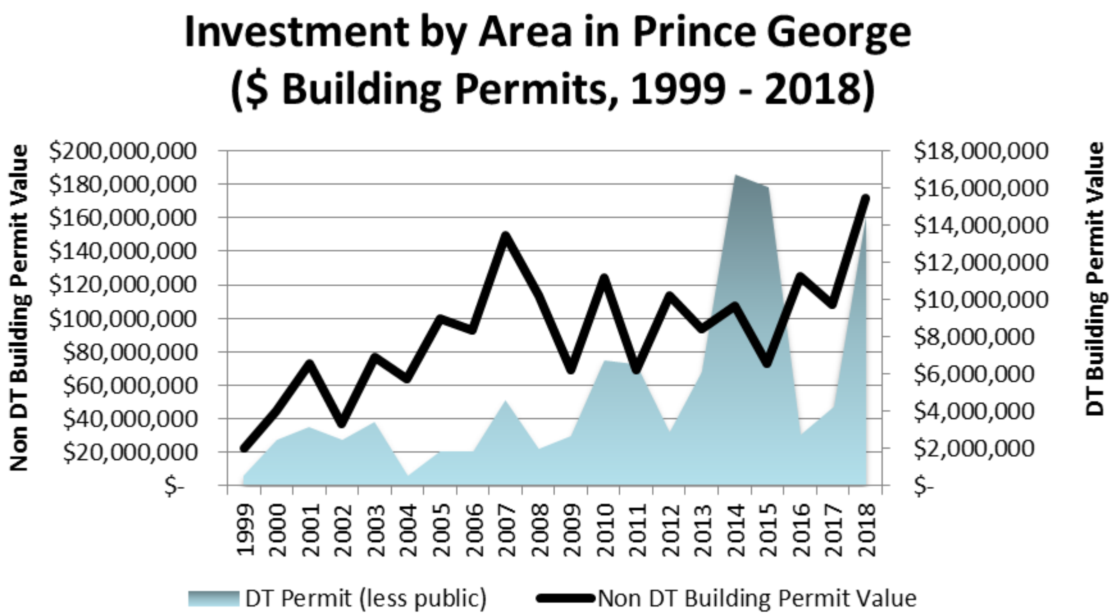
There has been investment into the downtown well above that represented by private developer projects that received the RTE. Between 2012 and 2018 the total value of investment as measured by Building Permits issued for projects in the downtown area was just over two times that issued for the 23 RTE projects ($85.2m compared to $48.1m). Major public sector investments including the Province of BC's Wood Innovation and Design Centre, UNBC's Wood Innovation Research Laboratory and the City of Prince George's RCMP Building contributed to this total.



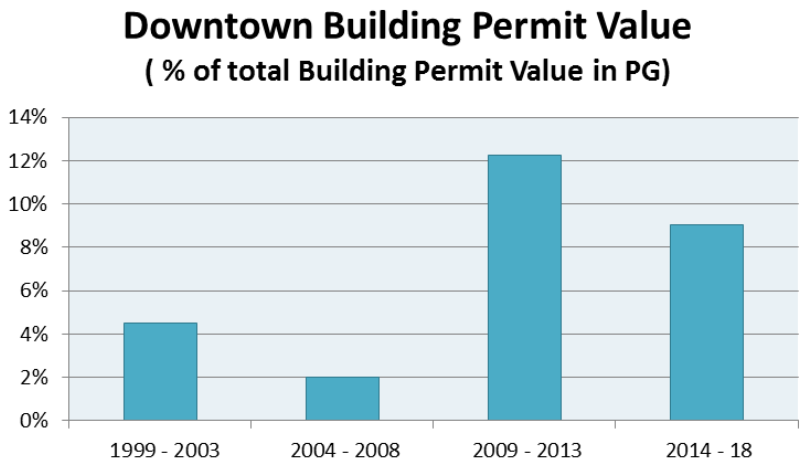
Downtown revitalization in Prince George has been seen a substantial investment in the past decade by all levels of government for new and innovative structures enhancing education and research, public safety and health related services. Further public investment is planned with the Community Arts Centre's relocation to the downtown and new pool. Other projects are in discussion to strengthen the arts and culture fabric of the downtown. All of these will contribute to a revitalized downtown and should catalyze further private sector investment. As it evolves into a growing urban downtown environment Prince George can also expect to see a rise in social challenges created by homelessness, mental health and illicit drug use. In order to protect their new wave of investment private business owners and developers will have a vested interest in the social order being managed and enhanced.

B. Investment – Downtown and City Wide Comparisons

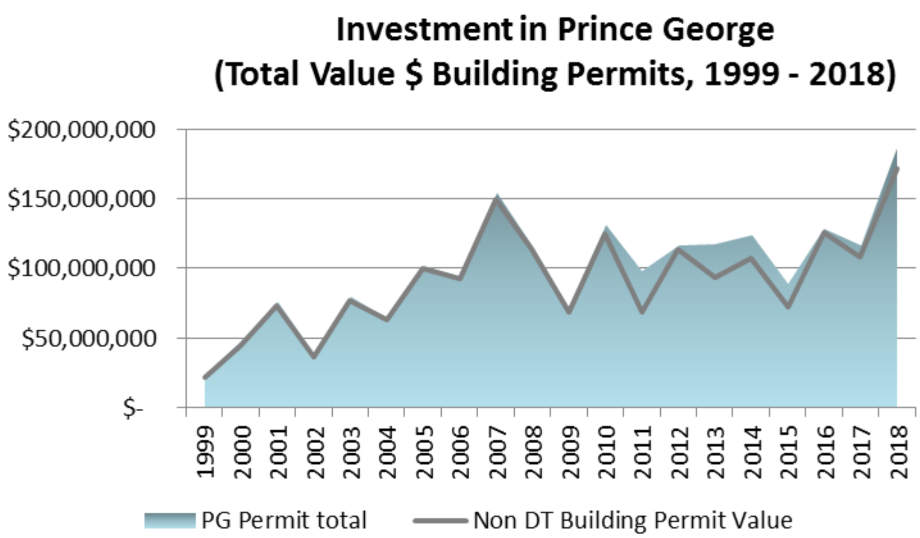
Comparing investment activity in the downtown over the past two decades to growth across Prince George during this time will help frame the most recent downtown growth within that of the city's overall. The following chart illustrates that downtown investment was low and not increasing compared to the rest of Prince George in the decade leading up to 2008 when there was relatively steady growth in Building Permits for the areas outside of the downtown. Investment in the downtown remained flat until about 2011 and has experienced a significant rise since then. As illustrated in the following chart, investment in the rest of Prince George appears to have remained relatively stable compared to 2007/08 levels with a significant increase in 2018. It is important to note that the public sector projects of the RCMP Building ($22.7m), Wood Innovation and Design Centre ($17.9m) and the Wood Innovation Research Laboratory ($4.0m)) contributed significantly to the downtown building permits of the last decade. They have been removed from the building permit values below to demonstrate growth even without their inclusion.



This trend also is supported when illustrating the contribution of investment in the downtown to that across Prince George. The following figure illustrates that downtown building permits have grown to be a larger portion of overall investment over the past decade. Data is represented according to average building permit values over five-year periods.

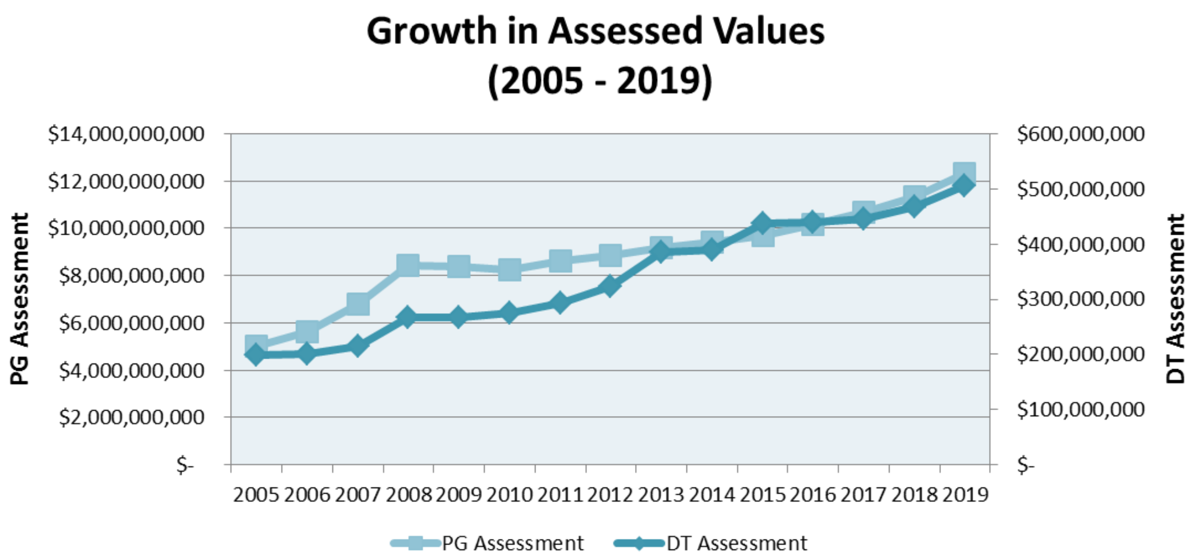


For the first time since before 1999, downtown investment has made a measureable contribution to the total performance of Prince George's economic growth in the past decade as illustrated by the chart below.



C. Market Assessments – Downtown and City Wide Comparisons

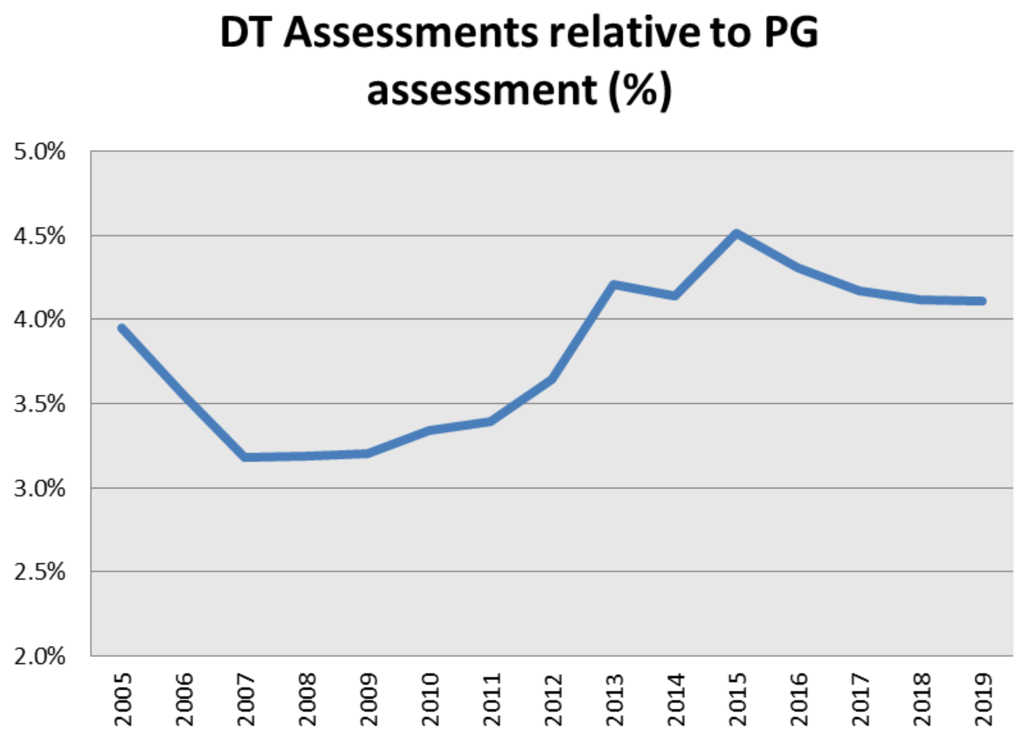
The following illustrates that assessments in the downtown have grown since 2005.



Between 2005 and 2019 the assessed values of properties in the downtown grew at approximately the same rate as the assessments in all of Prince George (11% versus 10%). However the average annual growth rates in assessed values was much lower for downtown properties compared to Prince George between 2005 and 2011. In this period, before the current downtown incentive program was introduced, the assessed value overall of Prince George properties was growing 50% faster than downtown properties. Since that time, assessed values of downtown properties have been growing at nearly twice the rate of those in all of Prince George.

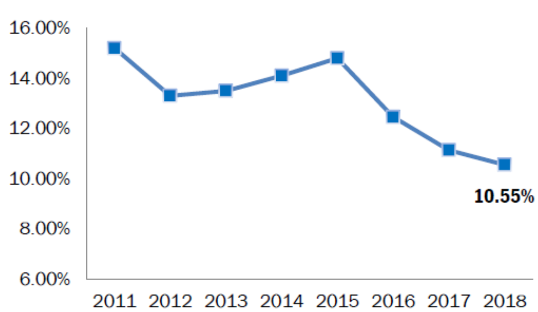
Assessed Values (BC Assessment)	2005	2011	2019	Average Annual Growth (2005 - 11)	Average Annual Growth (2011 - 19)
Downtown	$ 198,033,400	$ 292,716,202	$ 505,600,936	8%	9%
Prince George	$ 5,012,585,274	$ 8,629,828,808	$ 12,294,541,778	12%	5%

The assessed value of downtown properties in 2019 is about 4% of total Prince George assessments, this proportion has shown a gradual increase over the past decade.



D. Downtown Vacancy Rates

The City's 2018 Downtown Occupancy Study also suggests that there has been a positive impact on the market values in the downtown over the past decade. In 2018, vacancy rates were at an eight year low in the central business district and .58% lower than the previous year[1]. The vacancy rates of commercial high rise upper office space has shown the greatest rate reduction whereas street level retail/service and office vacancy has actually gone up from the previous year.



[1] 2018 Downtown Occupancy Study

IV Developer Interviews

Interviews were held with a sample of developers (4) to understand their perspectives on the influence of the downtown incentive program to their decision to invest in downtown Prince George. Following is summary of the 4 projects, all were new builds:

Type of development	Class	Square Feet	$ Building permit	Estimate of Annual Municipal Tax Revenue[2]
New build	Commercial Class 6	3,095	$ 550,000	$ 9,446
New build	Commercial Class 6	12,931	$4,000,000	$68,996
New build	Commercial Class 6	5,753	$ 850,000	$14,597
New build	Residential Class 1	155,000 (est)	$25,000,000 (est)	$183,545
Total		**176,779**	**$30,400,000**	**$276,585**

The interview questions are included in Appendix A.

Three of the four developers stated that their decision to proceed with the project was highly influenced by the downtown incentive program. The developer of the large A&T condo project emphasized that there was no question that without the incentives they would not have built the project in Prince George. However, the RTE was ranked as slightly less important than the parking incentive, low development cost charges and housing dollars per door incentive which were considered to have the highest importance to the investment decision as well as the City's express bus service to the hospital, college and university.

Only one of the developers opted for the Early Benefit Option in which case the availability of capital up front somewhat supported the viability of the project. Without the RTE, that project would not have proceeded and the development would have gone to another city.

One of the developers attributed the decision to expand the scale of their project to the RTE.

The only project not attributed to the downtown incentive program was for a downtown relocation of a new office building to provide additional required capacity.

Based on comments, it is reasonable to assume that all but one of the developments can be attributed to the downtown incentive program. These three projects alone will contribute more than $200,000 annually of municipal tax revenue.

The low DCCs were only considered an incentive by the one out of town developer that was familiar with other communities and flagged this as a competitive advantage.

[2] Based on Building Permit Value, 2019 tax rates for residential and commercial, municipal portion only

All three of the commercial development projects said that they explored a mixed use project with residential units on the top floor. However, all said that the cost was too high to warrant the investment even with the dollars per door incentive considering fire separation, exits and other requirements. One also mentioned that this would have complicated the management of the property.

Three of the four developers already had made investments in the downtown and were familiar with the area. They did not attribute their investment decision to marketing of the downtown by the City of Prince George, however noted that their own confidence in the downtown as a positive place to do business was highly influential.

When asked how effective the downtown incentive program has been for stimulating investment in the downtown, three of the four said they thought it was highly effective. One said that it has played a role by showing commitment by the City for downtown development although they didn't believe that the Downtown Incentive program in itself had created opportunities. The out of town developer felt that the incentive program was drawing other investors to Prince George that would not be here without the incentives. Another developer noted that there has been more than private investment in the downtown that has impacted the environment.

All of the developers said they were generally satisfied with the way the RTE program was implemented by the City of Prince George. One developer expressed strong satisfaction and said that the City had provided excellent service.

One developer noted that the MOUs that the City of Prince George offers are very clear and easy to identify costs as compared to other regional markets that they deal with.

One of the developers felt that the actual value of the RTE was not what they thought it should be based on their understanding of the procedure for its calculation using assessments. Another noted it took a long time to receive the early benefit with the requirement for identifying assessed values. One developer felt that it was straight forward to work with the City on the purchase of land.

All of the developers had recommendations for the future of this program and other incentive programs offered by the City of Prince George. These are noted below:

- Larger developers look at what is happening in the local market before making a decision. If smaller businesses in the downtown are investing this is a positive signal. Programs should incent small businesses and entrepreneurs, a little can go a long way for them as well.
- There was a perception that much of the incentive money has gone to large developments, perhaps look at maximizing the incentives on a particular project to spread available resources.
- The City has made Prince George a competitive investment environment in the downtown compared to other centres, like Kamloops where they don't have the low DCCs or parking incentive that stimulated market housing.
- PG should look at how to incent 'Class A' commercial space that attracts office workers. These are spaces that are attractive and functional for today's employees, with large open areas, gyms, well designed, noise innovation, green spaces, not necessarily LEED though. These

developments cost an additional $50 to $100 /square foot but don't generate the lease rates to make this work. They revitalize a downtown.

- Ideas for small businesses include start-up funds for lease hold improvements, renovations for more attractive spaces, partnerships with Economic Development and NDIT and DBIA for new programs to support these.
- The City needs to be a partner in ensuring that the downtown is an environment where small business can thrive with attention to safety and crime reduction.
- Another municipality offers interest on the deposit provided at the beginning of projects. It was noted that this would be a low cost but impactful way of creating a good impression with the developer especially smaller developers.

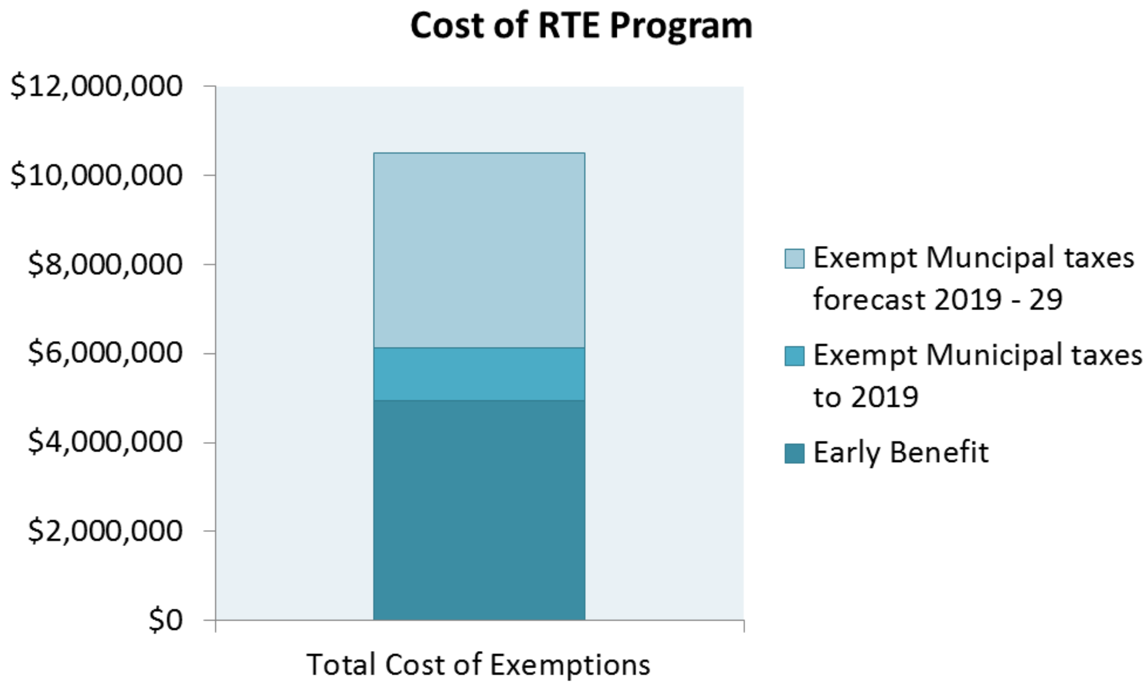
V Cost Benefit Analysis of the RTE

The total cost of the RTE to the City of Prince George evaluated in this study is made up of lost municipal tax revenues from projects that have received the tax exemption for ten years as well as the initial payments to developers that have been given the Early Benefit Option grant. The primary financial benefits are the incremental revenues generated by the municipal taxes on new investment that can be attributed to the incentive.

A. RTE and RTE Early Benefit Option Cost Estimate

The following analysis is based upon the 23 projects and does not include any that may be eligible and still in development including the Park House Condominium project.

The total cost of lost taxes to the City of Prince George has been calculated by accumulating the total paid out in the Early Benefit Option (repayable to NDIT), the value of the municipal taxes exempted to date, and the value forecast to be exempt. Note that the forecast component is based upon the 2019 Assessments which will be lower than future assessments therefore it is likely understated. The total amount is estimated at $10.5m.

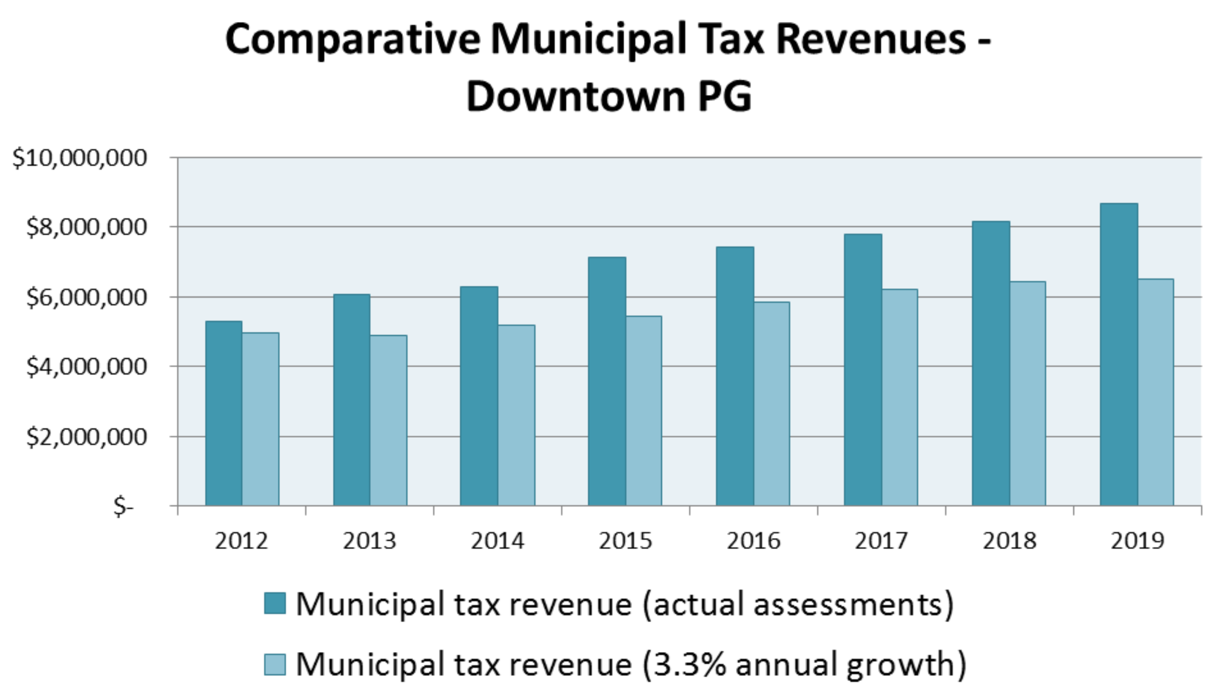


The City of Prince George recovers this cost from the incremental municipal tax base associated with RTE projects over their lifetime as well as the overall increase in assessments of downtown properties due to the improved market conditions.

B. Impact of Downtown Incentive Program on Municipal Tax Revenue

A conservative method of measuring the incremental impact of the downtown incentive program is to restrict an analysis to municipal tax revenue to the City of Prince George generated from new builds associated with the RTE. This is where the greatest benefit was provided to developers with a total exemption on municipal portion of taxes for ten years or the EBO. As well, there were no private sector new builds in the downtown for several years prior to 2012 suggesting the RTE was a significant incentive. Developer interviews also indicate that the RTE and other incentives were very influential on the decisions to invest. Using the 2019 commercial municipal tax levy and applying it to the building permit values for the new build projects as a proxy of assessed values, approximately $513,000 per year in new municipal taxes is generated by the 7 new build projects. Once the ten year exemption period is over, these projects will generate $10.5m in approximately 20 (additional) years creating a total 30 year pay-back period for the City based on the new builds alone. The actual lifetime of these new builds will be greater than 30 years therefore the value of new incremental taxes for these projects will exceed than the cost of the RTE program. This method does not consider the impact that all 23 private sector RTE projects have on incremental assessed values or the impact that these and all the public sector projects have on the downtown market conditions. The overall increase in assessed values and the tax base of the downtown therefore will be greater and payback period is conservatively estimated. Given that downtown property assessments have been rising at a rate higher than those for all of Prince George in the past 8 years, this is an important consideration and should be approximated.

For this method of cost benefit evaluation, a scenario is created that assumes the total assessed value of properties in the downtown grew between 2012 and 2019 at the same rate relative to the assessed values in all of Prince George between 2005 and 2011 (before the downtown incentive program was launched). This draws on the analysis made in section III (C). During the earlier period the average annual growth rate of Prince George assessments was 12% whereas downtown assessments grew at only 8% per year. Assuming that downtown assessments would have continued to lag Prince George's overall annual assessment value increase by about 67%, the growth of downtown property assessments would have been approximately 3.3% annually between 2012 and 2019 (Prince George's annual growth rate in assessed values was 5%). The following chart illustrates the comparative revenues (municipal portion of taxes only) in this scenario compared to revenues from the actual growth in the downtown assessed tax base. The levy rate for commercial properties was used for each of the eight years from 2012 to 2019.



This method of analysis reveals that since 2012 cumulatively $11.3m in increased municipal tax revenue has been generated from the incremental gain in assessed values of all downtown properties. Or in other words, if growth in assessed values in the downtown had continued to lag Prince George's at the same rate as between 2005 and 2011, the overall assessment of downtown properties would have generated about $11m in municipal tax revenue LESS than actual. Using this analysis, by 2019 or 7 years after the first exemptions were offered, the impact on the lost municipal tax revenue ($10.5m) has already been recovered and future increases in tax revenue from downtown properties are positive. Some of these properties are not for profit or publically owned and receive grant in lieu which is not considered.

These two methods of cost benefit evaluation conclude that the City of Prince George can clearly illustrate that the cost of the RTE program from the 23 projects studied has been recovered. The actual payback period for the RTE program cost can be estimated between 7 and 30 years using these methods.

In addition these projects will contribute to significant new incremental municipal taxes in the future when considering the lifetime municipal tax base generated from the value of improved assets.

VI Conclusions

The growth rate in investment as measured by building permits and assessed values of properties in the downtown has exceeded that of other parts of Prince George over the past decade. This is in contrast to the previous period where investment and assessed values of the downtown lagged in performance compared to Prince George. This 'boom' in downtown investment has been generated by a diverse range of developers that come from the public, not for profit and the private sector. The downtown development community consists of small business and local entrepreneurs, investors with regional interests, all levels of government, larger developers that have experience in other small and medium sized cities some bringing national brands to their projects including Mariott and Hyatt hotels. A large market housing project is underway introducing infrastructure that will address a high priority development objective for downtown Prince George and bring residents into the city's core at long last. It is clear that market conditions are improving and confidence is growing in the downtown of Prince George as community, businesses and tourists enjoy living in a part of Prince George that had been progressively deteriorating in prior years with businesses and visitors vacating the area.

The timing of this 'boom' coincides with the introduction of the downtown incentive program in 2011 and in particular the ten year Revitalization Tax Incentive (RTE) bylaw. However, major public sector investments such as the RCMP building and Wood Innovation and Design Centre were also important catalysts for the downtown development agenda.

This quantitative and qualitative analysis confirms that the RTE and the Downtown Incentive Program overall has had an important and positive influence on this progress. Developer interviews identified the importance of the incentives to investment decisions. The RTE was an incentive that applied to all projects whereas others such as the dollars per door and parking incentive were restricted to housing and had limited uptake. This proved to be important as the RTE supported commercial projects for amenities (restaurants, hotels, office and retail space, mixed use) that animate the downtown and contribute to its livability. The RTE also was accessible by all developers whether they were small local entrepreneurs or larger out of town investors, providing a universal benefit. The low DCC incentive appears to be more important for out of town developers that are more familiar with comparative small city environments.

The Early Benefit Option for the RTE was valuable for developers with nearly half selecting this and may have been especially valuable to support the first private developments with up front financing needs especially given the market conditions in the area.

The RTE carries a cost to the city in lost municipal tax revenue that needs to be considered for the future of the Downtown Incentive Program. Although an evaluation of this cost against the growth in assessed values in the downtown and new build projects indicates that the City has generated a net gain from the RTE in municipal tax revenue, it is not clear if future growth rates can sustain this pace and contribute the same returns. The cost of projects currently in development that qualify for the RTE are not taken into account. Also the RTE was meant to compensate investors for the higher risk created by marginal market conditions in the downtown. Current assessments suggest that the risk for development in the downtown has been reduced.

However, the downtown remains an important future development area for the City and a positive prognosis for its future will require that investors in the years ahead continue to build on the growth of the past decade. In the past ten years, an incredible foundation has been built in the downtown with new construction, innovative building materials especially those that are wood based, award winning architecture and design, open spaces with outdoor places, market housing, modern hotel facilities, public art and an impending relocation by the Community Arts Council to the downtown. Street festivals, parades and events following up from the 2015 Canada Winter Games in Canada Games Plaza are now commonplace and generate a festive, busy and commerce-filled environment many weekends in all seasons. The Prince George Downtown Business Improvement Association or Downtown Prince George (DPG) is better funded than it ever has as a result of new private investment, an increased levy and a committed local business community. DPG are very active with programming for events, façade improvements and coordinating conversations about crime reduction and safety. A transformation is underway. However there remain vacant lots and dilapidated inventory across Area A in particular and investment will be necessary. Concerns about 'social disorder' contributed by substance abuse and mental health issues that affect all cities will challenge downtown business and add risk to sustaining this confidence. Although vacancy rates are declining especially for upper high rise office space, street level vacancy increased over the past year and this is an ongoing challenge for downtown revitalization.

A heightened confidence in the market will be influenced by the continued liveability of the spaces in the downtown. To reduce the overall cost of incentives while continuing to support downtown development without risking ongoing progress will require careful consideration of how to adjust the current incentive program. Following are recommendations that may aid in this.

VII Recommendations

1. Phase out the 10 year RTE bylaw or reduce its cost to the City

The RTE program has been successful and proved effective in supporting development objectives. However the 10 year benefit is costly to the City. The rise in market assessments suggests that a 10 year tax exemption may not be necessary to compensate for risk although risk is still high particularly for street level retail. The City may want to set a sunset date on the existing ten year bylaw by 2021 or 2022. The bylaw revision could be structured to include all projects started by that date to effectively provide a four or five year horizon for the RTE. This could also create urgency with developers considering future projects.

Alternatively, if the City wishes to continue demonstrating its support to developers through the ongoing provision of an RTE, options for reducing its impact on lost tax revenues should be considered. For example the tax exemption could be reduced to 5 years. If a change is made the City should also consider removing Area B from the RTE. Area B has experienced development in multi-family and commercial over the past decade though very few of the projects applied for the RTE suggesting this was less of an incentive here to begin with. LEED developments could also be removed to simplify the program. LEED is usually associated with public sector funded projects that do not have incentives from the RTE.

2. Change the current 10 year bylaw to include purpose- built rental housing including student housing so that eligible properties can receive the Municipal Revitalization Provincial Property Tax Exemption.

Since Council's approval of the RTE Bylaw, the Province of British Columbia has enacted a Municipal Revitalization Provincial Property Tax Exemption to provide for an additional property tax exemption for eligible new purpose-built rental housing effective in 2019. The program mirrors the terms of the RTE with respect to length of the exemption and the percentage of the property exempted from tax. For the owner to make application under the Provincial Exemption the RTE must be amended and include the following:

"That the creation of new rental housing is one of the reasons for and one of the objectives of the RTE. One way to accomplish the objectives of the RTE is through the creation of new purpose built rental housing, including student housing."

3. **Continue to support an attractive investment environment in the downtown especially for residential with other Downtown Incentive Program elements**

The City should continue to provide low DCCs to enhance density, parking incentive and dollars per door (funded by NDIT) for residential development. This is especially appealing to out of town investors and may be as or more valuable to them than the RTE, with a lower cost to the City. Attracting student housing to the downtown is a development objective that should continue to be supported. The Economic Development Department at the City can support these and other incentives as part of an integrated marketing and development plan.

4. **Partnering to leverage and enhance the City's Downtown Development Incentives**

The contributions by NDIT (EBO, Dollars per door, Façade Improvement) and Downtown Prince George (Façade improvement) appear to have supported progress towards overall development objectives in the downtown. Renovation of existing buildings is proving to be very expensive for owners and limiting revitalization. Street level retail is especially important to provide incentives for as lease rates are too low for redevelopment.

Moving forward Downtown Prince George should consider developing new grant programs. Expanding façade improvement grants and creating a program to incent interior renovations or bring buildings up to code would be valuable NDIT may be able to support DPG with this objective. The City of PG cannot access further funds from NDIT for several years.

5. **Consider an opportunity to be bold and incent place based design and development that sets Prince George apart from other cities.**

Prince George has used the RTE creatively to enhance downtown development, and now has the chance to consider where to go next to build on its success. The City may want to consider incenting development that builds on the quality of the buildings generated in this first wave to enhance liveability and attractiveness of spaces in the downtown. For example, focus on creating 'Class A' spaces that are prestigious and higher value and very functional. Class A spaces can offer an 'attraction' as much as they create places people are drawn to occupy for work, business or leisure. Today conversations about Prince George's downtown often include innovative buildings like WIDC, RCMP, Wood Innovation Research Laboratory, spaces like the Betulla Burning or Crossroads patio, or other areas that are unique and inviting. This is an important feature of Prince George's downtown that can be developed upon.

Class A space specifications can be tailored for Prince George but generally speaking this designation refers to "buildings with the highest quality materials and construction methods. Additionally, these buildings usually have a professional manager, good access, and are typically located in highly visible areas on high traffic streets. Due to their exceptional quality, Class A Buildings are usually leased to reputable tenants at the highest rental rates."[3] Class A buildings are not the same as LEED certified although they may have some of the same features. This would require the establishment of design and possibly management specifications for a Prince George based designation which could then be tied to an RTE incentive.

There are also significant challenges with this proposal particularly in defining exactly what qualifies and effectively communicating with developers up front. The achievement of design objectives at the end of the project would need to be verified in order to ensure the project indeed qualified for the RTE. Imposing design standards can also prove a disincentive for development.

A maximum benefit amount should be clarified in any new RTE by-law to ensure that the City has boundaries within which to negotiate with developers and the program remains as equitable as possible.

Future program design should include City staff responsible for the management and administration of the current RTE to ensure that process and procedures for implementation are improved upon.

[3] Building Owners and Managers Association (BOMA) Office Building Classification Guide

VIII Future Use of the RTE by the City of Prince George

The RTE is a tool that can be used to incent target development objectives by the City of Prince George. The Community Charter amendments in 2007 allow not only neighbourhoods but types of development in assessment classes to be exempt[4].

Examples of revitalization objectives are cited in this primer:

- Environmental revitalization (ie green building technologies, environmental sustainability development practices, brownfield redevelopment)
- Economic revitalization (ie revitalizing a strategic economic base creating jobs and investment)
- Social revitalization (ie affordable housing)
- Other objectives ie community sustainability, conservation of heritage property, residential "intensification", neighbourhood rejuvenation, or façade improvements and beautification

The primer includes by-law requirements and a list of important considerations for use of the RTE.

Some of the lessons learned from the Downtown RTE may contribute additional considerations for using this tool in the future:

- The maximum incentive is associated with the greatest impact on development intentions, ie a 10 year incentive on all land and improvements.
- The RTE bundled with other incentives for a target revitalization objective (ie downtown development) is a clear policy statement from Council on economic development objectives
- The Early Benefit Option was an important option for some developers
- Low DCCs were considered a benefit especially from out of town developers
- The RTE results in a tax shift away from targeted assessment classes and the impact on other classes should be considered in the overall evaluation of an RTE program
- The RTE was intended to compensate developers for the risk they were taking in pursuing development objectives therefore the lack of market opportunity should be identified and qualified for further use.
- The RTE was available to a range of developers and property owners for new or renovated properties. It is important that the RTE not be seen to be benefiting only one or a small number of companies or individuals.

The City of Prince George may want to consider establishing an RTE to support industrial or commercial infrastructure that is recognized to be a bottleneck to the city's growth and where market conditions are negatively impacting investment. There should be alignment with the City's current Economic Development Strategy and an analysis of how the RTE might be used to pursue objectives identified there.

[4] Revitalization Tax Exemptions A Primer on the Provisions in the Community Charter

One example may be warehousing to support the City's growth as a global logistics centre. Existing inventory of warehousing space in the city is deemed to be old and not of a high quality, yet the costs for new warehousing space construction are understood to be too high to attract investment when market lease rates are considered. Further analysis of this option may include:

1. Conduct a Warehousing Study to assess the demand and supply of warehousing space in the city that would include surveys and interviews with businesses requiring warehousing; the costs of new warehousing space; lease rates that the market can sustain and impacts of new warehousing space on jobs, investment or other measures of economic development. Also consider any implications that the *Ports Property Tax Act*[5] may be inadvertently having on Prince George's competitiveness for new warehousing.
2. Explore examples of other municipalities that have used RTE for industrial purposes. For example The City of Chilliwack implemented an industrial RTE program in 2011 with the stated objective "to stimulate the local economy by encouraging industrial capital investment, expanding industrial tax base, creating new permanent employment opportunities and reducing the need for residents to work outside Chilliwack."
3. Consult with other potential partners such as NDIT, PG Chamber of Commerce, Northern BC Construction Association to explore other incentives that could be added to pursue the desired development objective
4. Development of a sample incentive program that may include RTE and test with potential developers to determine the impact it may have.

Other target objectives may include revitalizing lower Patricia/east of Queensway by offering incentives for flood plain redevelopment, value added wood product manufacturing to address the job losses from the Annual Allowable Cut reduction, or use of engineered wood products for construction to support the development of Prince George as a wood innovation hub.

[5] The *Ports Property Tax Act* sets a limit on the municipal property taxes that can be levied at port terminals

Appendix A – Developer Questionnaire

1. What influence did the following have on your decision to proceed with your project in DT Prince George: (1 Low influence 10 high influence)

    - The 10 year tax exemption
    - The early benefit option for the RTE where the full benefit was paid up front
    - Housing dollars per door
    - Parking incentive
    - Low development cost charges compared to other areas of the city
    - The downtown Prince George market
    - The general Prince George market conditions
    - The general economy
    - The city's marketing program for the downtown
    - Other city incentives
    - Any other influences?

2. If CPG did not offer the RTE or early benefit option for the RTE what is the probability that you: (1 low probability 10 high probability)

    - ….would have proceeded with this project anyway
    - ….would have built this project or directed investment somewhere else in Prince George
    - …..would have built this project or directed investment somewhere other than Prince George
    - …..would not have been able to secure financing for this project
    - …..would have delayed this project
    - Any other impact?

3. How effective do you think the downtown incentive program has been for stimulating investment in the downtown? (1 not effective 10 highly effective)

Comments

4. How satisfied are you with the way the RTE program was implemented by the City of Prince George? (1 not satisfied, 10 very satisfied)

Comment:

5. What recommendations would you like to make for the future of this program or other incentive programs offered by the City of Prince George

Appendix B – Downtown Prince George Focus Group

The findings of the Downtown Incentive Program analysis, initial conclusions and recommendations for the future of the Downtown Incentive Program were presented to the Board of Downtown Prince George for discussion. A summary of discussion follows. Recommendations in the report have incorporated this feedback.

1. There is ongoing concern about vacancy in downtown Prince George particularly main floor retail. Businesses are being pushed out into other spaces in light industrial parks with low rental rates. This is a threat to ongoing revitalization. Assessed values don't necessarily reflect rental rates and may not be a direct indicator of risk especially for ground floor retail with existing property owners. Retail industry in general is going through major changes so this is a symptom of a larger issue also.

2. It was suggested that a clear list of requirements and the process of applying for and receiving an RTE be provided to developers interested. An early estimate of how assessment will be affected and the impact of the RTE on the developer's municipal taxes could also be provided.

3. Design standards should be carefully considered for the impact they have on development. They could be a disincentive if a requirement is made. There may be some standards that are important for revitalization such as height requirements to incent development. The City continues to consider moving forward with design standards.

4. The RTE has been effective and acknowledged to be very important in particular for new hotel development in the downtown.

5. Downtown Prince George may take a role in developing new incentives. Expanding façade improvement grants and creating a program to incent interior renovations or bring buildings up to code were considered valuable. Renovation of existing buildings is proving to be very expensive for owners and limiting revitalization. NDIT may be able to support DPG with this objective. The City of PG cannot access further funds from NDIT for several years.