

Administration Response to Motion Arising on the Barron Building

RECOMMENDATIONS:

That the Priorities and Finance Committee recommends that Council:

1. Approve the Barron Building Residential Conversion Grant Program Terms of Reference in Attachment 2;
2. Approve a contribution of \$7.5 million of the projected 2021 Corporate Programs operating favourable variance to the Fiscal Stability Reserve and commit these funds to support the Barron Building's conversion to a residential building;
3. Direct Administration to return to Council with a one-time budget request for the committed funds in 2022 as part of the 2023-2026 service plans and budgets, and release any funds not required to the Fiscal Stability Reserve; and
4. Direct Administration to report back to Council, in conjunction with Phase 2 of the Downtown Calgary Development Incentive Program (PFC2021-0779), with analysis and conclusions regarding a potential downtown heritage incentive program proposal.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, 2021 SEPTEMBER 07:

That Council:

1. Approve the Barron Building Residential Conversion Grant Program Terms of Reference in Attachment 2;
2. Approve a contribution of \$7.5 million of the projected 2021 Corporate Programs operating favourable variance to the Fiscal Stability Reserve and commit these funds to support the Barron Building's conversion to a residential building;
3. Direct Administration to return to Council with a one-time budget request for the committed funds in 2022 as part of the 2023-2026 service plans and budgets, and release any funds not required to the Fiscal Stability Reserve; and
4. Direct Administration to report back to Council, in conjunction with Phase 2 of the Downtown Calgary Development Incentive Program (PFC2021-0779), with analysis and conclusions regarding a potential downtown heritage incentive program proposal.

HIGHLIGHTS

- The purpose of this report is to respond to Council's Motion Arising regarding the redevelopment of the Barron Building, and to receive direction for the establishment of a financial incentive program to support the adaptive re-use of vacant heritage buildings in the downtown.
- What does this mean to Calgarians? Approval of this report will support the preservation and reactivation of important heritage buildings in the downtown and further implementation of the Greater Downtown Plan to go 'from vacancy to vibrancy'.
- Why does this matter? The Barron Building is identified on The City's Inventory of Evaluated Historic Resources as a Landmark building in downtown Calgary. The

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approval of this report would provide an avenue for the retention and reactivation of this important building, and other significant heritage resources in the future.

- This report provides a funding mechanism to support the residential conversion of the Barron Building based on the principles of the Downtown Calgary Development Incentive Program, and it proposes that a broader program be established for other vacant heritage buildings in the downtown.
- This report acknowledges the strategic role that buildings of historic significance can play in restoring vibrancy to the downtown through the re-activation of their vacant space for residential, cultural, retail, and other non-office uses.
- Both the Residential Conversion Grant Program for the Barron Building and the broader program will contribute to the overall retention and preservation of heritage buildings through a requirement for statutory Municipal Historic Resource designation.
- Strategic Alignment to Council's Citizen Priorities: A city of safe and inspiring neighbourhoods
- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

At the 2021 July 26 meeting, Council approved the Terms of Reference for the [Downtown Calgary Development Incentive Program \(PFC2021-0779\)](#) with the goal of removing existing office space through building conversions to residential use. At that same meeting, it was noted that the Barron Building – a privately-owned, historically-significant Art Moderne-style building in the Downtown Core - would not qualify for funding under the Incentive Program given its current status of 'non-office' use. Prior to Council's approval of the Incentive Program, redevelopment of the Barron Building had commenced but issues arose, the project was delayed, and the property remains vacant to this day. The current owner of the Barron Building has been unable to proceed with the project, and it currently faces financial hurdles that would need to be overcome by the current owner or a future owner. Council has directed Administration to explore a separate funding mechanism to support the preservation and re-use of the Barron Building, given its historic value to Calgary.

In response to Council's Motion Arising, Administration has developed a Terms of Reference (Attachment 2) as a possible funding mechanism to support the retention and reactivation of the Barron Building, based on the principles of the approved Downtown Calgary Development Incentive Program.

Through Administration's review of the Motion Arising, it was determined that a broader funding program to support the retention and adaptive re-use of other heritage buildings in the downtown that are experiencing vacancy would further support the goals and principles of the recently approved Greater Downtown Plan and the existing Downtown Strategy overall. Further, an established program would provide accessibility to all eligible properties and ensure equity of funding opportunities for other heritage building owners in the downtown.

The Barron Building Residential Conversion Grant Program

As noted above, the Barron Building is vacant, under construction, and uninhabitable. The property is currently assessed at nearly \$14M - valued as 'land with a partially completed structure'. Through this investment, the completed residential building's estimated assessed value increases to approximately \$60M. The completion of the Barron Building will have an indirect positive effect on the vacancy issues in the downtown, attracting new investment in the

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surrounding area. Further, this investment contributes to heritage preservation efforts by ensuring the Barron Building is protected from future demolition through legal heritage designation.

Administration has developed the Terms of Reference for a grant program for the Barron Building, as contained in Attachment 2. The Terms of Reference are derived from the principles of the Downtown Calgary Development Incentive Program with two major distinctions: 1) the building is not required to currently be office space; and 2) the building must receive formal Municipal Historic Resource designation to legally protect the building and prevent further erosion of the building's historic value. Through this funding mechanism, an applicant would be eligible to apply for grant funding for the Barron Building of up to \$75 per square foot, with a maximum total grant of \$7.5M, for the conversion of the existing vacant space to residential and other non-office uses. This aligns with the existing grant amount provided through the Downtown Calgary Development Incentive Program. Administration is recommending that this be funded from the projected 2021 Corporate Programs operating favourable variance. See section below on Financial Implications.

Downtown Heritage Adaptive Re-Use Incentive Program

Through Administration's review of Council's Motion Arising, it has been determined that a formalized program for the specific purpose of incentivizing the adaptive re-use of vacant historic buildings may be appropriate. Adaptive re-use of heritage buildings towards reactivation has been a proven downtown revitalization technique for decades. Not only does preservation of heritage buildings help tell the story of our city, but restored and activated heritage buildings contribute to the economy and are a draw for tourists, filming locations, restaurants and hospitality uses, and residents and business that seek a unique work or living environment with a signature location. Examples in Calgary include the Lougheed Building, the Simmons Building, the King Eddy, St. Louis Hotel, and the buildings located in the Stephen Avenue National Historic District.

The example of the Barron Building has demonstrated the complexities of conversion projects for historic buildings and the need for City support. Although historic buildings tend to be more economically resilient overall (compared to modern buildings), specific buildings may have unique challenges associated with their age or original use, causing issues in securing investment due to the financial risks and challenges with heritage renovation projects. City investment towards incentivizing the re-use of these buildings would not only reduce the risks of these types of projects but would also help to capitalize on their full economic potential.

Administration is recommending that an analysis be undertaken for a downtown heritage adaptive re-use incentive program as a potential addition to Phase 2 of the Downtown Calgary Development Incentive Program. The purpose of the program would be to provide financial assistance for transformative, adaptive re-use projects for heritage buildings within the Greater Downtown that are experiencing vacancy. The program would be fully separate from The City's existing heritage grant funding and the two would be complementary, not competitive. The Historic Resource Conservation Grant Program is centered on preserving, restoring, or rehabilitating character-defining elements of designated Municipal Historic Resources city-wide, while an adaptive re-use incentive program would be about reversing vacancy by enabling the re-use and reactivation of heritage buildings in the downtown. To ensure alignment with The City's heritage conservation objectives, any funding through a heritage adaptive re-use incentive

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would be contingent on designation as a Municipal Historic Resource by Council, which ensures heritage building retention and protection into the future.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder dialogue/relations were undertaken

Heritage Calgary has been engaged on the information of this report, including the proposal to investigate a broader incentive program for other eligible heritage buildings. Any such program would form a key component of future discussions with building owners regarding the benefits of heritage designation.

Calgary Economic Development's Real Estate Sector Advisory Committee has also been advised of this report and they are generally supportive of this approach for supporting the adaptive re-use of heritage buildings in the downtown towards overall vibrancy.

IMPLICATIONS

Social

This report is in alignment with the Calgary Heritage Strategy and its primary goal to support the identification, protection and management of Calgary's Historic Resources to contribute to Calgary's prosperity and quality of life. Programs to support adaptive re-use of heritage buildings will help to address public safety concerns (real and perceived) of vacant and deteriorating buildings by stimulating development and reactivation, promoting vibrancy and a more inviting downtown.

Environmental

The re-use of existing structures has significant environmental benefits and achieves energy savings through less debris and waste from demolition, reuse of embedded energy in building materials and assemblies, and requirement of compliance for energy efficiencies through existing building code standards.

Economic

This report recognizes the inherent financial risks associated with the re-use and preservation of the Barron Building and other historic buildings as compared to demolition and new construction. Providing financial incentives for these buildings increases the likelihood that these projects can attract private financing.

This report also recognizes that reactivated heritage buildings have a unique ability to generate economic activity through both local visitors and tourists but also through renewed interest in investing in buildings and vacant sites in the surrounding area. Research has shown that

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restored heritage buildings have an ability to not only generate long term tax returns from the properties themselves, but also to lift the values of properties in the surrounding area.

Service and Financial Implications

City investment required for the Barron Building project viability is \$7.5M. Per Council's Motion Arising, Administration has explored different funding sources such as the initial investment package that was previously approved in *Realizing Calgary's Greater Downtown Plan – Initial Investments and Incentives (C2021-0524)*. However, reallocating these funds for the purpose of the Barron Building project would diminish the impact of the package and deter from the 2021 April approval of the strategy. Further, as highlighted at the 2021 April meeting of Council, the initial investment package is anticipated to be fully subscribed and reflects only 20 percent of the estimated \$1B total investment package required to achieve the 10-year vision of the Greater Downtown Plan. As a result, Administration has identified the projected 2021 Corporate Programs operating favourable variance as a potential funding source for this project. Should Council endorse this approach, the \$7.5M will be contributed to the Fiscal Stability Reserve and committed to the Barron Building Residential Conversion Grant Program. Administration will be required to return to Council with a one-time budget request for the committed funds in 2022 as part of the 2023-2026 service plans and budgets. Any unused funds will be released back to the Fiscal Stability Reserve.

RISK

The Barron Building presents as a unique situation. This historically significant property in the downtown core has been the subject of a delayed office to residential conversion and currently sits vacant. While Council recently approved the Downtown Calgary Development Incentive Program to incentivize downtown conversions, this unique property does not satisfy the criteria for that program in part because it previously commenced redevelopment and is no longer considered office space. In addition, while Administration is proposing the exploration of a broader program to target other historically significant properties as well, a funding mechanism and funding source would need to be identified for that program, which will take some time. In response to the unique circumstances of the Barron Building, a separate funding mechanism and funding source is now being proposed for this particular property. This may be perceived or challenged on the basis that this provides unequal or favourable treatment, thereby presenting reputational and legal risk to The City. These risks may be mitigated through adoption of the broader incentive program which would provide financial incentives for other historically significant properties in the downtown. The adoption of a broader program would also mitigate the risk that other vacant heritage buildings may deteriorate over time which may trigger the need for City involvement and expenditures in any event (outside of a formal program).

There are also a number of financial and legal issues currently associated with the Barron Building. The property is encumbered by mortgage debt and liens and is the subject of active litigation. The current owner is associated with Strategic Group, a private company that has been working through insolvency proceedings since late 2019. Although the Barron Building is not subject to those insolvency proceedings, these issues highlight the risk that despite providing financial incentives, the conversion project may face a number of challenges and may never be completed. Further, there is also risk that any funds provided by The City upfront may not be used in furtherance of redevelopment. In light of this, and to help mitigate these risks, Administration is proposing that no funds would be paid pursuant to the Barron Building

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Priorities and Finance Committee
2021 September 7**

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Residential Conversion Grant Program until project completion and the issuance of an unconditional occupancy permit.

ATTACHMENT(S)

1. Background and Previous Council Direction
2. Barron Building Residential Conversion Grant Program Terms of Reference

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Stuart Dalglish	Planning & Development	Approve
Carla Male	Finance	Consult
Jill Floen	Law	Consult