
Vacant Lot and Adaptive Reuse Incentive Program – 201 1st Avenue South - Midtown Plaza

Recommendation

That the Standing Policy Committee on Planning, Development and Community Services recommend to City Council that the Administration be directed to report back to Committee, prior to the end of 2018, on proposed revisions to the Vacant Lot and Adaptive Reuse Incentive Program, including consideration for major retail and other major projects.

Topic and Purpose

The purpose of this report is to outline a request for a tax abatement for the incremental property tax for the redevelopment of the Midtown Plaza, located at 201 1st Avenue South, under the Vacant Lot and Adaptive Reuse Incentive Program (see Attachment 1).

Report Highlights

1. The Midtown Plaza ownership group is undertaking a comprehensive renovation of the entire mall, including a reconfiguration and renovation of the former Sears building.
2. The financial investment of the comprehensive renovations is expected to exceed \$80 million.
3. The ownership group has requested an incremental property tax abatement for renovations to the former Sears building and food court area, estimated to be \$565,000 per year, for five years.
4. The Administration understands the merit of the abatement request, but would prefer the required policy change be considered first.

Strategic Goal

This report supports the City of Saskatoon's (City) Strategic Goal of Sustainable Growth by increasing development within the City Centre.

Background

During its March 7, 2011 meeting, City Council approved the Vacant Lot and Adaptive Reuse Incentive Program (Incentive Program). The Incentive Program is designed to encourage infill development on vacant and underutilized sites and buildings within Saskatoon's established neighbourhoods, including the Downtown.

During the September 25, 2017 meeting, City Council approved amendments to the Incentive Program to provide a five-year tax abatement or a cash grant, without a vacancy requirement, for all new residential or office developments in the Downtown.

For sites that have a building, the amendments provide for the increment to be calculated at the tax rate in effect at the time of demolition, assuming the site is a vacant lot.

Report

Midtown Plaza Renewal Project

Sears was a major anchor at the Midtown Plaza, occupying two storeys at the south end of the mall. When Sears ceased operating, it provided an opportunity to transform the mall's presence along 1st Avenue and 20th Street and become a catalyst for the comprehensive renewal of the Midtown Plaza (see Attachment 2). The major financial investment by the owners of the Midtown Plaza will include, but is not limited to, the following work:

- a) a complete overhaul of the former Sears building, including the removal of all walls, fixtures, flooring, and the decommissioning of hazardous materials;
- b) adding glazing and shopfronts along 1st Avenue;
- c) reorientating the ground floor layout to provide improved access to Idylwyld Drive and the Riversdale Business Improvement District;
- d) adding new façade and canopy treatments for the former Sears building;
- e) adding two flagship tenants in the former Sears building, each with exterior access to 1st Avenue;
- f) adding new loading dock facilities;
- g) reconfiguring parking areas to improve access and provide for interior sidewalks and landscaping;
- h) adding new food venues and retail spaces;
- i) adding new skylights and interior treatments; and
- j) adding interior renovations to all the retail bays.

Financial Investment of the Midtown Plaza Renovations

The Midtown Plaza ownership group is investing \$50.65 million into the former Sears building and food court renovation, plus an additional \$30 million into the common areas of the mall, for a total investment of over \$80 million in the property. Tenant improvements could reach an additional \$25 million.

The demolition cost is \$1.65 million, and the reconstruction of the former Sears building is \$20 million. The subsequent retrofit of the food court (which is moving to the second floor of the former Sears building) is \$7 million. This is a total of \$28.65 million to prepare the building for occupancy. An additional \$22 million for soft costs, including architect and consultant fees, financing, tenant inducements, and incidentals will be incurred to complete the project. Costs by the tenants for individual improvements could reach an additional \$25 million.

Estimated Incentive Amounts of \$565,000 Annually

The applicant is applying for a five-year tax abatement of the incremental property taxes for the development of the former Sears building and food court area through the Incentive Program. The Corporate Revenue Division estimates that this redevelopment is expected to result in an increased value for the Midtown Plaza of approximately \$38 million. The value of a five-year incremental tax abatement would be approximately \$565,000 annually, for a total amount of \$2,825,000 in foregone tax revenue. This amount includes the City abatement, as well as the Province of Saskatchewan (Province) share. Broken down, the abatement would include foregone tax revenue of \$320,000 to the City, and \$245,000 to the Province. This is an estimate based on the plans submitted as part of the application. The final amount would not be determined until the work was completed.

Requested Tax Abatement Does Not Meet Current Policy

As it currently stands, the renewal of the Midtown Plaza does not meet the terms of Policy No. C09-035, Vacant Lot and Adaptive Reuse Incentive Program Policy (Policy). The Policy does not apply to retail uses and does not provide for significant support of a renovation project. In addition, the Policy defines an adaptive reuse as a building used as an industrial or commercial use and repurposed to a different category of use. The definition does not apply in this case, because although the Midtown Plaza is undergoing a major and comprehensive renovation of an entire building (former Sears building), as well as major changes to the exterior, parking area, roof and mall area, there is no change to the category of use as it will remain a commercial use.

This development represents a significant investment in the Downtown and may become a catalyst for additional development in the area. There is significant risk with this scale of development, and the tax abatement represents a relatively small portion of that investment. Furthermore, if the former Sears building was being converted to a different category use, such as office space, it would qualify for the abatement. As well, although the development does not meet the language of the Policy, it does meet the spirit, which is to encourage development in underutilized buildings, and encourage investment into the Downtown.

On balance, the Community Services Department supports the principle that an abatement for this project be approved; however, the preference is that the Policy be amended first.

Summary

The \$80 million comprehensive renewal of the Midtown Plaza represents a very significant investment into the City's Downtown. The investment represents a substantial risk on the part of the Midtown Plaza ownership group, given the size of the investment and the volatility in the retail market. As well, the project would qualify for the abatement if the category of use was changing.

At the same time, the requested tax abatement is an exception to Policy. A comprehensive review of the Policy is scheduled for later this year.

Options to the Recommendation

City Council could choose to approve the incentives outlined in this report, as an exception to Policy.

City Council also has the option to modify or limit the tax abatement amount.

Public and/or Stakeholder Involvement

There is no requirement for particular stakeholder or public involvement.

Policy Implications

The request for a tax abatement is an exception to current policy. A comprehensive review of the Incentive Program will occur later in 2018. Among the proposed amendments to be considered is a tax abatement for all major developments in the Downtown, including new construction and renovations over a defined value, such as over \$25 million in construction value. For instance, the proposed amendments are not envisaged to provide abatements for small renovations to retail uses; the intent is to provide incentives to large-scale new buildings and renovations that are not currently covered in the Policy.

Financial Implications

If approved, the City would forego about \$1,600,000 of incremental taxes over a five-year period; the Province would forego about \$1,225,000 spread over a five-year period. Approving this request may also create a precedent for other projects that currently do not meet Policy.

The Incentive Program has included the abatement of both the municipal and educational portion of property taxes. As of January 1, 2018, approval from the Province is required to exempt or abate education property tax revenue that is \$25,000 or more for a single property or parcel of land in the tax year. Applications are submitted by the municipality and are considered under three main categories: Economic Development, Housing, and Non-Profit/Community-Based Organizations. According to the application, the goal is to inform the municipality of a decision within 15 business days. This decision may have an effect on any final value of the abatement for the Midtown Plaza.

Other Considerations/Implications

There are no environmental, privacy, or CPTED implications or considerations; a communication plan is not required at this time.

Due Date for Follow-up and/or Project Completion

The completion date for the Midtown Plaza renovation is late 2019. The property tax abatement, if approved, will begin the year following project completion and continue for five years.

Public Notice

Public notice, pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments

1. Location Map – Midtown Plaza
2. Proposed Site Plan for Midtown Plaza

Report Approval

Written by: Paul Whitenect, Manager, Neighbourhood Planning Section
Reviewed by: Lesley Anderson, Director of Planning and Development
Approved by: Randy Grauer, General Manager, Community Services Department

S/Reports/2018/PD/PDCS – VLAR Incentive Program – Midtown Plaza/ks/dh