

NO: **L005**

COUNCIL DATE: **June 17, 2013**

REGULAR COUNCIL - LAND USE

TO: **Mayor & Council** DATE: **June 17, 2013**
FROM: **General Manager, Planning and Development** FILE: **7912-0332-00**
SUBJECT: **Development Application No. 7912-0322-00 – PCI Developments Corp. -
City Centre Economic Investment Zone Incentives**

RECOMMENDATION

The Planning and Development Department recommends that Council:

1. Receive this report as information; and
2. Direct that the City Clerk inform PCI Developments Corp. by way of a letter that the City Centre Economic Investment Zone Incentive Program has expired and that the related incentives are not available for the development contemplated under Development Application No. 7912-0322-00 and that the letter include a copy of this report and Council's resolution related to this report.

INTENT

At its Regular Council - Land Use meeting on May 27, 2013, Council considered a planning report related to Development Application No. 7912-0322-00 for a Rezoning, Development Permit and Development Variance Permit to permit the large-scale redevelopment of a site located at 13730 Fraser Highway and in the 9900 Block of King George Boulevard. The project is a very large multi-phased mixed use project. Council also received on table at that meeting a letter, dated May 24, 2013 (copy attached as Appendix "A"), from PCI Developments Corp., the applicant, in which it was requested that Council approve the extension of the City Economic Investment Zone Incentive Program for the initial phases of the subject project.

At that same meeting, Council gave first and second readings to the related rezoning by-law, set June 17, 2013 as the date for the related public hearing and referred to staff for a report back to Council the letter from PCI related to the Economic Investment Zone incentives. This report responds to Council's request for a report on the Economic Investment Zone incentives.

BACKGROUND

Council introduced the Economic Investment Zone Incentive Program in 2009 to stimulate the economy following the 2008 economic collapse. The conditions attached to the City Centre Economic Investment Zone incentives for commercial projects stipulated that for a project to be eligible a development application had to be received by the City by March 31, 2010, the related

project was to have a construction value in excess of \$10 million and construction on the project was to commence by December 31, 2010 (see Appendix "B").

In March of 2010, Council resolved to extend the Economic Investment Zone Incentive Program for an additional year. Under the extension for a commercial project to be eligible for the City Centre incentives an application for the project had to be received by the City by March 31, 2011, the construction value of project was to be in excess of \$10 million and construction of the project was to commence by December 31, 2011 (see Appendix "C").

The Economic Investment Zone Incentive Program (the "Incentive Program") was not extended beyond 2011. As such, based on the criteria attached to the Incentive Program development applications received by the City after March 31, 2011 are not eligible for the related incentives. Although PCI Developments Corp. representatives were in conversation with City staff during 2011 and 2012 about their proposed project, the subject development application by PCI Developments Corp. (PCI) (Development Application No. 7912-0322-00) was not received by the City until December 3, 2012.

City staff informed PCI representatives at various meetings prior to August 2012 that the Economic Investment Zone Incentive Program was no longer available for projects.

On August 13 2012, PCI forwarded a letter (Appendix "D") to Mayor and Council that provided a description of their proposed project, for which the City at the time had not yet received a formal development application, and requested an extension of the Incentive Program to their project. The letter also included a list of other proposed accommodations that were being requested of the City and included a statement that the requests were critical to the viability of their project. No formal response was provided by the City to this letter from PCI; however, the matter was discussed informally between staff and PCI on several occasions with staff advising PCI that the Program had lapsed. Staff can find nothing on file that would indicate that PCI was informed that the subject Incentive Program would be available for the subject project.

In its letter to Mayor and Council, dated May 24, 2013 (see Appendix "A"), as referenced in the Intent section of this report, PCI reiterated formally its request for the City to approve the following elements of the former Incentive Program for their project:

- A 50% reduction in the Building Permit fees for Phases A & B of the project (see PCI - King George Station Master Plan attached as Appendix "E") as long as construction commences prior to December 31, 2014; and
- Waiving the property taxes for each of three consecutive years on Phases A & B (see Appendix "E") of the project as long as construction commences prior to December 31, 2014.

DISCUSSION

The considerations that need to be assessed in relation to PCI's request include:

1. The criteria that were listed in the Incentives Program;
2. Information that was provided by the City to PCI regarding the availability of the Incentives Program for their project;

3. Information that has been provided by the City to others regarding the availability of the Incentives Program for other contemplated projects in City Centre;
4. The principles underlying the original Incentives Program; and
5. Potential spin-off effects of a decision to extend the Incentive Program.

The following provides some commentary on each of these considerations:

1. The criteria that were listed in the Incentives Program

The criteria as listed in the original Incentives Program of 2009 that terminated in 2010 and the criteria that were listed in the extension of the Program that terminated in 2011 do not cover the PCI project. Specifically, the criteria require that the application for an eligible project must be made by March 31, 2011, that the construction value for the project must exceed \$10 million and that construction on an eligible project must commence by December 31, 2011. The only element of these criteria that is satisfied by the PCI project relates to its construction value exceeding \$10 million.

2. Information that was provided by the City to PCI regarding the availability of the Incentives Program for their project

Despite PCI having made requests on a number of occasions that the City extend the Incentive Program to their project, based on a review of the City's records, the City has made no commitment to PCI regarding the availability of the Incentive Program for the subject project. PCI has advised that they received verbal advice from a staff person that the incentives would be available, but this is not consistent with staff's recollections.

3. Information that has been provided by the City to others regarding the availability of the Incentives Program for other contemplated projects

City staff has consistently advised prospective development applicants that the Incentive Program is no longer available. To extend the Incentives Program on a project-by-project basis is not considered to be equitable in the context of the development industry's interests of competing on a level playing field.

4. The principles underlying the original Incentives Program

The Incentive Program was put in place to address the severe impacts that were experienced in the market as a result of the 2008 economic downturn and were directed toward maintaining development momentum in the City Centre and South Westminster areas while the general economy recovered. The City Centre area is now attracting significant development interest without incentives.

5. Potential spin-off effects of a decision to extend the Incentive Program

There are currently a number of large-scale projects at various stages of the approval process in City Centre. The extension of the Incentive Program to the PCI project would likely spawn similar requests from these other projects, which include:

- Rize Alliance: Wave Project residential tower 1, permit issued in May 2013, value of construction \$44,525,632;
- Concord Pacific: Park Place residential towers 4 and 5 (Building permit stage); value of construction estimated at \$159,186,000;
- Bosa Properties: residential tower, commercial and church project (at third reading); value of construction estimated at \$45,000,000; and
- Century Developments: 3 Civic Plaza residential, retail commercial, office, hotel tower (final rezoning approved); value of construction estimated at \$150,000,000.

It would be difficult to justify providing incentives to one project in an active market without setting a precedent for other projects in the same market.

Estimated Value of the Incentives under the Incentives Program

The following lists the incentives for which PCI is requesting City consideration in relation to the subject project and the value of those incentives if they are extended to the project:

1. A 50% reduction in the Building Permit fees for Phases A & B (see Appendix "E") of the project as long as construction commences prior to December 31, 2014

Building permit fees amount to approximately 0.8% of the construction value of a large project. Phase A of the PCI project includes an office building with a floor area of approximately 200,000 sq. ft. along with an underground parking facility. This phase is estimated to have a construction value of \$90 million. The building permit fee for this phase is estimated to be approximately \$700,000. A 50% reduction in the building permit fee for this phase would amount to approximately \$350,000. Phase B involves the construction of a retail commercial development with a floor area of approximately 560,000 sq. ft. and a residential tower amounting to 200,000 sq. ft. along with an expanded underground parking facility. The retail commercial component of Phase B is estimated to have a construction value of \$200 million. The residential component of Phase B has an estimated construction value of \$50 million. The building permit fee for the retail commercial component of Phase B is estimated to be approximately \$1.6 million while the building permit fee for the residential component is estimated to be \$400,000. A 50% reduction in the building permit fee for the retail commercial component of Phase B would amount to \$800,000 and for the residential component would be \$200,000. Collectively, the construction value of Phases A and B combined is estimated to be \$340 million. The building permit fee for both phases combined would amount to approximately \$2.7 million. A 50% reduction in the building permit fee for both phases combined would amount to \$1.35 million. The following table summarizes the above information:

Phase	Estimated Construction Value	Estimated Building Permit Fee	50% of Estimated Building Permit Fee
A	\$90 million	\$700,000	\$350,000
B - retail commercial	\$200 million	\$1.6 million	\$800,000
B - residential	\$50 million	\$400,000	\$200,000
Total	\$340 million	\$2,700,000	\$1,350,000

2. Waiving the property tax for each of 3 consecutive years on Phases A & B (see Appendix "E") of the project as long as construction commences prior to December 31, 2014.

The municipal portion of property taxes for an office/retail commercial development amount to approximately 0.67% of the construction value of the development per year (based on 2013 property tax rates) and the residential amount to approximately 0.226% of the construction value of the development per year (based on 2013 property tax rates). As such, using the construction values noted in 1 above the waiver of the municipal portion of the property taxes for each of Phases A and B is documented below:

Phase	Estimated Construction Value	Property Tax Rate per \$1000 of Assessed Value per year (2013 rates)	Estimate Annual Property Taxes	Est. Total Property Taxes Payable over 3 years
A	\$90 million	\$6.70	\$603,000	\$1,809,000
B - retail commercial	\$200 million	\$6.70	\$1,340,000	\$4,020,000
B - residential	\$50 million	\$2.26	\$113,000	\$339,000
Total	\$340 million		\$2,056,000	\$6,168,000

General Comment

Staff recognizes that the value of the incentives as requested by PCI are significant in relation to the costs of the subject project; however, the Incentive Program has expired and there is no evidence in the City records of the City having made any commitment to PCI regarding the availability of such incentives for their project. If the incentives are extended to the PCI project it will set a precedent in relation to other developments that are active in the City Centre area. It is noted that Phase A of the PCI project is exclusively commercial/business space while Phase B is a mixed use phase that includes commercial business space and a residential tower. The other projects that are underway in City Centre as noted above are mixed use or predominantly residential projects.

If Council decides to extend the Incentive Program to the PCI project, Council should direct staff to draft an agreement that will specify the basis under which the incentives will be provided and forward such an agreement to Council for consideration and approval.

CONCLUSION

Based on the above discussion it is recommended that Council direct that the City Clerk inform PCI Developments Corp by way of a letter that the City Centre Economic Investment Zone Incentive Program has expired and that the related incentives are not available for the development contemplated under Development Application No. 7912-0322-00 and that the letter include a copy of this report and Council's resolution related to this report.

Original signed by
Jean Lamontagne
General Manager,
Planning and Development

JLL:saw

Attachments:

Appendix "A" - Letter from PCI Developments dated May 24, 2013

Appendix "B" - City Centre Economic Investment Zone Incentive Program Criteria

Appendix "C" - City Centre Economic Investment Zone Incentive Program Extension Criteria

Appendix "D" - Letter from PCI Developments dated August 13, 2012

Appendix "E" - PCI Developments - King George Station Master Plan (Dev. Ap. No. 7912-0322-00)

**PCI DEVELOPMENTS CORP.**1700 - 1030 West Georgia Street
Vancouver, BC
Canada V6E 2Y3604 684 1151 tel
604 688 2328 fax
www.pci-group.com

May 24, 2013

Mayor & City Council
City of Surrey
14245 – 56th Avenue
Surrey, BC
V3X 3A2**Via Email**

Dear Mayor and Council,

Re: King George Station – King George Boulevard and Fraser Highway
File: 7912-0332-00

PCI has worked with the City of Surrey on a comprehensive development plan for 10 acres of land adjacent to the King George SkyTrain Station. Our mixed use, office, retail, and residential development will support Surrey's vision of a strong and vibrant downtown and will be integrated with two future transit lines. King George Station represents a phased private sector investment, of over 1,900,000 square feet with first-phase A – the Coast Capital Savings Building. Most importantly, the first 3 phases are commercial and provide 3 significant office buildings in Surrey's new downtown core. These job spaces are essential for your vision of a diverse and vibrant core. Residential and institutional development alone will not provide the necessary impetus.

We project there will be approximately 1,100 office jobs in phase A and the larger phase B will house over 1,600 office jobs and could include 300 purpose built rental housing units as well as many positive benefits of the retail components. Our plan (enclosure # 1) includes significant land dedications including roads, bike lanes, and the provision for the LRT alignment along the northern boundary of our property and support for your District Energy System. Our land dedications are approximately 27% of the site for transportation infrastructure, the construction of the LRT Station and LRT track bed as a partner with Surrey's transit plans and land for the DES.

We first made enquiries on our project in 2011, and in 2012 detailed plans took shape. During our ongoing discussions with the City of Surrey, we were encouraged to seek out incentives provided in the Economic Incentive Program. We formally requested these incentives in a letter to Mayor and Council in August 13, 2012 (enclosure # 2) and we identified the importance of these development incentives with "*...challenging economics for commercial space*".

On September 13, 2012, our project team met with Surrey Staff on a number of issues, including the economic incentives in our August 13, 2012 letter (no other response was received). At this meeting, we were advised by Surrey Staff that some aspects of the economic incentive plan may be accommodated as follows:

1. Building Permit Fee Reduction of 50%
2. Property Tax Exemption
 - a. Applicable to commercial improvements only (not residential)

- b. Exemption may only be 3 years (not 5 years) with specific dates as to when construction would need to start to qualify; and
 - c. Applicable only to the municipal portion of the property taxes.
3. Development Cost Charge Reduction of 33%
- a. This incentive could not be provided by Surrey but alternative comparable options would be investigated as a means of providing an incentive.

The impression was that implementing these incentives would be more fully developed through the development application process. The City position in these incentives was documented in an internal PCI email.

On December 3, 2012, we submitted our Rezoning application and a Development Permit for our first phase (Coast Capital Savings Help Headquarters). Our letter of that date, and copied to Council, again emphasized the importance of the incentives (enclosure # 3).

On March 20, 2013 and then again on March 27, 2013 (enclosure # 4), we emailed to the City Manager requesting a meeting on the incentive programs which occurred on April 15, 2013, then for the first time, we learned of the possibility that the incentives might not be available.

On April 29, 2013, we received a letter (enclosure # 5) informing us that construction would have had to commence by December 31, 2011 to be eligible for the incentive program; therefore no incentives were available. This response ignores our letters of August 2012 and December 2012, and staff guidance of September 2012. If the answer about the availability of the incentives was that simple, why was this response not sent much earlier?

We felt we had been misled and on April 30, 2013, we requested the matter be reconsidered due to its importance for our office development (enclosure # 6). In the interests of expediting a resolution on May 9, 2013, we wrote to both Jean Lamontagne and Vince Lalonde on several outstanding issues including the incentives. In this letter, we offered a compromise proposal focusing on the important first two office commercial phases. The relevant page is enclosed (enclosure # 7).

We proposed:

- o 50% Building Permit fee reductions for phases A & B as long as construction commences prior to December 31, 2014.
- o Property tax waivers for each of 3 years on phases A and B as long as construction commences prior to December 31, 2014.

Phase A - the Coast Capital Office Building – is to start first and phase B is retail and office with the possibility of a purpose built rental residential component. These two phases represent significant office and commercial development, and rental housing, all of which are vital to the success of a vibrant new downtown for the City of Surrey.

We feel that we have been misled on the incentives. If the programs were not available, Surrey should have told us that in response to our August and December letters – instead we were led to believe they were available. If this was an error, Surrey had many opportunities since September to correct our



understanding. Of particular importance to us would have been to know this prior to December 2012 when we completed our lease with Coast Capital and when we removed conditions to purchase the property. We also should have known prior to April 29, 2013 when we were negotiating the package of municipal obligations with Surrey Staff.

This is not an issue we left silent - we wrote 4 letters and 2 emails including to Mayor and Council and we received verbal guidance from Staff. Virtually every decision and agreement with City Staff over the last 6 months are only now being put to paper, and we have relied on those in good faith.

We hope City Council will see our compromise proposal as a resolution that most importantly promotes commercial development - job space - in Surrey's downtown but also fixes an issue that we believe has been poorly handled.

Yours truly,
PCI Developments Corp.

A handwritten signature in black ink that reads 'Andrew Grant'. The signature is stylized, with a large 'A' and a long horizontal stroke at the end.

Andrew Grant
President
Direct: (604) 331-5212
agrant@pci-group.com

cc: Murray Dinwoodie, City Manager – City of Surrey
Jean Lamontagne, General Manager – City of Surrey, Planning & Development
Gary Gahr, Senior Planner - City of Surrey, Planning & Development
Vincent Lalonde, General Manager – City of Surrey, Engineering

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New Economic Investment Zones

To encourage new investment and job creation in Surrey's City Centre and in the Bridgeview and South Westminster areas, the City has designated these areas as Economic Investment Zones. The following incentives will be available for new investment in these Zones:

CITY CENTRE ECONOMIC INVESTMENT ZONE:**Business-Related Development Applications:**

For business-related projects for which an application is received by March 31, 2010, which has a construction value in excess of \$10 million and for which construction commences by the end of 2010:

1. Elimination of municipal property taxes for a three year period from completion of construction;
2. Reduction of development cost charges (DCCs) by approximately 33% compared to current rates;
3. Deferral of the payment of DCCs to a later stage in the building approval process than is currently allowed;
4. Reduction in building permit fees by 50%; and
5. Waiving of the City's density-bonus policy.

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Economic Investment Zone Extension

The Economic Investment Zones that were announced in 2009 will be extended for an additional year through to March 31, 2011. This includes the Economic Investment Zones for each of City Centre and Bridgeview/South Westminster, which provide incentives to encourage investment in each of these important areas.

CITY CENTRE INVESTMENT ZONE Business Development Projects valued greater than \$10m

1. No Property taxes for 3 years
2. DCC's Reduced by 30%
3. Deferred DCC Payments
4. Building Permit Fees Reduced by 50%
5. Density-Bonus Waived

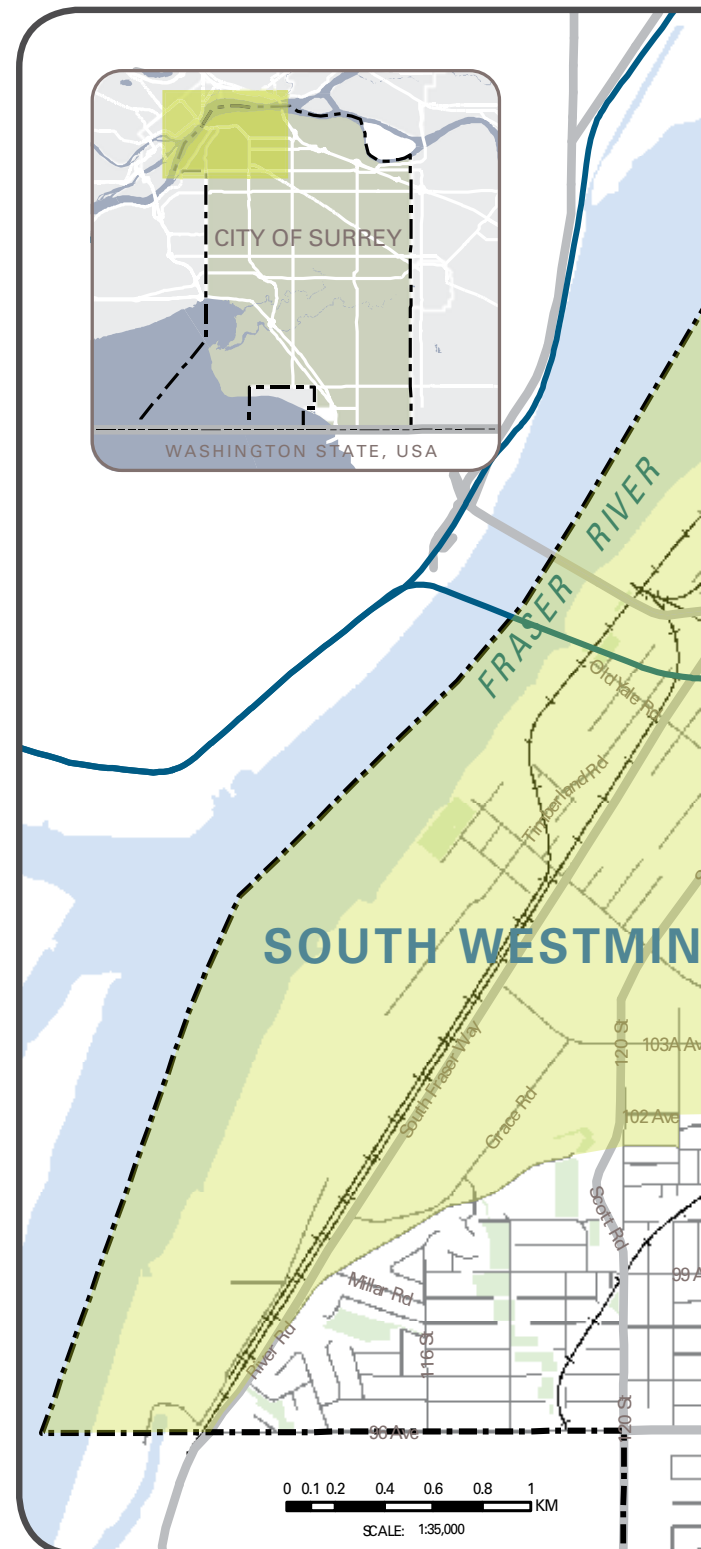
High density residential projects valued greater than \$25m

1. Deferred DCC Payments
2. Building Permit Fees Reduced by 50%
3. Density-Bonus Waived

BRIDGEVIEW/SOUTH WESTMINSTER INVESTMENT ZONE

Projects valued greater than \$5m

1. No Property Taxes for 3 years
2. Deferred DCC Payments
3. Building Permit Fees Reduced by 50%





August 13, 2012

Mayor Dianne Watts & City Council
City of Surrey
14245 – 56th Avenue
Surrey, BC V3X 3A2

Dear Mayor & Council,

Re: **King George Station Lands - Development Incentives**

Over the past 16 months we have been engaged in extensive development planning for our contemplated development on 10 acres of land immediately adjacent to the King George SkyTrain Station. Our development would provide for over 1,530,000 square feet of office, retail and residential area. Along with a significant residential component of over 800,000 square feet (1,100+ units), the development would feature over 330,000 SF of retail area and over 400,000 SF of office area within an urban village, High Street oriented concept. We believe that this significant commercial component and concept will have a particularly positive impact on downtown Surrey's development by activating the street front, which in turn will create vibrance and enhance security through "eyes on the street", as well as providing essential high quality employment space amidst a constrained supply of such commercial area. Please find our current site plan and preliminary renderings enclosed for your reference.

During this planning phase, we have worked extensively with the City's Planning & Engineering departments, TransLink and related consultants to devise a satisfactory road and transit alignment over a significant portion of our site area to accommodate Surrey and TransLink's future objectives (most notably reduction of oversized city blocks and accommodation of 2 new transit lines and stations).

We are planning on submitting our formal rezoning application within the next 60 days to allow for commencement of construction by late Fall 2013. However, we will not be able to proceed unless our development is economically viable. Particularly given uncertain current market conditions and the challenging economics for commercial space, particularly office, in downtown Surrey, it is critical to our ability to be able proceed with our contemplated development that we be extended key incentives to support the viability of our project in this developing node. As such, we very much appreciate your consideration of the following proposed accommodations:



Incentives previously offered under City of Surrey Economic Action Plan – City Centre Investment Zone:

1. **Property Tax Incentive Program** - Downtown Surrey Business Improvement Association Tax Exemption Program whereby property taxes would not be applicable to constructed improvements for 5 years.
2. **Development Cost Charge: 30% Reduction and Deferral** - 30% DCC reduction and deferral of certain charges.
3. **Building Permit Fees: 50% Reduction**
4. **Waiver of Density Bonus** - no additional payment or community charge on account of additional density awarded through rezoning.
5. **Accelerated Rezoning & Development Approval Process** – in keeping with the City's Red Tape Reduction initiatives and in consideration of the importance of on-time delivery to our prospective tenants, we are hopeful that the City will place a high degree of priority on our applications to ensure they are reviewed in a most efficient and expedient manner. We expect to submit our application in September/October of this year and need the zoning process to be completed by June 2013.

Additional accommodations:

- **Parking** – We intend to provide commercially supportable parking, including a significant Park & Ride component. Our parking provision will be reasonably arrived at taking into account the demands of the various uses on site, as well as input from the City. Strict application of the bylaw will not be appropriate, so flexibility will be required of all concerned and we expect no payment in lieu or other additional related charges.
- **Compatible zoning and road alignment to accommodate community initiative on southeastern outparcel** – our property includes two small outparcels southeast of the property. For the parcel across Fraser Highway, we are planning to develop a community facility for a yet to be determined use serving the community. Considering all of our anticipated land dedications, we request accommodation of this land use.
- **District Energy** – we congratulate Mayor & Council for your leadership in this endeavour. We have direct experience with three separate district energy systems on past projects, 2 of which are municipally operated. Our strong preference is a private sector, British Columbia Utilities Commission (BCUC) regulated model.
- **Marketing Downtown Surrey** - King George Station should be included in marketing efforts by the city of Surrey relating to its downtown and developing City Centre.
- **More stringent enforcement of off-site parking restrictions** – at present, particularly along Fraser Highway, parking regulations are not being adequately enforced, which is supporting a large number of illegally parked cars to adversely impact traffic patterns and revenue generated from Park & Ride stalls on our property.



As you can appreciate, a development of the nature and scale we are contemplating in a developing market such as downtown Surrey carries a significant amount of risk, particularly in terms of commercial absorption. Should the above accommodations be provided, they will play a very significant role in making this development a reality.

We are very excited about this project and believe that it will significantly contribute to the ongoing development of downtown Surrey, and make a very meaningful and positive impact on the downtown core of Canada's next great metropolitan city.

Yours truly,
PCI Developments Corp.

Andrew Grant
President

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Dan Turner
Senior Vice President

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cc: Jean Lamontagne, General Manager – City of Surrey, Planning & Development
Gary Gahr, Senior Planner – City of Surrey, Planning & Development
Elizabeth Model, Executive Director – Downtown Surrey BIA
Mark Whitehead, Project Architect – Musson Cattell Mackey (MCM) Partnership

MCM



PCI

04-18-2013 ADP SUBMISSION
 03-27-2013 ADP SUBMISSION
 03-18-2013 REVISED FOR CUE REVIEW
 REVISIONS

MUSSON
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 MACKEY
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KING GEORGE
 STATION

KING GEORGE BLVD.
 SURREY, BC

MASTER PLAN
 LEVEL 02
 PHASES A, B, C, D

FILE # 7912-0332-00

SCALE: 1"= 40'-0"

DATE: APRIL 18, 2013

DRAWN: AC

REVISION:

PROJECT: 211011.02

SHEET: A05

