EVALUATION OF THE CITY OF VANCOUVER'S HERITAGE DENSITY TRANSFER SYSTEM

PREPARED FOR: CITY OF VANCOUVER

CORIOLIS CONSULTING CORP.

30 OCTOBER 2002

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SUMMARY

The City of Vancouver retained Coriolis Consulting Corp. to evaluate the transferable density system, identify ways to improve the system, and suggest ways to mitigate any negative impacts that might result from increasing the range of eligible heritage properties.

SUMMARY OF MAIN FINDINGS

1. Vancouver's density bonus and transfer system has been successful. Property owners and developers who have been involved in the system have a variety of suggestions for improvement, but most believe it is fundamentally a good system.
2. There are still many heritage properties that are eligible for density bonuses under the existing policy and the City is considering expansion of the program to other areas. The City has an interest in ensuring that the program continues to be well-used and in improving the system so that more heritage properties will benefit.
3. One of the system's strengths is the flexibility that flows from the open market for transferable density. However, this carries an inherent risk that at any given time the supply of space available for sale and the demand for the space are out of equilibrium, which can affect price. Falling prices for transferable density have two impacts:
   - Owners of heritage properties may be reluctant to use the system if they anticipate that the transferable density is a deflating commodity.
   - Lower prices mean the City must grant larger bonuses to provide enough incentive to allow heritage rehabilitation projects to proceed.

   The greatest risk is the possibility that an increasing bank of unsold space will deflate price and result in heritage owners being unwilling to participate in the program.
4. The balance between the supply and demand in the market will to some extent be self-regulating in the long term, but there is always a risk of short term imbalances.

5. The most important task for the City in the management of the system is to monitor the size of the density bank and the price of transferable space, to detect signs of a backlog and to take action to address emerging problems.

RECOMMENDATIONS

1. The City should improve its monitoring of the density transfer market for any signs that a backlog is building and that price is declining. Early identification of price declines will allow the City to take action to manage the creation of additional supply.
2. There are some administrative improvements the City can make without changes to existing planning, heritage, or urban design policies. These improvements could be implemented almost immediately:
   a) Publish clear instructions and guidelines regarding the creation, acquisition and use of transferable density.
   b) Maintain a publicly accessible data base showing the density available for purchase, the vendors of this density, and contact information.
   c) Actively market the program to developers.
   d) Market the program at the community level so that residents understand that higher densities in some projects produce heritage benefits.
3. If the City determines that a significant backlog of space is accumulating and that the value of transferable density is declining, the City should be prepared to take action to manage the system. If the market shows signs of being far out of equilibrium, the City could consider these kinds of responses:
   a) Implement a temporary moratorium on additional heritage density bonuses to slow the rate of accumulation of unsold inventory.
   b) Define priorities and criteria for eligible heritage buildings so transferable density bonuses are focused on the higher priority buildings.

c) Consider setting annual limits or targets on the total amount of space to be approved for transfer, in total or by area.

d) Prioritize locations to be added to the policy area or add new areas incrementally.

4. The City should consider policy changes that could increase the demand for transferable density. It may be that the City, the development industry, and the community only find some of these acceptable, so these should be characterized as ideas to consider rather than firm recommendations:

   a) Eliminate the DCL charges on heritage density incorporated into a project.

   b) Explore opportunities to expand the range of receiver sites to locations outside the existing policy area. The aim would be to find portions of the City where there would be demand for additional space and where density increases would be compatible with the existing community.

   c) Allow developers to obtain a bonus for a heritage density transfer in addition to bonuses from amenity or social housing bonus provisions. The total density of a project would have to be subject to urban design considerations.

   d) Expand the range of potential purchasers of density. At present, a purchaser must be a person (or company) who owns a receiver site and who then directly transfers the density from the source to the receiver property. Two other kinds of purchasers are possible:

      - Developers who do not yet own a suitable receiver site but want to have a small pool of density available for an upcoming project.
      - "Third parties" interested in buying and holding density as an investment.

   e) Examine opportunities to make it easier for receiver sites to incorporate transferable density and consider increasing the amount of density that can be added to individual sites. In considering and approving the final density of a project, the City must obviously consider many factors including urban design. There may be circumstances in which the benefits of heritage preservation merit minor tradeoffs in other factors. Policy shifts the City could consider include:

- Examine whether in some locations or zoning districts the urban design guidelines could be revisited so that a receiver site can usually achieve the full permitted FSR plus the 10% increase for a heritage density transfer.
- Investigate whether the approvals process for obtaining heritage density increases could be streamlined. The objective should be to give applicants a quick decision on the likelihood of approval.
- Raise the permitted density increase above 10% at receiver sites in some locations and/or make the permitted increase outright. This probably would not be acceptable on a "system-wide" basis, but there may be some locations in which these changes produce acceptable tradeoffs with regard to urban design considerations.
- Make existing CD-1 sites eligible for the 10% bonus without rezoning.

f) Require that a portion of the additional density granted in a rezoning (or for some types of rezonings) be purchased from the heritage density bank.

g) Create a formal density bank. Some jurisdictions buy the density that they create and then sell it to developers. This creates an immediate market for the density, but transfers all the risk from the property owners to the City.

h) Consider making other incentives available to heritage building owners, at least in some areas, to reduce the dependence on transferable density.

1.0 INTRODUCTION

1.1 BACKGROUND

The City of Vancouver uses a variety of approaches to encourage or assist private property owners to maintain and improve heritage buildings.

Because the restoration of historic buildings is expensive and because many heritage buildings occupy sites with redevelopment potential, the City has developed an incentive program to make rehabilitation financially attractive[1] to land owners and developers.

The principal incentive the City provides is the granting of additional or bonus development rights and allowing the transfer off-site of residual development rights in exchange for the retention and upgrade of heritage buildings.

The density bonus and transfer system works like this:

1. The owner of a heritage property and the City agree on the value of financial incentive that is needed to make rehabilitation/retention as attractive to the property owner as redevelopment.
2. The owner and the City then agree on the amount of development rights that the property owner must be able to use or sell to generate the needed incentive. For example, if the required incentive is $1.0 million and development rights are agreed to have a value of $25 per square foot, the required incentive is 40,000 square feet.
3. Depending on the physical characteristics of the site (particularly whether or not the site can accommodate the heritage building and new floorspace) and the existing

[1] The City aims to make retention/rehabilitation of a heritage building as financially rewarding as redevelopment.

zoning (particularly whether the site has residual or unused development rights[2]), the City and the owner agree on an arrangement that could include:

- The granting of bonus floorspace (i.e., above the density allowed under zoning) to be developed on site in conjunction with the retention of the heritage building.
- The right to transfer unused or residual density to other sites.
- The granting of bonus floorspace that can be transferred to other sites.

The system, therefore, produces transferable floorspace[3] which the heritage property owner can sell on the open market to owners of other properties who are able to use the extra floorspace in a development project. Owners may sell the transferable density to one "receiver" site or sell it in portions to several sites. Owners may sell the density immediately or hold it to sell in the future. The price of transferable density is negotiable between the buyer and seller and therefore can fluctuate depending on how much is available for sale (supply) and how many developers are looking for extra density (demand).

The system has operated in this way since 1993. The system currently applies to heritage properties in Downtown, the West End, Central Broadway and Chinatown.

The City is considering extending the transferable density system to include Gastown, the Downtown Eastside Oppenheimer District (DEOD), First Shaughnessy, heritage interiors, and downtown sites that were designated for heritage without financial compensation (prior to 1983)[4].

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2 Residual or unused development rights equals the total floor area allowed under existing zoning less the floor area of the existing improvements.

3 Which may be bonus density, residual density or a combination.

4 The City indicated that it is prepared to consider transferable density bonuses for sites that have already been designated if the owner makes an additional heritage contribution (e.g., heritage interior).

Increasing the number of eligible heritage properties could result in an increase in the amount of transferable density that is created and available on the market. This, of course, is good provided supply and demand remain in equilibrium and the value of the transferable density does not significantly decrease. If the value falls, larger bonuses will be needed to provide adequate incentives.

Therefore the City commissioned Coriolis Consulting Corp. to evaluate the transferable density system and analyze the implications of expanding the system to more heritage properties. The City is interested in finding ways to improve the system and in identifying (and mitigating) any negative impacts that might result from increasing the number of eligible heritage properties.

1.3 APPROACH

One of the objectives of this study was to provide input to the Gastown Heritage Management Plan during early 2002. Therefore, we completed most of the research and analysis for this study during the first half of 2002. As a result, all of the analysis of historic trends in this report is up to April 2002, the most recent data available at the time of the analysis. However, the report also includes more recent information (as of September 2002) on state of the density bank and on policies that have been adopted as part of the Gastown Heritage Management Planning process.

This study includes:

- Review of the existing system and relevant policies as of April 2002.
- Review of the historic performance of the system (up to April 2002).
- Interviews with individuals that have been involved in transfers, such as developers, architects and realtors that have brokered the sale of transferable density to obtain input on the effectiveness of the existing system and opportunities to improve the system.

- Evaluation of the main factors that influence the market value of transferable density.
- Review of density transfer policies in other North American jurisdictions.
- Forecast of the potential future demand and supply of transferable density in the existing policy area and the implications of expanding the range of eligible heritage sites.
- Identification of concerns or problems.
- Suggestions for improvements to the system.

2.0 THE EXISTING SYSTEM

2.1 TERMS

The following terms are used in this report:

bonus density: development rights in addition to the rights under existing zoning, granted by the City to a property owner in exchange for providing an amenity, such as the retention of a heritage building.

residual density: on a given site, the difference between the total density allowed under existing zoning and the floor area of the existing improvements. In other words, the unused portion of the density allowed on a site.

transferable density: the total amount of development rights (measured in terms of floorspace) that a property owner is entitled to sell to another property. Transferable density may be bonus density, residual density, or a combination.

density bank: the amount of transferable density that has been approved by the City but has not yet been transferred from the original heritage site to development sites. The "bank" is not a real entity that controls, buys, or sells density. It is simply the term used to mean the inventory of unsold development rights that have been granted to heritage property owners.

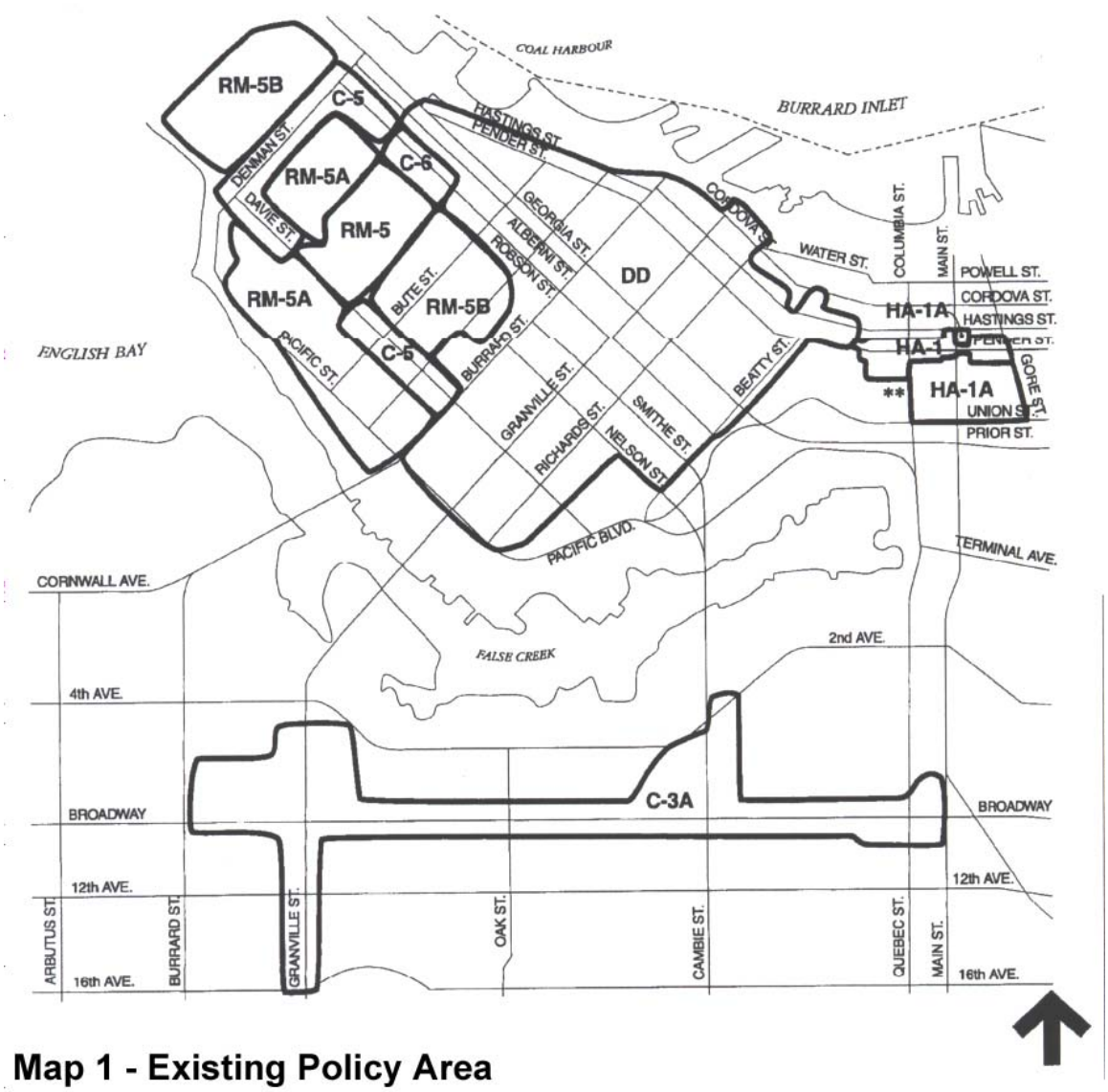
source site: a heritage property that has been granted the right to transfer density. These properties are sometimes called "donor" sites, but this is misleading because transferable density is sold, not donated.

receiver site: a development site that acquires transferable density from one or more source sites.

2.2 STRUCTURE AND PROCEDURES

2.2.1 Source Areas

The City of Vancouver's transfer of density policies for heritage preservation apply to the geographic area outlined on Map 1 (as of May 2002). Eligible source sites (heritage buildings) can be located in the West End, Downtown, Central Broadway and Chinatown.



Map 1 - Existing Policy Area

Transfer of Density Areas* for Heritage Preservation

* incorporating CD-1 zoned sites within the area boundaries
** heritage density may be transferred away from but not into the HA-1 and HA-1A Districts.

Note: Policy area as of May 2002.

2.2.2 Receiver Areas

The City has designated a policy area, comprised of the West End, Downtown and Central Broadway, within which all sites (except those zoned CD) are potentially eligible receivers of transferable density[5]. Within this policy area density can be transferred to any site that can meet the City's urban design objectives, expressed in zoning guidelines and policy. The transfer can "cross" zoning boundaries, meaning that density originating at a heritage site can become residential, commercial or institutional depending on the zoning of the receiver site, regardless of the zoning of the source site.

Outside this policy area, heritage density transfers can occur if the source and receiver sites are not separated by a zoning district boundary or by a use, height, or density boundary in a Official Development Plan.

2.2.3 Creation of Transferable Heritage Density

The process starts when an interested heritage property owner approaches the City to negotiate a deal for transferable development rights.

The owner presents a financial analysis that shows land value assuming redevelopment and land value assuming retention/rehabilitation of the historic building. The shortfall is the amount of incentive that must be provided in the form of bonus development rights. The City evaluates the financial analysis, negotiating with the owner to arrive at a set of numbers that both parties regard as reasonable under current market conditions.

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[5] CD zoned sites are excluded (unless the CD Zone for a site explicitly enables density increases) because the CD rezoning and development approval process involves detailed urban design and architectural work to determine the siting, height, and massing of buildings, so it is unlikely that additional space transferred from the heritage density bank can be incorporated on-site.

The City of Vancouver enters into an agreement (Heritage Revitalization Agreement) with the heritage building owner. The HRA outlines the duties, obligations and benefits of both parties. Terms can include the granting of bonus density to help fund preservation of the heritage building. In cases where it is demonstrated that residual and/or bonus density cannot be used on the heritage site, the HRA can include a provision to allow a property owner to transfer the density. In return, the building owner is required to rehabilitate and/or upgrade the building and to provide continued maintenance of the building.

If density is approved for transfer off-site, the transferable density can either be sold in one block to one receiver site or sold in multiple transactions to various sites. A development limitation covenant registered on the title of the heritage property records the amount of density available to transfer. As density is transferred off-site, the covenant is amended to reduce the permitted transferable density at the heritage property. The City of Vancouver refers to the method of holding transferable density at the source site through a development limitation covenant as the "density bank".

In Vancouver's system, transferable density can only be held by the original source or sold directly to a receiver site. Development rights cannot be owned by a third party because the rights are not allowed to exist as an independent asset unlinked to a parcel of land.

2.2.4 Transferring Heritage Density to a Receiver Site

Within the policy area boundaries, heritage density can be transferred to any property (excluding Chinatown and CD-1 sites) that can meet the City's urban design objectives. The transfer is not limited by zoning district boundaries or the use, height or density boundaries in the Downtown ODP.

The permitted FSR at a site that receives transferred density can be increased by up to 10% above existing zoning without having to rezone the site (through the development permit process). Beyond 10%, rezoning is required. As part of the approval process for a density increase, the receiver site must meet the City's urban design objectives and height limits.

The following sites are excluded as potential receiver sites for transferable heritage density, without rezoning:

- A site already receiving an increase in density due to the hotel bonus (up to 15%) available under the Downtown Official Development Plan.
- A site already receiving a density increase due to a previous heritage transfer.
- A site containing an SRO hotel, unless the units are secured or replaced.
- A site zoned CD-1, unless a provision is included in the CD-1 bylaw.

The above exclusions are regulatory. There are also practical reasons why some sites will not likely become receivers of transferable density. Obviously any site not already a candidate for redevelopment will not be in the market for additional development rights. Some sites, due to size and configuration, cannot physically accommodate additional space (and/or cannot accommodate the necessary parking) even though it might be allowable. For some sites, the unique site characteristics coupled with the City's urban design objectives makes it difficult to achieve all the density conditionally allowed under existing zoning, so there is no ability to take advantage of the 10% supplement.

2.2.5 City's Role in Transferring Density

The City is not a party to the financial transactions involving the sale and purchase of transferable density. The City is involved in the legal work associated with a Heritage Revitalization Agreement (HRA) and development limitation covenant at the source site.

As density is transferred, the City records the debit and credit of density in its "density bank". The density bank is recording procedure managed by the Planning Department (Heritage Conservation Program), which lists the amount and location of density for sale at any one time. The buyer of the density must obtain approval for its use at an acceptable receiver site as part of the development permit process, consistent with City policies and guidelines.

2.2.6 Transfer of Density for Other City Objectives

The transfer of density policy permits City Council to consider transfers for other civic objectives, such as the creation of public open space or park land. However, there has only been one transfer for non-heritage purposes. This involved a transfer of density from 901 West Hastings to the Bentall 5 site to create a public open space at the foot of Hornby Street.

2.2.7 Other Related Policies

The City uses density bonuses as incentives for developers to provide other types of amenities, such as cultural facilities or social housing. These bonuses are not transferable and must be used on the site on which the amenity is provided. Not being transferable, amenity bonus density does not complete directly on the open market with heritage density. However, the availability of amenity bonusing means that some development sites are removed from the pool of eligible receiver sites, because these sites already exceed the 10% limit on additional density.

3.0 EXPERIENCE WITH THE EXISTING SYSTEM

3.1 EXISTING SUPPLY OF TRANSFERABLE SPACE AND HISTORIC TRANSFERS

3.1.1 Existing Situation

Based on information from the City of Vancouver as of September 2002, there is about 368,000 sq.ft. of floorspace currently available for transfer from source sites. In addition, Council has supported in principle about 28,000 sq.ft. of transferable space at projects that are awaiting execution of Heritage Revitalization Agreements before the density is legally available for transfer. In addition, 158,000 sq.ft. of transferable space could be generated by projects currently in the approvals process.

In total, these source sites could yield a total current supply of about 554,000 sq.ft. of transferable space, if HRA's are approved for all of the sites. The space is summarized in the table below; a detailed list is contained in Appendix A.

Table 1

Summary of the Existing Supply of Transferable Density

Currently Available for Transfer	368,000 sq.ft.
Approved in Principle	28,000 sq.ft.
Subtotal Approved or in Principle	**396,000 sq.ft.**
In the Approvals Process	158,000 sq.ft.
Total Potential Transferable Space	**554,000 sq.ft.**
Source: City of Vancouver (September 2002)	

3.1.2 Historic Bonuses and Transfers

The history of heritage density bonuses and transfers since the program's inception in 1993 is summarized in the following tables.

Table 2

Summary of Approved Transferable by Year (all figures in sq.ft.)

Year	Address of Source Site	Building Name	Floorspace approved for Transfer (sq.ft.)
1993	900 Burrard	Electra	58,927
1993	750 Burrard	Former Library	196,824
1995	901 West Hastings	Next to Vancouver Club	140,000
1995	720 Jervis	Abbot House	15,793
1996	1200 Richards	Canadian Linen	36,457
1996	2750 Granville	Stanley Theatre	44,000
1997	440 Cambie	Edgett Building (AIBC)	35,000
1998	1200 Richards	Canadian Linen	6,275
2000	400 West Hastings	Royal Bank (Film School)	37,700
2000	211 Columbia		37,200
2001	3838 Cypress	Greencroft	38,500
2001	55 to 65 Water	Malkin Building	60,800
2002 (to April)[6]	626 West Pender	London Building	80,000
Total			787,476

Source: City of Vancouver (April 2002)

[6] All historic data in this evaluation is up to April 2002 as this was the most recent information available at the time of the analysis.

Table 3

Summary of Density Transferred to Receiver Sites by Year

Year	Receiver Site	Amount of Space (sq.ft.)
1993	750 Burrard	5,425
1994	1054-1098 Robson Street	20,750
	Rear Lot of 900 Burrard	38,177
1995	550 Burrard – Bentall 5	140,000
1996	1238 Seymour	9,000
1997	1001 Hornby – Wall Centre	6,170
	1762 Davie	10,375
	1128 West Hastings	4,141
	1238 Seymour	1,030
	564 Granville Street	8,400
	1001 Hornby – Wall Centre	44,000
1998	808 Bute	1,730
	1000 Robson	433
	1200 Hamilton	8,805
	1238 Seymour	260
	1001 Hornby – Wall Centre	144,355
	1068 Hornby	3,925
	1068 Hornby	1,130
	1221 Homer	10,500
	1200 Hamilton	14,408
	1001 Hornby – Wall Centre	35,000
1999	1238 Seymour	56.5
	885 West Georgia	1,689
	1128 West Hastings	1,100
	1177 West Pender Street	15,793
2000	1138 Melville	3,400
2001	401 Burrard	2,400
	928 Richards	515
	1085 Homer	18,000
2002 (to April)	1128 West Hastings	3,212
	1010 Richards	10,492
	1011 Richards	10,498
	828 Cardero	2,854
	Total	578,023.5

Source: City of Vancouver (April 2002)

Table 4 summarizes the amount of density approved and transferred each year and shows the unsold balance in the "bank" at the end of each year.

Table 4

Estimated Year End Density Bank Balance

All figures in sq. feet

Year	Density Approved For Transfer	Density Transferred	Year End Balance
1992	n/a	n/a	0
1993	255,751	5,425	250,326
1994	0	58,927	191,399
1995	155,793	140,000	207,192
1996	80,457	9,000	278,649
1997	35,000	74,116	239,533
1998	6,275	220,546	25,262
1999	0	18,639	6,624
2000	74,900	3,400	78,124
2001	99,300	20,915	156,509
2002 (to April)	80,000	27,056	209,453

The approval of transferable space totalled 707,000 square feet over 1993 to 2001, or about 78,000 square feet per year on average. Annual additions have varied significantly (from a low of 35,000 sq ft to a high of 196,000 sq ft) and additions tend to be created in large blocks.

Transfers during 1993 to 2001 totalled 551,000 square feet, on average of about 61,000 square feet per year. On average, purchases of density at receiver sites occur in smaller blocks than creations at source sites.

Two projects accounted for a large share of total transfers. Wall Centre (244,000 sq.ft.) and Bentall 5 (140,000 sq.ft.) bought roughly 70% of the entire transfers over 1993 to 2001. Excluding these two projects, annual take-up averaged about 18,000 square feet per year.

In all years except 1998 and 1999 the bank has had a significant balance of unsold space. There is no indication that absorption has been constrained by lack of available density for sale.

3.1.3 Value of Transferred Density

Sales information is not available for most of the density transfers that have occurred since 1993[7]. However, based on available information, transferable density has been sold at prices in the range of $21 to $38 per sq.ft. of buildable floor space.

Discussions with some purchasers, vendors, and individuals currently interested in buying or selling space indicate that most transactions have been the range of about $21 to $27 per sq.ft. buildable. Over the past year or so, the value of transferable density has been declining, with current market values near the lower end of this range.

In most parts of Downtown, the West End and Central Broadway, good quality development sites have land values in the range of $40 to $60 per sq.ft. buildable (and higher in some locations). Transferable density has therefore historically traded at prices lower than market land values in the receiver areas.

3.1.4 Factors Influencing the Value of Transferable Density

The price of transferable density is set on the open market between the buyers and sellers of the density. The City is not involved in setting the price and the price is not dependent on the location or the zoning of the source site. Essentially, the value of transferable density floats over time depending on market conditions, just as land values change over time.

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[7] These are private transactions not recorded in the Land Title Office.

Buying density is similar to buying land, from a developer's perspective, in that both transactions involve acquiring the right to develop new commercial or residential floorspace. The same factors that drive land value affect the value of transferable space. However, transferable density is a unique subset of the overall land market, with its own set of price determinants that can (and usually do) result in a difference between land values and transferable density values on per sq.ft. buildable basis. The factors affecting the price of transferable density include:

- The supply of transferable density. An increasing supply of density that is available for transfer can have a downward effect on the value of the density, assuming it is held by multiple parties. Alternatively, decreasing supply can have an upward influence on value.
- The overall demand for transferable density. High demand for transferable density at receiver sites should have an upward influence on the value of the density. Low demand should have a downward influence on value.
- The cost and perceived risk of receiving approval to use the transferred density on a receiver site. If developers perceive that there are costs or risks associated with the process to obtain approval to use transferred density, developers will discount the value of the density to reflect these risks and costs.
- The value of additional density at a receiver site. The market value of density at potential receiver sites varies depending on site location and land use. All other things being equal, developers of sites in high value locations should be willing to pay more for transferable density than developers of sites in lower value locations.
- The marginal additional construction costs of incorporating the transferable density in the development project at the receiver site. The lower the marginal cost of incorporating transferable density in a project, the higher the price that a developer should be willing to pay. Alternatively, if increased floorspace results in significant additional costs (e.g., the requirement for an additional level of underground parking), the developer will discount the price to reflect the higher costs.

- The City's levies and fees (e.g., DCL's or CAC's) on the transferable density. Higher fees and levies have a downward influence on the price paid for the transferable density. Lower fees and levies should increase the value of the transferable density.
- The transaction costs associated with transferring density. Higher transfer costs to the purchaser (e.g., legal, brokerage) should have a downward effect on value.

Some of these factors cannot be influenced by the City, such as transaction costs, marginal development costs, value of additional density at a receiver site and the overall market value of land in the receiver areas.

However, some of these factors are either directly or indirectly influenced by City policy, such as levies and fees, the approved supply of transferable density, and some of the costs and risks associated with obtaining approval to transfer density. In addition, the City may be able to influence the demand for transferable density[8] through some of its policies.

3.2 EXPERIENCE OF PARTICIPANTS/STAKEHOLDERS

We interviewed 13 individuals who have been involved in (or seriously considered) density transfers over the past few years. Our interviews included a cross-section of land owners and developers in source and receiver areas, architects who have designed projects on receiver sites, and real estate agents who have helped sell transferable density.

Discussions covered a range of topics, but focused on perceptions about the effectiveness of the existing policies, obstacles or challenges that participants face, and suggestions for improving the system.

Stakeholder comments can be summarized as follows:

[8] As an example, limiting the geographic area of receiver sites could limit demand. Alternatively, allowing transfers without rezoning increases demand.

1. The existing heritage bonus and transfer of density system is a very good tool for heritage preservation as it helps meet some of the City's objectives and provides developers a valuable tool to improve the financial performance of a new project.

   - It has helped preserve numerous heritage buildings in the Downtown area accomplishing some of the City's heritage objectives.
   - It provides developers an opportunity to increase project size.
   - It provides developers an opportunity to acquire and use small amounts of transferable space to avoid potentially expensive changes to designs. For example, one developer mis-calculated the required size of bicycle storage space in the building. Incorporating the additional storage space within the permitted FSR would have required costly changes to the building design. Therefore, they purchased the required density and transferred it to the site avoiding design changes.

   Therefore, although many individuals identified changes to the system that they would like to see implemented, all of the individuals indicated that the program should be kept in place.

2. The potential for an increase in density at a receiver site through the development permit process is a very valuable part of the policy. However, the magnitude of the density increase without rezoning (10%) is not large enough to create a strong incentive in many cases.

   - Although rezoning may not be required, the approvals process (development permit and urban design) can often be lengthened and costs increased (e.g., holding costs, architectural fees) when seeking approval for a density transfer. However, the outcome is uncertain. The additional costs and risks of the process reduce the incentive of attempting to achieve a 10% increase. Most developers indicated that they would be more interested in the program if the potential bonus was significantly higher.
   - Some developers indicated that the legal paperwork can be complex and costly for individuals who are not experienced with the process.

Therefore, many developers suggested that the City should increase the amount of the potential density increase at receiver sites as a 10% increase does not provide sufficient incentive given the additional risks and costs of the approval process. It was suggested that an increase in the range of 30% or so would be create sufficient incentive in most cases.

3. The system is complex and is not well understood by some potential purchasers and most individuals indicated that information on density available for sale is not made widely available by the City. Therefore, it was suggested that the City should:

   - Make information on the companies, individuals and sites that have transferable density available for sale widely available.
   - Provide very specific guidelines about which sites are suitable candidates to receive transferable density. This will remove some of the uncertainty of obtaining approvals.

4. The flexibility created by allowing transfers to cross zoning districts and geographic areas helps make the system more effective. However, there are limitations on the geographic locations of receiver sites, constraining the effectiveness of the policies. For example, it was perceived that excluding CD-1 sites from the receiver area dramatically reduces the potential pool of receiver sites. Individuals suggested that the City should:

   - Increase the geographic area of receiver sites. Many individuals suggested that there are locations outside the existing policy area that are suitable for higher permitted density via a transfer. Some suggested that the geographic area should be expanded to include the entire City as the approval process to use the transferable density ensures it will not negatively impact a neighbourhood.
   - Include the CD-1 sites within receiver area. Some of the major growth areas are zoned CD-1. Inclusion of these areas could increase the number of good quality receiver sites.

5. Due to site size, location and zoning, there is actually a limited number of sites in existing receiver areas that are realistic candidates for significant density transfers. For example:

- It is usually difficult to achieve the maximum permitted density increase of 10% due to urban design issues (e.g., light angle, shadowing, massing) and City policies about maximum floorplates (in Downtown South) and height limits.
- It is already difficult to achieve the maximum permitted density in some of the zoning districts that include receiver sites (e.g., sites in the C-3A District along Central Broadway) so an additional 10% density increase is not realistic.

Developers suggested that the City should relax urban design requirements at receiver sites to help developers achieve the permitted density increase.

6. Developers sense that the approval process (for both source and receiver sites) is not applied uniformly across all sites. Developers suggested that some sites receive relaxations allowing higher densities, while others do not. In addition, some developers indicated that the City seems to expect higher contributions (e.g., CAC's, if the transfer involves rezoning, or a higher level of on-site public space) from projects that are receiving a density transfer due to the perception that the developer is benefiting from the relatively low price of the transferable density in comparison to market land values.

   Individuals suggested that the City should either treat all proposed density transfers equally, or should clearly identify that it favours transfers to/from properties with certain characteristics.

7. The time lag between purchasing density and receiving approval can cause problems. Most vendors want to be paid quickly, but the developer wants to wait for approval. This tends to be more of an issue in cases where the developer is rezoning the receiver site due to the length of time involved in the approvals process.

   Therefore, the City should attempt to streamline the approvals process for transferring density to receiver sites to provide a quick response on likelihood of approval. This will reduce the costs and risks associated with the process and give vendors more certainty about the likelihood of completing a sale that has been negotiated.

8. The value of transferable density has been declining in recent years. If the value of transferable density continues to decline, heritage building owners may not consider a

density bonus a valuable incentive tool. However, the City should not attempt to control the price of transferable density. It should continue to let the market set the price. If the City attempts to control the price, it will reduce the efficiency of the system. Suggestions to help with heritage preservation in the face of declining values for transferable density include:

- Consider mechanisms other than transferable density to help preserve heritage buildings. Some developers suggested that property tax abatements would be more suitable as the heritage property owner would receive a more certain benefit. Others indicated that the City should consider a "heritage levy" on all new development in the City to help fund heritage preservation on the basis that heritage preservation benefits the entire City.
- For any future area-wide rezonings, require land owners to purchase transferable density to obtain approval for increased density. This could create increased demand for transferable density, which would have an upward influence on the price of the density.
- During any negotiations for CAC's (during major rezonings), the City should look for contributions to heritage preservation, including purchasing transferable density to allow increased density. Again, this would increase demand for transferable density.
- Allow heritage transfers from sites outside the policy area to sites inside the policy area where both sites are under the same ownership. In the case of Gastown, some property owners suggested that the City should allow them to transfer bonus density from heritage sites to receiver sites they own in other parts of Downtown, whether or not the policy area is expanded to include Gastown. For these transfers, the heritage building owner would be less concerned about the price achievable for the density as they would already have a site where it could be used.

4.0 LITERATURE REVIEW AND REVIEW OF POLICIES IN OTHER JURISDICTIONS

4.1 CHARACTERISTICS OF SUCCESSFUL DENSITY TRANSFER SYSTEMS

We reviewed published papers and articles that examined existing transfer of density systems in other jurisdictions to help identify the characteristics of a successful system. Based on our review, no other Canadian cities have a system comparable in scope or activity to Vancouver. However, transfer of density systems are prevalent in the United States, where transferable density is referred to as Transferable Development Rights (TDRs). There are over 100 jurisdictions in the United States with TDR programs[9]. Most programs are aimed at preserving farmland, ecologically sensitive areas, rural character or open space. However, some programs are intended to help preserve heritage buildings or historic features.

Based on this review, we identified seven characteristics of a successful transfer of density system:

1. The system should be relatively simple to understand and to administer. In Vancouver, the system sounds simple but the approvals process for both source sites (heritage) and receiver sites can be complex for developers and land owners. For example, the heritage building owner needs to negotiate an HRA with the City and the developer of the receiver site faces an uncertain outcome during the approvals process to obtain the permission to use the transferable density. In addition, the policies are not documented in a user-friendly manner.

[9] "Putting Growth in its Place with Transfer of Development Rights", Planning Commissioners Journal, Summer 1998, Rich Pruetz, AICP.

2. The receiver area(s) should be actively under development. Vancouver's receiver area is under active development, although a substantial share of new development in the Central Area is occurring in CD-1 locations, which are not eligible for transfers.

3. There should be incentives for the owners of potential heritage sites to enter into agreements to sell transferable density. In Vancouver, heritage building owners have several incentives to sell density: City policy requires developers to explore retention of heritage buildings prior to seeking approval to demolish and rebuild on-site, density bonuses are available, there has been a liquid market for transferable density, and transfers can be to multiple parties.

4. Developers should have a strong incentive to purchase transferable density. Developers in Vancouver have incentive to acquire transferable density as it can be used to increase the size of the project at an attractive price, price is set on the open market, and space can be transferred across zoning districts. However, there are some constraints: developers are not always able to achieve a 10% density increase, the outcome of the approvals process is uncertain, and there are other methods available to increase density (such as an amenity bonus).

5. The City needs to select appropriate receiver areas where developers do not face strong opposition from utilizing the transferable density. This appears to be the case in Vancouver. However, due to urban design objectives it is difficult to achieve the density increase in some locations.

6. The City should facilitate transfers by stream-lining the approvals process. Although rezoning and a Public Hearing is not required in Vancouver to obtain a 10% bonus, most developers that were interviewed indicated that the process is still too lengthy and the outcome is highly uncertain.

7. The City should help build public support for the program. In Vancouver, the City may need to help generate more support for increased density at receiver sites as a trade-off for heritage preservation.

4.2 EXAMPLES OF PROGRAMS IN OTHER JURISDICTIONS

We examined transfer of density policies in some other North American jurisdictions to help identify opportunities to improve Vancouver's existing system. We reviewed the programs in four jurisdictions:

- San Francisco, California.
- Seattle, Washington.
- New York City, New York.
- New Jersey Pinelands.

4.2.1 San Francisco

San Francisco has a TDR program designed for historic/landmark building preservation purposes. San Francisco has used TDRs[10] since the 1960's, but the program gained momentum in 1985 with the adoption of a new downtown plan which identified buildings to consider for preservation (source sites) and lowered allowable base densities in downtown (down zoned), creating incentive to acquire TDRs to achieve higher permitted densities. Planning Staff in San Francisco could not provide any figures on the amount of density that has been transferred or the number of buildings that have been involved. However, the City reported that the system is very active and density is transferred on a regular basis.

Some of the notable features of San Francisco's system are:

1. In San Francisco, the potential bonus varies depending on the zoning of the receiver site:

[10] Transferable Development Right. This is the term used to describe transferable density in most jurisdictions in the United States.

- In the C-3-0 (SD) District the density can be tripled from 6.0 to 18.0 FSR.
- In the C-3-0 District the density can be doubled from 9.0 to 18.0 FSR.
- In the other candidate districts (all C-3), the potential increase is 50%.

2. Without rezoning, TDRs are the only method to increase the permitted density otherwise allowed at receiver sites.
3. Third parties are allowed to purchase TDRs. Parties can acquire development rights without actually having an approved receiver site in place. The City reported that third parties are an integral part of the market for TDRs in San Francisco. These buyers fall into three categories:
   - Developers who do yet own a suitable receiver site, but are active in San Francisco and are interested in acquiring density for future use. These developers know that large increases in permitted density are available using TDRs and want to own ample density when they acquire a suitable site.
   - Investors who are speculating that the value of the density will appreciate over time.
   - Brokers who profit from buying and selling transferable density. These parties help pool available density and sell the density in large blocks to developers who are interested in applying for a large increase in permitted density. Effectively, these individuals act as a private density bank.
4. As outlined above, receiver sites were down-zoned to create an incentive for developers to acquire transferable density.

4.2.2 Seattle

The City of Seattle first permitted transfer of development rights in 1985. Seattle's system is structured primarily to alleviate pressure on low income housing and landmark buildings. Seattle's system can be characterized as complex and has undergone many changes since its inception, with the most recent changes introduced in 2001. Between

1985 and 1997, there was very little demand for TDRs in Seattle as development in the receiver areas was limited. However, since 1997 demand has increased. Based on available information, we estimate that about 320,000 sq.ft. of space was transferred to receiver sites between 1997 and 2000, or about 80,000 sq.ft. per year on average.

Some of the notable features of Seattle's system are:

1. The City operates a true Density Bank that can purchase TDRs from source sites if no other buyers exist. Seattle set up the Bank in 1988 on the assumption that there would be periods of limited demand for TDRs, sellers would need to be ensured a minimum price, and purchasers might prefer to negotiate with one seller for large transactions. The Bank has proven useful, as there was no demand for TDRs between 1987 and 1997. Since 1997, the Bank has sold a large amount of its holdings.
2. Large potential density increases are available without rezoning. The potential density increase at a receiver site depends on its existing zoning:
   - In the primary downtown commercial zoning districts (DOC 1 and 2), the potential bonus ranges from about 100% to 133% of the base permitted density (an additional 5 to 8 FSR above base density).
   - In the downtown residential district (DMR/R), the increase varies depending on the receiver site's location. The maximum increase in this district is about 150% of the base density, an increase from 2.0 FSR to 5.0 FSR.
   - Height increases of up to 30% are available with TDRs.
3. There are three types of TDRs[11] in Seattle and each allows a different potential density increase at a receiver site. To achieve the maximum density increase a combination of TDRs is required, with the largest increase available through Housing TDRs (protects non-market housing). Landmark and Open Space TDRs allow lower density increases.

[11] Landmark TDRs come from historic sites, Open Space TDRs come from sites that are preserved for parks and open space, and Housing TDRs come from sites that preserve non-market housing.

4. Seattle allows third parties to purchase TDRs. Parties can acquire development rights without actually having an approved receiver site in place. This helps increase the potential pool of buyers of transferable development rights.

4.2.3 New York City

Based on our literature review, New York City is credited with the first TDR legislation, allowing the transfer of unused air rights to other lots as long ago as 1916. New York's current TDR system was established in 1961 and the existing Zoning Resolution has a detailed TDR program designed for historic/landmark building preservation.

Some of the notable features of the New York system are:

1. The potential density increase at a receiver site from using TDRs varies depending on the heritage/landmark site being preserved and the receiver sites existing zoning:
   - In the case of preserving a landmark theatre site, the potential increase (without rezoning), ranges from 20% to 24% (an additional 2.0 to 2.4 FSR above the base FSR of 12.0).
   - For other landmark sites, the maximum permitted increase at a receiver site is lower (about 1.0 FSR or about 7% to 8% above the base FSR of 12.0). Although, the percentage increase is relatively low, it is important to note the absolute increase of 1.0 FSR is still significant. With a special permit (which involves a public process), the increase can be substantially higher.
2. Transfers between adjacent properties are treated differently than transfers to other receiver sites, with the potential density increase much higher. In addition, the definition of "adjacent" has been broadened to include sites across streets and intersections, or where intervening properties are under the same ownership.
3. New York allows third parties to purchase TDRs. Parties can acquire development rights without actually having an approved receiver site in place.

4.2.4 New Jersey Pinelands

The Pinelands is a large rural area is located between Atlantic City, New Jersey and Philadelphia, Pennsylvania that was under development pressure prior to the introduction of a TDR system. In 1981, the State of New Jersey required 60 communities in the area to amend the plans and codes to conform to a regional plan to help preserve this area. Part of this plan included TDRs. The system allows land owners in protected areas to sell development rights to receiver sites in 23 different jurisdictions. This program has reportedly permanently preserved over 15,000 acres of land to date.

Some of the notable features of the Pinelands system are:

1. The Pinelands system includes a state owned Density Bank that was established in 1985. The Bank offers a set price (1985 price adjusted for inflation) for TDRs, establishing a minimum market price. TDRs do not have to be sold to the Bank.
2. Receiving sites can obtain density increases of 50% above the base density using TDRs. However, it should be noted that the receiver site base densities are relatively low (e.g., single family and low density multifamily densities in most locations).
3. The system was designed so that potential demand in receiver areas was equivalent to about 200% of the potential TDRs that could be generated at source sites. This helps ensure demand for TDRs meets or exceeds supply.
4. Third parties are allowed to purchase TDRs. Parties can acquire development rights without actually having an approved receiver site in place.

4.2.5 Comparison with Vancouver

Vancouver's policies share many of the same basic characteristics as the systems in these other locations, such as:

1. Open market pricing. The price is set on the open market in all four locations (although below some have a density bank to buy rights in order to establish a minimum price).
2. Geographic flexibility. Each jurisdiction allows transfers across relatively large geographic areas.
3. Multiple transactions. Each jurisdiction allows a sending site to sell TDRs to multiple parties.
4. Minimal public process involved in approval. In all of the jurisdictions, transfers can be approved as an administrative process without public hearings.

In some ways, Vancouver's system could be considered more flexible than these other jurisdictions. For example, Vancouver can approve a density bonus for transfer off-site to help preserve a heritage building. The other jurisdictions only allow transfers of residual density under existing zoning. In addition, Vancouver's system includes a wide variety of zoning districts and transferable floorspace can vary in use. The policies in the other jurisdictions appear to be more restrictive in terms of the zoning districts included.

However, the programs in these other jurisdictions include some significant features that are not part of the Vancouver system:

1. The existence of a formal Density Bank. Vancouver does not have a Density Bank and is not involved in the transaction. Seattle and Pinelands both have Density Banks to help facilitate transactions and help ensure a minimum price.
2. Large potential density increases at receiver sites. In Vancouver, a 10% density increase is possible at a receiver site without rezoning. However, potential increases range from 20% to 200% in the other four jurisdictions (without rezoning). Many of these jurisdictions have relatively high permitted base densities so the percentage bonus is equivalent to a large amount of floorspace:
    - In New York City, the potential increase ranges from 20% to 24% of the base density.

- In Seattle, the potential increase ranges from 100% to 150% of the base density.
- In San Francisco, the potential increase ranges from 50% to 200% of the base density.
- In Pinelands the potential density increase is about 50% of base density.

3. The opportunity for third parties to acquire transferable density. In Vancouver, third parties are not permitted to acquire density for future use or resale. Density is required to remain tied to a particular site. In all four of the other jurisdictions, third parties can acquire density for sale or use at a later date.
4. Features to help ensure demand for density is high relative to the supply of density. In Vancouver, eligible heritage sites are limited to specific geographic areas and the supply of transferable density is monitored as part of the process to determine whether heritage sites outside policy area should receive approval to transfer density.
    - In Pinelands, the receiver areas were defined to ensure that that these areas had the potential to generate demand for about 200% of the potential supply of transferable density for source sites.
    - In San Francisco, base densities in the receiver areas were decreased to help generate demand for transfers and there are no other mechanisms available to developers to increase density.
    - In New York City, transfers between adjacent properties are treated differently and can result in significantly higher density increases.

5.0 FUTURE DEMAND AND SUPPLY OF TRANSFERABLE DENSITY IN VANCOUVER UNDER EXISTING POLICY

The future effectiveness of transferable density as a tool for heritage preservation in Vancouver is dependent on three main factors:

- Ongoing demand for transferable density at receiver sites. If demand is not sufficiently high, heritage building owners will perceive that it is difficult to sell transferable density and may not be interested in participating in the program.
- The availability of an ongoing supply of transferable space for developers interested in acquiring additional density. Without a sufficient supply of transferable density, developers of receiver sites will find it difficult to acquire the amount of density they require when applying for a density increase. This becomes a very significant issue if a developer is seeking a large density increase (such as the Wall Centre project).
- The price that can be realized for transferable space. Heritage building owners require a predictable value for transferable space to determine the viability of entering a Heritage Revitalization Agreement. The value of transferable space is partly dependent on the overall demand and supply of transferable space. If the creation of transferable space outpaces demand over a sustained period, there will be downward pressure on the value of the transferable space reducing the effectiveness of density transfers as a heritage preservation tool.

Therefore, this section forecasts the potential future supply and demand for transferable density in Vancouver in the absence of any changes to existing policies.

5.1 FORECAST OF DEMAND FOR TRANSFERABLE DENSITY AT RECEIVER SITES

To help gauge the future demand for transferable density at receiver sites in the existing policy area, we examined four indicators:

- Recent demand for transferable density.
- Historic long term demand for transferable density.
- The potential for receiver sites to accommodate transferable density in the long term.
- The long term outlook for multifamily and commercial development in receiver areas.

5.1.1 Recent Demand for Transferable Density in Receiver Areas

We examined demand for transferable density from 1998 to April 2002[12] to gauge recent trends in demand.

- Between 1998 and April 2002, a total of about 290,000 sq.ft. of floorspace was transferred (or approved to transfer) to commercial and multifamily receiver sites, or about 67,000 sq.ft. per year on average. However, it should be noted that 220,546 sq.ft. of this space was transferred in 1998 (including about 180,000 sq.ft. of the space that was transferred to Wall Centre).
- From 1999 to April 2002 transfers totalled about 70,000 sq.ft., or about 21,000 sq.ft. per year on average. This is likely due to the relatively limited amount of multifamily development that occurred in receiver areas during this time frame (most multifamily development was in CD-1 locations). In addition, demand may have been constrained during 1999 and possibly 2000 by a lack of density available for sale.
- From January 2002 to April 2002, transfers (or approvals) totalled about 27,000 sq.ft. At this rate, transfers for all of 2002 will total about 81,000 sq.ft.

[12] Most recent data available at the time of the analysis.

5.1.2 Historic Long Term Demand in Receiver Areas

We examined the amount of development in receiver areas attributable to transferred density between 1993 and 2001.

Between 1993 and 2001, total new development in receiver areas[13] was approximately 8.9 million sq.ft. (comprised of about 3.1 million sq.ft. of office development and 5.8 million sq.ft. of multifamily residential development)[14].

Over the same time frame, approximately 551,000 sq.ft. of space was transferred to receiver sites in the existing policy area, or about 61,000 sq.ft. per year on average. This is equivalent to about 6.2% of the estimated total development in receiver areas, which is below the maximum permitted increase of 10% that is allowed under existing policy. It is important to note that Wall Centre and Bentall 5 accounted for very large shares of this total.

The transfer of density to Bentall 5 was from another site owned by Bentall. If this transfer is excluded from the demand estimates, the annual demand for transferable density at receiver sites was about 46,000 sq.ft. per year, or about 4.6% of total development in receiver areas.

The Wall Centre project involved a rezoning to allow the full density increase permitted at the site. Excluding Wall Centre and Bentall 5, the annual demand for transferable density at receiver sites was about 18,000 sq.ft. per year, or about 1.8% of total development in receiver areas.

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[13] Excluding development in the major CD-1 districts of Coal Harbour, Concorde Pacific Place and Bayshore.

[14] These figures exclude hotel development, as hotel sites are not candidates to receive transferred density as well as the 15% hotel bonus.

Overall, demand for transferable density has been below the 10% density increase permitted under existing policy. As well, the system has relied on large projects to acquire and transfer density.

5.1.3 Potential for Receiver Areas to Accommodate Transferable Density

The ability of receiver areas to continue to accommodate transferable density will determine whether there will continue to be strong demand for transfers.

Without rezonings, the maximum theoretical long term demand for transferable density could be viewed as 10% of the remaining gross development capacity in the receiver areas as this is the maximum increase permitted at a receiver site. Therefore, we completed a detailed analysis of the remaining long term development capacity of sites located in receiver areas. This analysis relied on property specific information provided by the City of Vancouver as well as our owned fieldwork, research and analysis. Appendix B contains the detailed analysis.

Under existing zoning, sites in the receiver areas have a total maximum floorspace capacity of about 103 million sq.ft. upon full development, assuming the maximum achievable FSR under existing zoning at each site. However, many sites are already fully developed or have significant improvements in place and will not be development candidates until the very long term. In addition, some of the sites in the receiver areas are heritage sites.

We identified all of the sites in the receiver areas that could be considered realistic development candidates[15]. Based on this analysis, the gross development potential at all of the sites that could be considered realistic development candidates over the next ten years or so in the receiver areas is between 30 million and 40 million sq.ft.

[15] Excluding heritage sites, sites that are fully developed under existing zoning, and sites that have sufficiently valuable improvements to rule out redevelopment in the foreseeable future.

If every redevelopment candidate in the receiver area proceeded with redevelopment and applied for and obtained approval for a 10% density increase due to a heritage density transfer, the candidate sites could generate demand for a maximum of 3 million to 4 million sq.ft. of transferable density.

In the absence of changes to existing policy, the actual demand could be lower. The historic share of development attributable to transferable density has been about 6% (and less if major projects are excluded). In addition, the City has cultural, social housing and other amenity objectives for receiver sites. Receiver sites will probably not be able to achieve a 10% density increase from heritage transfers and also provide the other amenities. It should be noted that sites which apply for rezoning could make up for any receiver sites that do not achieve the full 10% increase.

5.1.4 Outlook for Future Development in Receiver Areas

The rate of future demand for transferable density will depend partly on the amount of development occurring in the receiver areas.

Downtown Vancouver (and receiver areas) should continue to account for a large share of Greater Vancouver's multifamily residential development. In the short term, office development may be somewhat limited as there has recently been a large addition to the Downtown inventory and vacancy rates have been rising. However, in the longer term, the receiver areas should continue to experience significant office development.

Between about 1998 and 2001, multifamily development in the receiver areas was relatively low compared to the early and mid 1990's. This is partly due to lower demand for multifamily residential units throughout the GVRD and partly due to the large share of residential development in downtown that has been captured by CD-1 locations (such as Bayshore, Concorde Pacific and Coal Harbour). We expect multifamily development in the receiver areas to increase in both the short term and the longer term as multifamily

demand in the region increases and as development capacity in the existing major CD-1 locations diminishes.

Overall, we expect the average annual rate of office and multifamily development in receiver areas over the next ten years or so to be similar to the long term historic average of about 1.0 million sq.ft. per year.

5.1.5 Outlook for Demand for Transferable Density in the Absence of Policy Changes

Based on historic trends and the outlook for downtown, we would expect total development in receiver areas to continue to average about 1.0 million sq.ft. per year on average in over the next ten years or so. The existing receiver areas have capacity to accommodate this level of development for the long term.

Based on our analysis, there are two demand scenarios worth considering for transferable density over the next ten years or so.

1. A low demand scenario (Scenario A) which assumes an extension of the historic share of development attributable to density transfers of about 6%. This will require some projects to continue to purchase large amounts of transferable density to allow significant density increases (such as Wall Centre and Bentall 5). Given that the City has identified sites in the receiver area that are potential candidates for significant height increases (assuming the site transfers density or provides public amenities), there should continue to be opportunities for additional large density transfers. In the absence of projects seeking large density increases, total demand could still reach 6% of development. Assuming that total demand for new space in the receiver areas remains high, the absence of large projects should mean that there will be an increased number of smaller projects. Each of these smaller projects could apply for an increase in density leading to demand for transferable density. It should also be noted that as the City implements improvements to the system there should be increased demand for transferable density.

2. A high demand scenario (Scenario B) which assumes that every project in the receiver area applies for and achieves a 10% density increase without rezoning, the maximum permitted under existing policy. However, given that some developers will not be interested pursuing a density bonus, some sites will not be suitable (given urban design objectives) and developers of some sites may elect to accommodate other City objectives (e.g., cultural amenities, social housing), the actual demand for transferable density may be lower. Although developers that apply for rezoning and acquire large amounts of transferable density could off-set receiver sites which do not apply for (or do not receive approval for) the full 10% density increase.

The demand scenarios for transferable density are summarized in the following table.

Potential Demand for Transferable Density	Share of Total Development	Total Years 1 to 10
Total Development in Receiver Areas		10,000,000 sq.ft.
Scenario A	6.0%	600,000 sq.ft.
Scenario B	10.0%	1,000,000 sq.ft.

5.2 POTENTIAL FUTURE SUPPLY OF TRANSFERABLE DENSITY

For the system to continue functioning there must be sufficient numbers of heritage property owners willing and able to participate. This section estimates the potential for a continuous supply of participating properties.

There are over 300 properties in the existing policy area that are on the heritage list, but have not yet been designated. We estimate that these buildings include about 6.8 million sq.ft. of existing floorspace.

The future annual supply of transferable floorspace is difficult to predict (especially on an annual basis) as it will depend on a variety of factors, including:

- The interest of the owners of heritage listed buildings to negotiate Heritage Revitalization Agreements to designate and preserve listed properties and transfer floorspace (residual or bonus).
- The amount of residual floorspace at heritage listed sites that cannot be used on-site.
- The amount of bonus floorspace that is required at individual heritage projects to make heritage preservation financially viable, but cannot be used on-site.
- The number of heritage listed sites that go through the heritage designation process each year.

To help gauge the future supply of transferable space, we examined three indicators:

1. Recent creation of transferable density at source sites.
2. Long term historic creation of transferable density.
3. The creation of transferable density compared to the total inventory of heritage floorspace.

5.2.1 Recent Creation of Transferable Density

Between 1998 and April 2002, very little space was approved for transfer from heritage sites in the policy area (about 124,000 sq.ft. in total or about 29,000 sq.ft. per year). However, the supply of transferable space increased due to approvals at projects outside the policy area.

During 2001 and early 2002, applications for transferable density at heritage properties inside the policy area have been increasing. Council recently approved in principle a transfer of 73,000 sq.ft. at 690 Burrard (Christ Church) as well as 80,000 sq.ft. at 626 West Pender (the London Building). Other projects are in the approval process.

Including the projects that are approved in principle, the creation of transferable density has averaged about 65,000 sq.ft. per year since 1998 (to April 2002).

5.2.2 Historic Creation of Transferable Density

Between 1993 and 2001, approximately 707,000 sq.ft. of space was approved for transfer at source sites in the City. Of this about 571,000 sq.ft. was at sites that are within the existing policy area. The remaining 136,000 sq.ft. was at sites in Gastown (outside existing area) and a site on the west side of Vancouver[16].

The historic creation of transferable space at sites in the existing policy area is equivalent to about 63,000 sq.ft. per year on average. An additional 15,000 sq.ft. per year was approved for transfer at sites currently outside the policy area. Therefore, the total approved for transfer was about 78,000 per year.

5.2.3 The Creation of Transferable Density Compared to the Inventory of Heritage Floorspace

The historic annual additional addition to supply of transferable floorspace from properties in the policy area is equivalent to about 0.84% of the existing 6.8 million sq.ft. of floorspace at heritage listed properties in the area[17]. If this rate continues, heritage buildings in the existing policy area will generate an average of about 57,000 sq.ft. per year over the next ten years.

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[16] 38,500 sq.ft. was approved for transfer from 3838 Cypress Street.

[17] Based on a comprehensive database of all heritage listed properties in the policy area, including existing floorspace at each property.

5.2.4 Outlook for the Supply of Transferable Density from the Policy Area

There are many eligible heritage properties that could in the future be candidates for the City's transferable density incentive program so there is obvious value in ensuring that this program works as effectively as possible.

Based on past trends, few heritage properties participate in any given year. On average less than 2 properties (representing less than 1% of heritage building floorspace in the eligible area) participate each year.

Assuming an extension of historic trends, heritage sites in the existing policy area will generate about 570,000 to 650,000 sq.ft. of additional transferable space over the next ten years, or between 57,000 and 65,000 per year on average.

5.3 OUTLOOK IN THE ABSENCE OF POLICY CHANGES

In the absence of major changes to the system, it is reasonable to assume that rates of additions and absorption of transferable density will continue at historic rates. Extending recent trends produces the following outlook over the next 10 years:

	Existing Supply including Approvals in Principle[18]	Projected New Supply	Projected Demand	Year 10 Balance
Low Demand	396,000 sq.ft.	570,000 sq.ft. to 650,000 sq.ft.	600,000 sq.ft.	366,000 sq.ft. to 446,000 sq.ft.
High Demand	396,000 sq.ft.	570,000 sq.ft. to 650,000 sq.ft.	1,000,000 sq.ft.	zero sq.ft. to 46,000 sq.ft.

[18] As of September 2002.

If demand is near the higher end of our range, the demand for transferable space will meet or exceed the projected supply of transferable space over the next ten years. If demand is at the lower end of the range, the supply of transferable space in the "bank" will be similar in ten years to the existing situation.

6.0 IMPACT OF EXPANDING THE NUMBER OF ELIGIBLE HERITAGE SITES

6.1 IMPACT ON THE DEMAND FOR TRANSFERABLE DENSITY

Expanding the number of heritage sites that are eligible to transfer density will not change the overall demand for transferable space at receiver sites. Therefore, future demand will be the same as the projections outlined in Section 5.1.

6.2 IMPACT ON THE SUPPLY OF TRANSFERABLE DENSITY

Expanding the range of eligible heritage properties could lead to two potential outcomes in the creation of new supply of transferable density:

1. No change in the overall creation of transferable density, but changes in the location of the heritage buildings that obtain approval to transfer space. There is a limit to the overall annual demand for office, retail, residential and hotel space in rehabilitated heritage buildings in Vancouver's Central Area. Therefore, increasing the number of heritage buildings eligible for density transfers will not necessarily lead to an increase in the annual demand for rehabilitated space in heritage buildings.

   Without an increase in demand for rehabilitated heritage space, the total number of heritage building owners interested in applying for an HRA to allow a density transfer may not increase. As an example, there are over 300 heritage properties in the existing policy area that are currently eligible for the program, but only a small portion actually participate in a given year. This suggests that if there was a market demand for additional rehabilitated heritage space, the heritage property owners in the existing policy area would attempt to meet the demand.

   Under this scenario, the impact of expanding the number of eligible heritage buildings will primarily be distributional. The location of heritage buildings that are rehabilitated and upgraded due to heritage transfers may change, but the total creation

of transferable floorspace may not. This low supply scenario is equal to the supply estimates outlined in Section 5.2.

2. An increase in the creation of transferable floorspace as more heritage building owners will be eligible and the buildings are in locations with an unmet market demand for rehabilitated heritage space. For example, there may be market demand for rehabilitated heritage space in Gastown that cannot be met by heritage properties in the existing policy area. In this case, as more heritage buildings are eligible, more building owners may be interested in participating in the program. Essentially, this assumes that the new eligible areas will cater to market demand for rehabilitated heritage space that is currently not being met by properties within the existing policy area. This is the focus of the analysis in the remainder of this section.

6.2.1 Potential Transfers from Gastown

Although Gastown is not included in the existing policy area, a few heritage properties in Gastown have already negotiated Heritage Revitalization Agreements (as of April 2002), allowing the transfer of density to the existing receiver areas. Based on available information, the following projects in Gastown have already received approval to transfer a total of about 98,000 sq.ft. of density:

- 211 Columbia Street, which received approval for a 37,200 sq.ft. transfer.
- 55 Water Street, which received approval for a 60,800 sq.ft. transfer.

In addition, a few other transfers are currently (as of April 2002) in the approval process or have been approved in principle by Council, totalling about 78,000 sq.ft. These include:

- The Greenshields Building at 345 Water Street, which received approval in principle for a 42,000 sq.ft. transfer.
- The Taylor Building at 310 Water Street, which is seeking a 36,285 sq.ft. transfer.

We examined three indicators of the potential supply of transferable density that could come from Gastown over the next ten years or so:

- The four projects noted above represent about 176,000 sq.ft. of transferable density over a two year period, or about 88,000 sq.ft. per year on average. Not all of these projects will necessarily proceed in the short term, so this supply of transferable space will be made available in phases. In addition, this figure likely represents significant pent-up interest from Gastown building owners to participate in the program. Until recently, Gastown properties have not been considered for transfers. As the initial set of properties goes through the process, the rate will likely slow. Therefore, this is not a good indicator of the supply of transferable space from Gastown over the long term.
- The Gastown Heritage Management Plan recently approved by Council allows heritage property owners in Gastown to apply for a transfer of residual density based on a maximum FSR of 5.5. However, the Plan includes other new incentives for property owners to enter HRA's, such as property tax abatements and grants (as well as density transfers). These additional incentives will reduce the reliance on density transfers as a tool to help preserve Gastown heritage buildings.
- The long term creation of transferable density in the existing policy area has been equivalent to 0.84% per year of the historic building floorspace inventory. We estimate that the heritage buildings in Gastown have about 2.1 million sq.ft. of existing floorspace. Applying the 0.84% per year ratio to Gastown heritage properties would generate about 176,000 sq.ft. of additional transferable density over the next ten years or so.

Interest from Gastown property owners in obtaining approval to transfer space is clearly strong. In addition, there should be demand for rehabilitated retail, office, hotel and/or residential space in heritage buildings in Gastown over the next ten years or so. Therefore, there could be two general potential outcomes in the rate of creation of transferable floorspace from Gastown if it is included in the policy area:

1. The average creation if transferable space will fall close to 0.84% of its total heritage floorspace inventory each year, generating about 176,000 sq.ft. of supply over the next ten years.
2. The annual supply of space from Gastown will be higher. However, in this case we would expect an off-setting decline in the annual creation of transferable floorspace in other parts of the policy area.

6.2.2 Potential Transfers from Downtown Eastside Oppenheimer District

Although heritage sites in the Downtown Eastside Oppenheimer District (DEOD) are not included in the existing policy area, one project was recently approved in principle by Council. The Pantages Theatre at 144 East Hastings received approval in principle for a 28,000 sq.ft. transfer.

We estimate that there are a total of about 40 heritage listed sites in the DEOD with a total of about 500,000 sq.ft. of existing floorspace.

It is not possible to examine the historic trend in the creation of transferable floorspace from the DEOD as there has only been the one project approved and it was very recent. Assuming that the average creation of transferable floorspace from heritage sites in the DEOD is equivalent to 0.84% of the historic building floorspace inventory each year, heritage properties in the Downtown Eastside would generate about 42,000 sq.ft. of additional transferable density over the next ten years or so. This suggests a relatively low rate of creation of transferable space from the DEOD. The demand for rehabilitated office, retail, hotel or residential space will likely be fairly low in this area for the foreseeable future. Therefore, the interest from heritage building owners to negotiate HRA's and transfer space could be relatively limited.

6.2.3 Potential Transfers from Other Areas

Other heritage sites that the City indicated are being considered for inclusion in the transfer of density policy area include:

- A-listed heritage sites in First Shaughnessy. Our understanding is that there are 18 A-listed buildings in First Shaughnessy.
- Sites with heritage interiors. There are 138 properties in the City with significant interiors. The cost of protecting each of these interiors will vary by building and some of these may already be within the existing policy area.
- Downtown sites designated without compensation prior to 1983. Our understanding is that about 55 buildings or sites in the City were designated prior to 1983. Over 30 of these are downtown. We do not have information on the number that were designated without compensation.

We do not have detailed information on the sites in these categories so we have not attempted to quantify the amount of transferable density that could be generated by sites in each of these categories.

6.2.4 Projected Supply if Policy Area is Expanded

Overall, there are two potential supply scenarios if the policy area is expanded to include additional areas, such as Gastown and DEOD:

1. No significant change in the overall creation of transferable floorspace. This low supply scenario is equal to the supply estimates outlined in Section 5.2. There may be distributional changes in the creation of transferable floorspace, but the overall annual average creation will not change as there is a limit to the market demand for rehabilitated heritage space. In this low scenario, total additional supply will be between 570,000 sq.ft. and 650,000 sq.ft. over the next ten years or so.

2. The annual creation of transferable density will increase as the number of eligible heritage properties is expanded. Essentially, this assumes that the new eligible areas, such as Gastown, will cater to market demand for rehabilitated heritage space that is currently not being met by properties within the existing policy area. Based on all of the preceding analysis, the best indicator for this scenario is to assume that transferable floorspace is created at a rate of about 0.84% of the expanded inventory of heritage floorspace each year on average. This will not necessary come evenly from each of the areas eligible for the program. For example, Gastown properties may account for a disproportionately high share of this in the short term. However, if this occurred, we would expect on off-setting decline in share to other areas. The total amount of heritage floorspace in the existing policy area plus Gastown and DEOD is roughly 9.4 million sq.ft. In this high scenario, we would expect the total addition to the supply of transferable space to be about 800,000 sq.ft. over the next ten years[19].

6.3 OUTLOOK FOR DEMAND AND SUPPLY IF POLICY AREA IS EXPANDED

As outlined in Section 5.1, there are two potential future demand scenarios for transferable floorspace over the next ten years or so:

- A low scenario that assumes total demand of about 600,000 sq.ft. over the next ten years.
- A high scenario that assumes total demand of about 1.0 million sq.ft. over the next ten years.

There are two potential future supply scenarios for transferable floorspace:

- A low scenario that assumes the total additional supply of transferable floorspace will be between 570,000 sq.ft. and 650,000 sq.ft. over the next ten years.

[19] 9.4 million sq.ft. x 0.84% x 10 years.

- A high scenario that assumes the total additional supply of transferable space will be about 800,000 sq.ft. over the next ten years.

These scenarios lead to four potential combinations of demand and supply:

- Low demand and low supply.
- High demand and low supply.
- Low demand and high supply.
- High demand and high supply.

The balance of transferable density available for sale at the end of Year 10 under each of these scenarios is summarized in the following chart:

	Scenario	Existing Supply[20] including Approvals in Principle	Projected New Supply	Projected Demand	Year 10 Balance
1	Low Demand/Low Supply	396,000 sq.ft.	570,000 sq.ft. to 650,000 sq.ft.	600,000 sq.ft.	366,000 sq.ft. to 446,000 sq.ft.
2	High Demand/Low Supply	396,000 sq.ft.	570,000 sq.ft. to 650,000 sq.ft.	1,000,000 sq.ft.	zero sq.ft. to 46,000 sq.ft.
3	Low Demand/High Supply	396,000 sq.ft.	800,000 sq.ft.	600,000 sq.ft.	596,000 sq.ft.
4	High Demand/High Supply	396,000 sq.ft.	800,000 sq.ft.	1,000,000 sq.ft.	196,000 sq.ft.

In three of the four scenarios (Scenarios 1, 2 and 4), the balance of transferable density available at the end of Year 10 will be similar to or lower than the current balance of 396,000 sq.ft. In these scenarios, we would not expect the expansion of the range of eligible heritage properties to have a significant downward influence on the market value of transferable density or a negative impact on the marketability of space that is available for transfer.

[20] As of September 2002.

In Scenario 3 (Low Demand/High Supply), the Year 10 balance of transferable density is projected to increase by about 200,000 sq.ft. above the current level. In this scenario, the expansion of the range of eligible sites could have a downward influence on the value of transferable density and/or impair the marketability of transferable density.

7.0 CONCLUSIONS

The main conclusions from this evaluation are as follows:

1. Vancouver's density bonus and transfer system has been successful in assisting the retention and rehabilitation of some important heritage buildings in Vancouver since the start of the program in 1993. Owners of heritage buildings continue to apply for density transfers and there are several projects in the pipeline at present.

   While property owners and developers who have been involved in the system have a variety of suggestions for improvement, most support the program and believe it is fundamentally a good system.

2. There are still many heritage properties that are eligible for density bonuses under the existing policy. There are also many additional heritage properties that could become eligible if the City decides to expand the program to new areas. The City, therefore, has an obvious interest in ensuring that the program continues to be well-used and in improving the system so that more heritage properties will benefit.

3. One of the current system's main strengths is the flexibility that flows from the creation of an open market for transferable density. Owners of source sites have considerable flexibility in selling density in small or large transactions at different times to a wide range of potential receiver sites. Buyers of density can acquire exactly the amount they need and are free to negotiate with one or more sellers. The absence of controls on pricing or on the allowable use of transferable space makes the market liquid and responsive.

4. While the open market system has advantages, it carries an inherent risk that at any given time the supply of space available for sale and the market's ability to take up space are out of equilibrium. This is because the factors that determine how much space is generated in any given year are different than the factors that determine how much will be acquired.

Consequently, there was a time (in 1999) when there was little or no space available to buy and a few times (including the present) when an inventory of space for sale has accumulated and appears to have contributed to softening prices.

When there is no space available, new urban development projects that would otherwise have been able to use transferable density may proceed without it, which eliminates potential receiver sites. This is of much less concern, however, than the risk of falling prices when inventory builds. Falling prices for transferable density have two impacts. First, owners of heritage properties may be reluctant to use the system if they anticipate that the density bonus is a deflating commodity. Second, lower prices mean the City must grant increasing bonuses to provide enough incentive to allow heritage rehabilitation projects to proceed[21].

The greatest risk to the program is the possibility of a gradually increasing bank of unsold space which deflates price and results in heritage owners being unwilling to participate in the program.

5. The market will to some extent be self-regulating over the long term. If price falls, owners of heritage properties will be less interested in the program. Developers will buy the inventory and as the supply dwindles price will firm up again. However, this market dynamic takes time. Therefore, the City should increase the amount of data it gathers on the market for transferable density to include the price of all transactions as well as the supply and demand of transferable density. This will allow the City to

[21] This is an important point that warrants an illustration to clearly show the impact of falling prices. Suppose that in a time of relatively stable prices transferable density commands a price of $25 per square foot. A rehabilitation project that needs $1.0 million in incentives to be viable would need 40,000 square feet of transferable density ($1,000,000/$25). Now suppose that while the owner of this project is evaluating whether to proceed, the price of density falls to $20 per square foot due to an accumulating backlog of unsold space. Now this owner needs 50,000 square feet of transferable density ($1,000,000/$20) to make the project work. The extra 10,000 square feet puts even more downward pressure on price.

analyze trends in price over time, understand the condition of market at all times and be ready to take steps to help maintain equilibrium in the market.

6. The most important task for the City in the management of the system is to monitor the size of bank and the price of space, to detect signs of a backlog and to take action to address emerging problems.

7. There are many ways in which the system of heritage density transfers could be improved or expanded. Potential improvements range from administrative fine-tuning to significant policy changes. Improvements can be categorized in these groups:

    a) improving the City's monitoring of the system.
    b) making the system easier and less costly to use, which should increase the number of transactions.
    c) developing an action plan so the City is ready to respond if the density market moves dramatically away from equilibrium.
    d) finding ways to increase the demand for space.

Specific improvements are recommended in the following section.

8.0 RECOMMENDATIONS

1. The greatest risk to the effectiveness of the system is an accumulating supply of unsold space that causes significant declines in price. Therefore, the City should improve its monitoring of the status of the density transfer market, so that it is aware of any signs that a backlog is building and that price is softening.

   Early identification of emerging problems will allow the City to take action to manage the creation of additional supply. The monitoring program should include:

   a) Up-to-date information on the total amount of space that is available in the bank.

   b) Up-to-date information on all potential additions to the bank (projects, amount of space) that are under consideration.

   c) Monitoring the rate of take-up of space (number of transactions, size of transactions, and total amount of space) and analyzing trends in the rate of creation versus the rate of absorption.

   d) Monitoring the price of space. Normally, the City is not party to actual transactions for the sale of transferable space. The City should consider changes to the system that require participants to provide price data, on the condition that individual transactions remain confidential but on the understanding that this data benefits all parties. If there is concern about the City obtaining this information for reasons of confidentiality, it may be possible to work with real estate organizations to develop an approach to monitoring price.

2. There are some administrative improvements the City can make to the system that should increase demand, increase efficiency and reduce transaction costs without any changes to existing planning, heritage, or urban design policies. These improvements could be implemented almost immediately:

   a) The City should publish clear instructions and guidelines regarding the creation, acquisition and use of transferable density. The system is relatively complex and

at the present time it takes too much work to develop a thorough understanding of how the system works. The City should include in these materials information about the other programs that are available to developers to obtain density increases.

b) The City should maintain a publicly accessible data base showing how much density is available for purchase, the vendors of this density and contact information. This could be available on the City's web site. The aim is to make it as easy as possible for developers (purchasers) to find potential vendors of transferable density.

c) The City should actively market the program to developers. Not all developers active in receiver areas are fully aware of the program. Every applicant for a rezoning or development permit in the receiver area should be made aware early in their design process of the availability of transferable density. Staff could make presentations to development industry and property owner groups.

d) The City could also market the program at the community level, so that residents are encouraged to understand that allowing higher densities in some projects produces heritage benefits.

3. If the City determines that a significant backlog in space is accumulating and that price is falling, the City should be prepared to take action to manage the system. Falling price will impair the City's ability to expand the program into new areas or to encourage specific buildings regarded as priority heritage assets to take part in the program. The City could consider these kinds of responses to a drop in price:

a) The City could implement a temporary moratorium on additional heritage density bonuses. A temporary hold on the approval of new projects would slow the rate of accumulation of unsold inventory.

b) The City could define priorities and criteria for eligible heritage buildings, so that density bonuses granted to lower priority buildings do not have a negative impact on the market, to the detriment of rehabilitation projects involving higher priority buildings.

c) The City could consider setting annual limits or targets on the total amount of space to be approved for transfer, in total or by area.

d) The City could set priorities for locations to be added to the policy area or at least add new areas incrementally.

Such actions will only be needed if the market shows signs of being far out of equilibrium. The monitoring program (see number 1 above) will help the City detect emerging problems. In rough terms, the City should probably be prepared to take some action if all of these conditions are observed[22]:

- The total size of the unsold bank[23] is much larger than say 5 years worth of absorption at recent rates of demand.
- The market price of significant arms length transactions of transferable density declines by more than 10% per period in three consecutive 6 month periods.
- There are no projects in the approvals process that are planning on acquiring large amounts of transferable density, thereby reducing the unsold bank to acceptable levels.

These are indicators that the City is creating too much space for the market to use and should consider temporarily reducing the flow.

4. The City should evaluate and consider policy changes that could increase the demand for transferable density. There are many ways in which this could be done, some of which involve minor changes and some of which involve significant departures from current thinking. Consequently, some of these should be characterized as ideas to

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22 These should be considered benchmarks that are a starting point for a monitoring program. As monitoring progresses over time, it may be apparent that the benchmarks need to be adjusted or new conditions need to be added.

23 "Unsold bank" is meant to include the transferable density that is actively available for sale to other property owners/developers. It does not include density that is approved for transfer, but is being retained by the property owner for transfer at some future date (e.g., to another site owned by the same individual/company).

consider rather than firm recommendations. It may be that the City, the development industry, and the community find some of these acceptable and some not.

a) The City could eliminate the DCL charges on heritage density incorporated into a project. The rationale for this change is that the act of buying transferable density constitutes a kind of amenity provision (in an indirect sense) that warrants a credit in the calculation of charges.

b) The City should definitely explore opportunities to expand the range of receiver sites to locations outside the existing policy area. The aim would be to find portions of the City in which there would be a market for additional space and in which density increases would be compatible with existing land use, density, and community values.

c) The City could consider allowing developers to obtain density bonuses from amenity or social housing bonus provisions and still obtain a bonus for a heritage density transfers. The total density of a project would have to be subject to urban design considerations, but the use of more than one bonus density source should not be excluded when other City objectives are still being met.

d) The City could consider expanding the range of potential purchasers of density. At present, a purchaser must be a person (or company) who owns a receiver site and who then directly transfers the density from the source to the receiver property. Two other kinds of purchasers are possible:

   - The City should allow the acquisition of density by developers who do not yet own a suitable receiver site but want to have a small pool of density available to an upcoming project. This would allow developers to plan in additional density from the inception of a project because they would already control it.
   - The City could allow "third parties" to buy and hold density as an investment. A long term investor might hold density on the expectation of price increase. A short-term investor might be more of a broker, acquiring density and then working aggressively to help project developers find ways to use it.

There is evidence from other jurisdictions that allowing these kinds of purchasers to participate in the market has increased total demand for density.

e) The City could examine opportunities to make it easier for receiver sites to incorporate transferable density and could increase the amount of density that can be added to individual sites. In considering and approving the final density of a project, the City must obviously consider many factors in addition to simply finding ways to use up heritage density. In particular, the City must consider the urban design and neighbourhood livability implications of adding significantly more density than allowed under current zoning or achievable under existing urban design guidelines. However, there is a trade-off in having urban design guidelines or priorities that put tight limits on the extent to which extra density (which helps achieve other objectives such as heritage preservation) can be accommodated. Increases to height and density may involve issues such as view loss, shadowing, or reductions in livability, which are considerations that are very important to residents of Vancouver and cannot be arbitrarily dismissed in favour of selling more heritage density. However, it may be that there are circumstances in which the benefits of heritage preservation merit minor tradeoffs in some of these other factors. Some policy shifts or tradeoffs the City could consider include:

- The City could examine whether in some locations or some zoning districts the urban design guidelines could be revisited so that receiver site can usually achieve the full permitted FSR plus the 10% increase for a heritage density transfer[24].

[24] As an illustration, the C-3A district has a maximum potential density of 3.0. However, in practice the urban design objectives make it difficult to achieve the full density, so these properties are never candidates for heritage density transfers. It may be worth revisiting the urban design objectives to see if there are some C-3A sites that could be allowed to go up to 3.3 (i.e. the full 3.0 plus 10%). There is of course a trade-off involved, but it may be worth exploring whether minor shifts in urban design guidelines produce relatively large gains in achievable density.

- The City could investigate whether the approvals process for obtaining heritage density increases could be streamlined. The objective should be to give applicants a quick decision on the likelihood (considering urban design and other factors) of approval, without protracted evaluation or community involvement. Again, there is a trade-off here but the City should keep in mind that a significant proportion of potential heritage density transfers are sufficiently small in total dollar value (and potential profit) that it is simply not worth extending the approvals time on a large project.
- An even more significant policy change would be to consider raising the permitted density increase above 10% at receiver sites in some locations and/or making the permitted increase outright. This probably would not be acceptable on a "system-wide" basis, but there may be some locations in which these changes produce acceptable tradeoffs with regard to urban design considerations.
- Under existing policy, CD-1 sites are currently ineligible to receive transfers without rezoning. The City could consider making existing CD-1 sites eligible for the 10% bonus without rezoning.

f) The City could consider requiring that a portion (or all in some instances) of the additional density granted in a rezoning (or for some types of rezonings) be purchased from the heritage density bank. When the City rezones properties, it levies charges and in some cases it negotiates a package of benefits. However, the City does not impose any conditions on where the density "comes from". Density granted via rezoning essentially increases the total capacity of the City for built form. The cost of additional density gained by rezoning (in applications the City regards as standard) is made up of the cost of the rezoning process, any costs associated with the time to rezone, and the payment of the City's standard CAC rate of $3 for the net additional space. Buying extra density from the heritage bank can cost considerably more, so there may be circumstances in which it makes more sense to rezone rather than acquire heritage density.

g) The City could consider creating a formal density bank. Some jurisdictions actually buy some or all of the density that they create and they sell it to developers. This creates an immediate market for the density, but it means that all risk is transferred from the owners of heritage properties to the City. This option would require capital to buy density, would need investment management, and of course exposes the City to substantive risks (e.g., risk of falling price) and opportunity costs on any capital tied up to acquire transferable density.

h) The City could consider using other tools to expand the incentives and resources available to heritage building owners, at least in some areas, to reduce the dependence on transferable density. For example, some jurisdictions make wide use of property tax abatement for heritage projects. The City should pursue financial support from other levels of government (e.g., the City could urge the federal government to proceed with federal tax incentives as part of the Historic Places Conservation Initiative strategy).

APPENDIX A – LIST OF SITES WITH DENSITY APPROVED FOR TRANSFER

The City of Vancouver provided the following table on the status of the density bank as of September 2002:

900 Burrard Street	BC Hydro	
	sq.ft.	**receiver site**
approved for transfer	58,927	
transfer 1	-20,750	1054-1098 Robson Street
transfer 2	-38,177	to be used on rear lot 900 Burrard
balance	**0**	
750 Burrard Street	Public Library	
	sq.ft.	**receiver site**
approved for transfer	196,824	
transfer 1	-5,425	used on site
transfer 2	-6,170	1001 Hornby - Wall Centre
transfer 3	-10,375	1762 Davie Street
transfer 4	-4,141	1128 W. Hastings Street
transfer 5	-1,730	808 Bute Street
transfer 6	-433	1000 Robson Street
transfer 7	-8,805	1200 Hamilton Street
transfer 8	-260	1238 Seymour (DE403131)
transfer 9	-144,355	1001 Hornby
transfer 10	-3,925	1068 Hornby (DE403543)
transfer 11	-1,130	1068 Hornby (DE403598)
transfer 12	-56.5	1238 Seymour DE403978
transfer 13	-1,689	885 West Georgia

transfer 14	-1,100	1128 West Hastings
transfer 15	-3,400	1138 Melville St.
transfer 16	-515	928 Richards St
revised balance	***3,315 sq.ft.***	
901 W Hastings St.	park	
	sq.ft.	**receiver site**
approved for transfer	140,000	550 Burrard
balance	**0**	
720 Jervis Street	Abbott House	balance
		receiver site
approved for transfer	15793	
transfer 1	-15,793	1177 Pender Street
balance	**0**	

1200 Richards Street	**Canadian Linen**	
	sq. ft.	**receiver site**
approved for transfer	36,457	
transfer 1	-9,000	1238 Seymour (DE401125)
transfer 2	-1,030	1238 Seymour (DE402609)
transfer 3	-8,400	564 Granville Street
transfer 4	-10,500	1221 Homer (DE402673)
transfer 5	-14,408	1200 Hamilton Street
approved for transfer	6,275	
balance	***0***	

440 Cambie Street	**The Architecture Centre**	
	sq. ft.	**receiver site**
approved for transfer	35,000	
transfer 1	-35,000	1001 Hornby
balance	***0***	
2750 Granville Street	Stanley Theatre	
	sq. ft	**receiver site**
approved for transfer	44,000	
transfer 1	-44000	1001 Hornby - Wall Centre
balance	***0***	
400 West Hastings	Royal Bank (Film School)	**contact:Sy Bonnetmaker 604 - 682-4676**
	sq.ft.	**receiver site**
approved for transfer	37,700	
Balance	**33,751**	
211 Columbia St.		
	sq.ft.	**receiver site**
approved for transfer	37,200	
transfer 1	-2,400	401 Burrard
transfer 2-	-3,212	1128 West Hastings
transfer 3-	10,492	1010 Richards Street
transfer 3- tentative	*10,000*	*1011 Richards Street*
Balance	**11,096**	

3838 Cypress St.	Greencroft	**Contact: Tom Brown** **604 - 657-0222**
	sq.ft	**receiver site**
approved for transfer	38,500	
Balance	**37,600**	
626 W Pender	London Building	**Contact:** William Lin 604 - 681-6723
	sq.ft	**receiver site**
approved for transfer	80,000	
Transfer #1	-18,000	1085 Homer
Transfer #2	-2,854	828 Cardero (1580 Robson)
Balance	**59,146**	
55 Water St.		**Contact: Reliance Holdings** (Jon Stovell @ 604-683-2404)
	sq.ft	**receiver site**
approved for transfer	60,800	
Balance	**60,800**	
602 Dunsmuir Steet (St. Regis Hotel)		**Contact: MacDonald Development Corporation** (Bob Glass @ 604-331-6018)
	sq.ft	**receiver site**
approved for transfer	16,091	
Balance	**16,091**	

310 Water Street (Taylor Building)		**Contact: Salient Developments** (Robert Fung @ 604-818-7210)
	sq.ft	**receiver site**
approved for transfer	36,285	
Balance	**36,285**	
690 Burrard Street (Christ Church)		**Contact: Ian Birtwell 604-482-5579**
	sq.ft	**receiver site**
approved for transfer	73,170	
Balance	**73,170**	
339-341 Water Street (Greenshields Building)		**Anna Sen: 604-685-5898**
	sq.ft	**receiver site**
approved for transfer	37,000	
Balance	**37,000 sq.ft.**	

Total Approved for Transfer in Bank	368,254 sq.ft.
Other Projects Approved in Principle	28,200 sq.ft. (144 East Hastings)
Total Approved and in Principle	396,454 sq.ft.
Other Applications in Process	135,000 sq.ft. (Bank of Montreal)
	23,000 sq.ft. (Dal Grauer Substation)
Total	554,454 sq.ft.

APPENDIX B – ESTIMATES OF DEVELOPMENT CAPACITY IN RECEIVER AREA

As an indicator of the long term ability of the receiver areas to accommodate transferable density, we analyzed the long term gross development capacity for additional development in receiver areas.

Our analysis included two separate scenarios to define the lower and upper bound on the realistic development capacity remaining in the receiver areas:

1. The low scenario takes a relatively conservative approach to identify sites that could be considered realistic development candidates.
2. The high scenario takes a more aggressive approach to identify sites that could be development candidates.

Our approach to these estimates included the following main steps:

1. We compiled a database of all properties in the existing receiver areas. This database included the following information on each property:
    - Zoning and potential FSR (according to the City).
    - Existing floorspace (as of 1996).
    - Site size.
    - Heritage status (listed, designated).
    - Assessed value.
2. We identified all of the properties that could be considered potential development (or redevelopment) candidates in the foreseeable future. If a property met either of the following tests, it was classified as a potential redevelopment candidate:
    - For sites in Commercial or Downtown Development districts, the existing floorspace at the property is at most 10% (low scenario) to 30% (high scenario) of the permitted floorspace under existing zoning. These ratios are based on a

review of properties that have been developed or redeveloped over the past five years or so. We found that about 95% of the development sites had buildings with floorspace totalling less than 30% of the permitted floorspace and about 80% had had floorspace totalling less than 10% of the permitted floorspace. For sites in the RM-5 districts, this ratio was set to 35% as our analysis suggested that RM5 sites with improvements totalling about 30% to 35% of permitted floorspace can be considered development candidates.

- The assessed land value is at least 70% (high scenario) to 90% (low scenario) of the total assessed value of the site. Our review of properties that have recently been redeveloped indicated that the land value of all of the properties that were redeveloped was at least 80% of the total assessed value. The low and high scenarios bracket this ratio.

3. For all of the properties meeting either of the tests in step 2 above, we estimated the permitted gross floorspace if redeveloped under existing zoning and summed the permitted floorspace at all of the development candidates. This provided us an estimate of the total gross development potential at sites that could be considered realistic development candidates in receiver areas as of 1996.
4. We deducted all of the heritage properties that were identified as development candidates.
5. We deducted the total estimated development that occurred in the receiver area between 1996 and 2001 to arrive at an estimate of gross development potential as of the end of 2001.

The results of our analysis are summarized in the following table.

Summary of Estimated Development Potential In Receiver Areas

Scenario 1 - Low Estimate

Zoning District	Gross Development Potential (1)	Total Net Development Potential (2)	Gross Development Potential On Realistic Development Candidates-1996	Total Development Potential On Heritage Sites	Gross Development Potential On Realistic Development Candidates Net Of Heritage Sites (3)
C3-A	16,234,326	8,714,962	8,187,348	244,371	7,942,977
C-5	2,779,009	1,150,826	859,610	35,457	824,153
C-6	570,025	151,714	174,240	0	174,240
DD	63,403,421	34,474,206	27,767,782	5,530,815	22,528,382
RM-5	2,177,604	355,775	402,494	198,633	203,861
RM-5A	7,975,871	1,550,697	1,103,007	357,454	745,554
RM-5B	9,731,565	2,191,692	1,618,361	400,098	1,218,264
Total	102,871,821	48,589,871	40,112,843	6,766,827	33,637,429
Less Estimated Development Since 1996					5,500,000
Estimated Existing Gross Development Potential of "Candidate" Sites					**28,137,429**

Scenario 2 - High Estimate

Zoning District	Gross Development Potential (1)	Total Net Development Potential (2)	Gross Development Potential On Realistic Development Candidates-1996	Total Development Potential On Heritage Sites	Gross Development Potential On Realistic Development Candidates Net Of Heritage Sites (3)
C3-A	16,234,326	8,714,962	11,036,109	377,664	10,658,445
C-5	2,779,009	1,150,826	1,588,481	73,790	1,514,691
C-6	570,025	151,714	239,580	0	239,580
DD	63,403,421	34,474,206	37,496,132	7,723,175	30,064,372
RM-5	2,177,604	355,775	629,564	265,175	364,389
RM-5A	7,975,871	1,550,697	1,431,384	416,541	1,014,842
RM-5B	9,731,565	2,191,692	2,189,523	493,532	1,695,991
Total	102,871,821	48,589,871	54,610,772	9,349,876	45,552,310
Less Estimated Development Since 1996					5,500,000
Estimated Existing Gross Development Potential of "Candidate" Sites					**40,052,310**

Notes:

1. Gross Development Potential is the maximum potential of all sites in receiver areas based on existing permitted FSR.
2. Total Net Development Potential is Gross Development potential less Existing Development.
3. Gross Development Potential on Realistic Development Candidates Net of Heritage is the development capacity of the receiver areas.

The notable points from these estimates are as follows:

1. The existing zoning in the entire receiver area allows up to 103 million sq.ft. of total floorspace if all sites are fully developed.

2. A total of about 48 million to 49 million sq.ft. of floorspace existed in the receiver area as of 1996.

3. The gross development potential of all of the realistic development candidates in the receiver areas was between about 40 million and 55 million sq.ft. as of 1996. This included about 7 million to 9 million sq.ft. at sites that include heritage buildings.

4. The total gross development capacity in the receiver area on realistic development candidates excluding heritage properties was between 33 and 46 million sq.ft. as of 1996.

5. After deducting development that has occurred since 1996, the existing gross development capacity in the receiver areas is about 28 million to 40 million sq.ft. as of 2001.