

Heritage Rehabilitation Incentives in the City of Vancouver Analysis of Transferable Density Program

Prepared for: City of Vancouver

Prepared by: Altus Group Limited
July 2008

The attached consultant study is not City Council policy nor does it represent the views of City staff.

Upon review of this study, staff will report initial recommendations to Council. At that time, staff will recommend that Council receive the staff report, including the consultant study.

**HERITAGE REHABILITATION INCENTIVES
IN THE CITY OF VANCOUVER
ANALYSIS OF TRANSFERABLE DENSITY PROGRAM**

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1.0 INTRODUCTION

1.1 Project Overview

The City of Vancouver has a policy of encouraging the retention and revitalization of Heritage buildings. Two programs are in place, one affecting the City in general and the other having particular application to the areas of Gastown, Chinatown, Hastings Street Corridor and Victory Square.

As described in the City's Heritage Policies and Guidelines, compensation is paid to owners experiencing a loss in value resulting from a Heritage Designation. The Heritage Conservation sections of the Vancouver Charter set out these provisions. In practice, compensation takes the form of a grant of additional density that can be used on site or, subject to specified limitations, transferred to other sites. The property owner and the City enter into a Heritage Revitalization Agreement at the time of establishing the Heritage Designation.

The Heritage Façade Rehabilitation Program (HFRP) and the Heritage Building Rehabilitation Program (HBRP) affect heritage properties in Gastown, Chinatown, Hastings Corridor and Victory Square. Under HBRP, the Shortfall Cost resulting from undertaking developments involving heritage retention is determined by preparing a development pro-forma analysis. The City has the authority to provide an incentive for a developer to incur the necessary development costs by granting Bonus Density. Other incentives include property tax exemption. When Bonus Density is not used on the site on which the heritage building is located, it has the potential to be transferred to another site. Under these circumstances, payment for the transferable density is made by the owner of the Receiver Site to the owner of the heritage (Donor) site. This helps to offset the costs associated with heritage retention and revitalization.

Transferable density is created not only through the HBRP, but also through the Transfer of Density program which preceded the HBRP. Transfer of Density from Donor to Receiver sites is subject to the City's Transfer of Density Policy and Procedure, first adopted in 1983.

In order to monitor the supply and demand of the transferable density created in the ways described above, the City maintains a "Heritage Density Exchange" register. Actual or conditional transfers of density (including information relating to amount and price) are also recorded through notification letters submitted by proponents in the development approval process.

In 2006, there was a sharp increase in the supply of transferable density. Under circumstances where the supply of available transferable density is increasing at a greater rate than demand, the potential exists for bonus density to provide a diminishing incentive for heritage retention. If the situation were to persist, the ability to fund heritage density through creation of transferable density could be jeopardized.

Property Tax Exemption also improves the economics of heritage retention. Concern has been raised regarding the sustainability of this incentive where the developer of a strata title project does not retain ownership after project completion.

1.2 Purpose and Intended Use of the Study

The purpose of this study has been to review the factors affecting the creation of transferable density in the City with an emphasis on the way in which the program has been working in Gastown, Chinatown, Hastings Corridor and Victory Square. Our analysis has included a review of the City's current program of incentives and their effectiveness, with a particular focus on the manner in which the amount of Bonus Density is calculated through the Shortfall Cost proforma analysis used in the HBRP program.

It is intended that the findings of the study will be used to assist City staff in determining whether the HBRP should continue and, if so, in what form. The study will also be used in evaluating the success of the Transfer of Density program and to provide guidance for the development of policies and actions to support its success.

While details of both the City's heritage programs have been reviewed, the technical aspects of our study relate primarily to the Shortfall Cost analysis used in the HBRP area. There are two reasons for this. Firstly, the great majority of transferable density created in recent years has been within the HBRP area. Secondly, full details of projects outside the HBRP area are less readily available.

1.3 Scope of Work

Overview of Programs and Review of City Heritage retention policies and practices

- Review of current policies, guides and past studies relating to these.
- Brief review of supply and demand factors affecting the creation of and demand for transferable density. This has been undertaken by reference to recent studies and other material available to the City.
- Identification of perceived factors affecting the effectiveness of the program.

Technical Pro-Forma Review

- Identification of different methods for determining bonus density and the circumstances under which the methods apply.
- Review of the process of quantifying and granting transferable density in different circumstances through analysis of specific cases. This would be done by reference to available City documents and interviews with both City and developer representatives.
- Review of typical proforma analyses undertaken by both the City and heritage developers in the Shortfall Cost approach. Critique of costing and valuation methods used in order to assess accuracy and reliability of the compensation estimates.
- Analysis of the proforma components to assess the extent to which both construction costs and land values affect the determination of heritage compensation.
- Review of the negotiating process between the developer and the City regarding assessment of compensation for heritage retention.
- Preparation of fact sheet summarizing the methodologies and practices used in the determination of heritage compensation.

Pricing Analysis

- Analysis of sales of transferable density in order to identify the principal factors affecting its price over time.
- Comment on the relationship between the price of transferable density and land values.
- Analysis of potential for alternative methods of valuing transferable density to be introduced into the pro-forma analysis. Comment on the nature and viability of such alternatives.

Analysis of Property Tax Exemption Policy

- Review of details of current policy by reference to available City documentation and discussions with staff.
- Analysis of specific examples through review of City records and interviews with program participants giving consideration to:
 - Methodology used in determining amount of tax exemption
 - Procedures by which exemption is put in place
 - Amount of historic take-up of tax exemption
 - Effectiveness of the program based on retrospective analysis of specific examples with particular attention being paid to strata title development.

- Overview of alternative tax exemption programs in other jurisdictions in order to identify the effectiveness of these programs and the manner in which limitations, if any, have been addressed.

2.0 HERITAGE RETENTION POLICIES AND PRACTICES

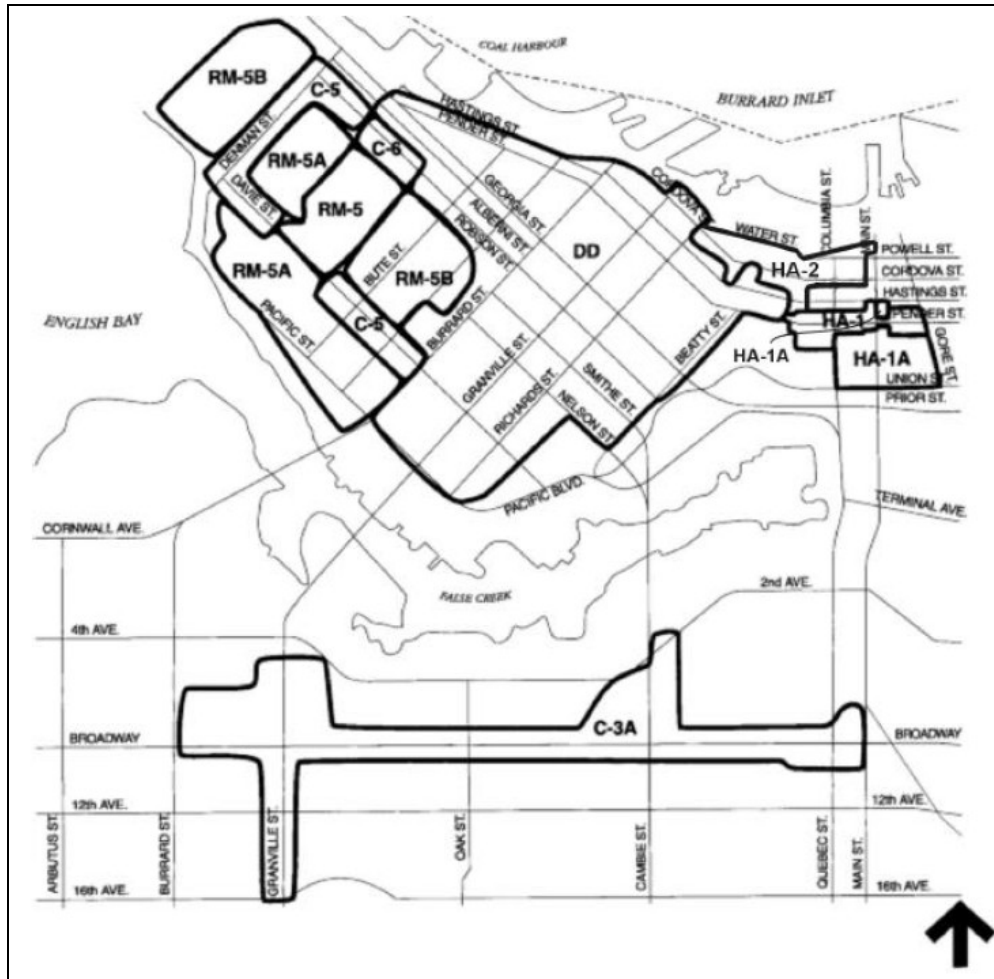
2.1 Current Policies and Guidelines

There are two main policies covering the preservation of heritage properties in the City of Vancouver. The following is a general outline of these.

a) City Wide Policy and Guidelines

The City's policy on Heritage Designation is described in the "Heritage Policies and Guidelines." The policy was established in 1986 and reaffirmed by City Council in 1991. It is applicable to heritage buildings in the City of Vancouver on the Heritage Register. There are specific criteria for areas of Downtown Vancouver and Broadway Corridor within identified zones. Retention and revitalization of Heritage characteristics is encouraged through the provision of compensation for the difference in value of the property subject to a heritage designation and the value as if the property were capable of being redeveloped to its highest and best use. Heritage designation may be voluntary, but may also be initiated by the City.

Compensation is made in the form of additional density which can either be used on-site or transferred to other sites, subject to certain restrictions. In areas other than those in the Downtown Areas, density cannot be transferred across zoning boundaries. For sites in the Downtown Area, density can be transferred to other sites within the area shown on the following map. Density cannot, however, be transferred onto sites in the HA-1, HA-1A and HA-2 districts.



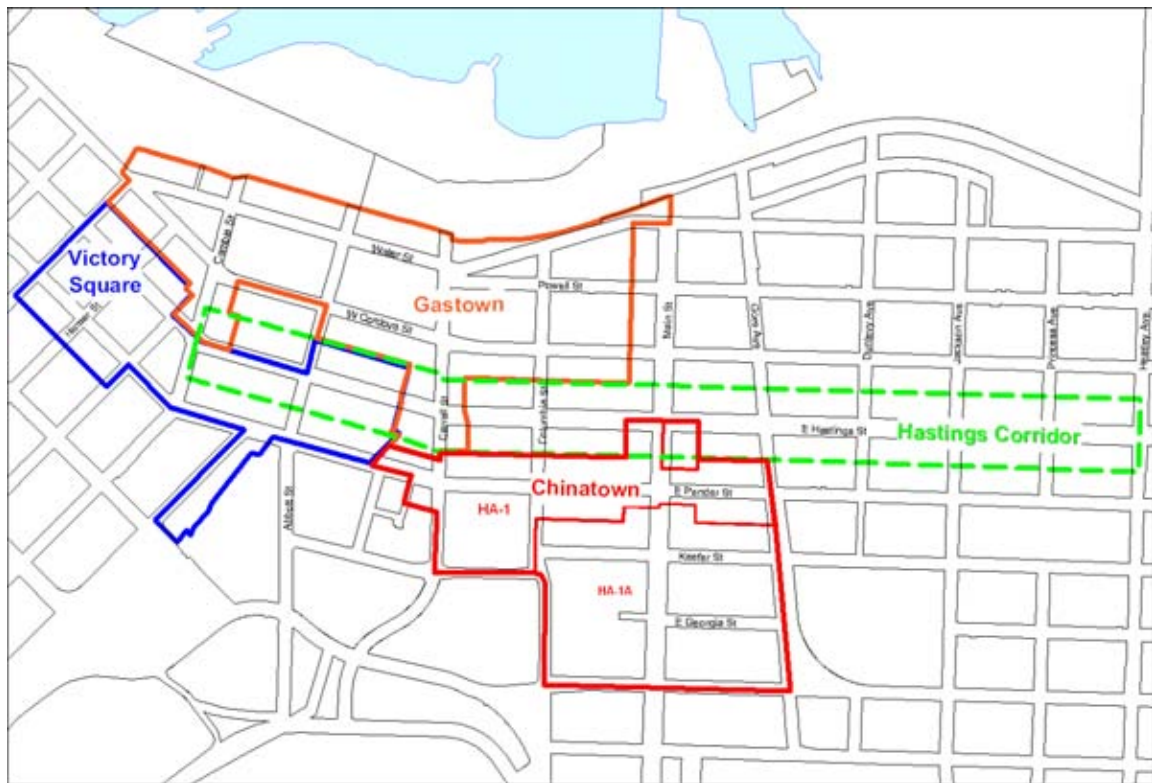
The method of calculating the amount of density granted as compensation is described in greater detail later in the report.

The Transfer of Density Policy and Procedure was adopted by Council in 1986 and has since been amended periodically.

b) Heritage Building Rehabilitation Program and Heritage Façade Rehabilitation Program

The Heritage Building Rehabilitation Policy (HBRP) and the Heritage Façade Rehabilitation Program (HFRP) are two programs covering the HA-1, HA-1A, HA-2 zones of Gastown, Chinatown, Hastings Street (between Cambie Street and Heatley Avenue) and Victory Square. The intention of the programs is to promote economic revitalization as well as facilitate the conservation and rehabilitation of buildings in these areas. Both programs were created in 2003 and established for a period of 5 years. In July 2007, City Council endorsed the undertaking of a review of the HBRP and the Transfer of Density program (the "Review"). Council also limited approval of transferable density to 300,000 to 350,000 sq.ft. and advised staff to process five projects based on specified evaluation criteria.

The area covered by the HBRP and HFRP programs is shown on the following map.



The programs are not restricted to buildings on the Heritage Register but, if they are on the register, they are automatically eligible for consideration. Owners of properties entering into the HBRP program must sign a Heritage Revitalization Agreement.

The Heritage Building Rehabilitation Program encourages full building rehabilitation through a variety of incentives. The four incentives associated with the HBRP and offered by the City are the **Heritage Façade Rehabilitation Program** (which provides grants of 50% of the façade rehabilitation costs up to a maximum of \$50,000), **Property Tax Exemption**, granting of **Bonus Density**, and the possible granting of **Residual Density**.

Depending on the physical characteristics of the site and the existing zoning, there are two options for the use of the bonus and residual density the owner can negotiate with the City:

- a) Bonus and residual density can be developed on-site and combined with the preservation of the heritage building.
- b) The residual and bonus density can be transferred/sold to other sites, within the provisions of the City's Transfer of Density Policy.

In both the programs described here, an evaluation of both revenues and costs associated with redevelopment is undertaken by City staff following submission of materials by the applicants. This Shortfall Cost evaluation requires the preparation of a pro-forma.

Details of the methods by which Bonus Density and Residual Density are determined are set out in section of this report entitled "Technical Pro-Forma Review".

2.2 Factors Affecting the Supply of and Demand for Transferable Density

Heritage Density can be transferred to more than one receiver site. There are two ways in which density may be transferred:

- a) *Density increase of up to 10%*: In several of the zoning districts in the Central Area, the Development Permit Board may approve a development application which requests an increase in density of up to 10% more than is otherwise permitted by the existing zoning. In doing so, the Board will give particular consideration to the impact of a density increase on shadowing, floor plate shape and size, height and public views, as well as the opinions of any persons who consider themselves affected. Council policy excludes the following as receiver sites:

- sites already receiving a 15 % hotel bonus;
 - sites already receiving a heritage density bonus;
 - sites containing a single room occupancy (SRO) hotel, unless arrangements are made to secure or replace units; and
 - sites zoned CD-1, unless a provision is included in the CD-1 by-law.
- b) *More than 10% increase in density on receiver sites outside the Central Area:* If the proposed increase in density is more than 10%, or the receiver site is located outside the districts listed above, a rezoning application can be made, and is subject to municipal approval.

Transferable density (whether created outside or inside the DTES defined area) may not be transferred to receiver sites in the HA-1, HA-1A or HA-2 areas of the DTES. 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, such transfers are limited in number. Up to 2002 there had been only been one transfer for non-heritage purposes.¹ 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. Since then, non-heritage transferable density was created as part of the Woodward's project.

According to a draft consulting report created for the City of Vancouver (Coriolis Consulting Corp., "Projections of the Demand and Supply of Transferable Density in the City of Vancouver: 2006 to 2011", August 2006), there are five main factors affecting the demand of transferable density:

- a) The amount of development opportunity available in receiver areas directly affects the amount of transferable density that can be absorbed. It may be noted that the geographic areas to which density can be transferred is limited in the manner described previously. These limitations have a negative impact on the demand for transferable density.
- b) The amount of projects that apply for the 10% increase above current FSR at the development permit stage. These projects affect demand less than the projects submitted for rezoning applications.

¹ Coriolis Consulting Corp. "Evaluation of the City of Vancouver's Heritage Density Transfer System". 10.30.2002.

- c) The number and size of projects that request a greater than 10% increase in current FSR by undergoing the rezoning process. These projects are subject to voluntary CAC's which have a heritage component. This component can be fulfilled by either purchasing transferable density, performing heritage renovations on the current site or, in some cases, both. Through this process more transferable density is absorbed than through the development permit, 10% FSR increase.
- d) The value of CAC's resulting from rezoning and the additional land value created (referred to as the "land lift") influences the amount of CAC's, of which heritage density forms a part, and hence the demand for transferable density.
- e) The portion of CAC's allotted to heritage contributions and the purchase of transferable density.

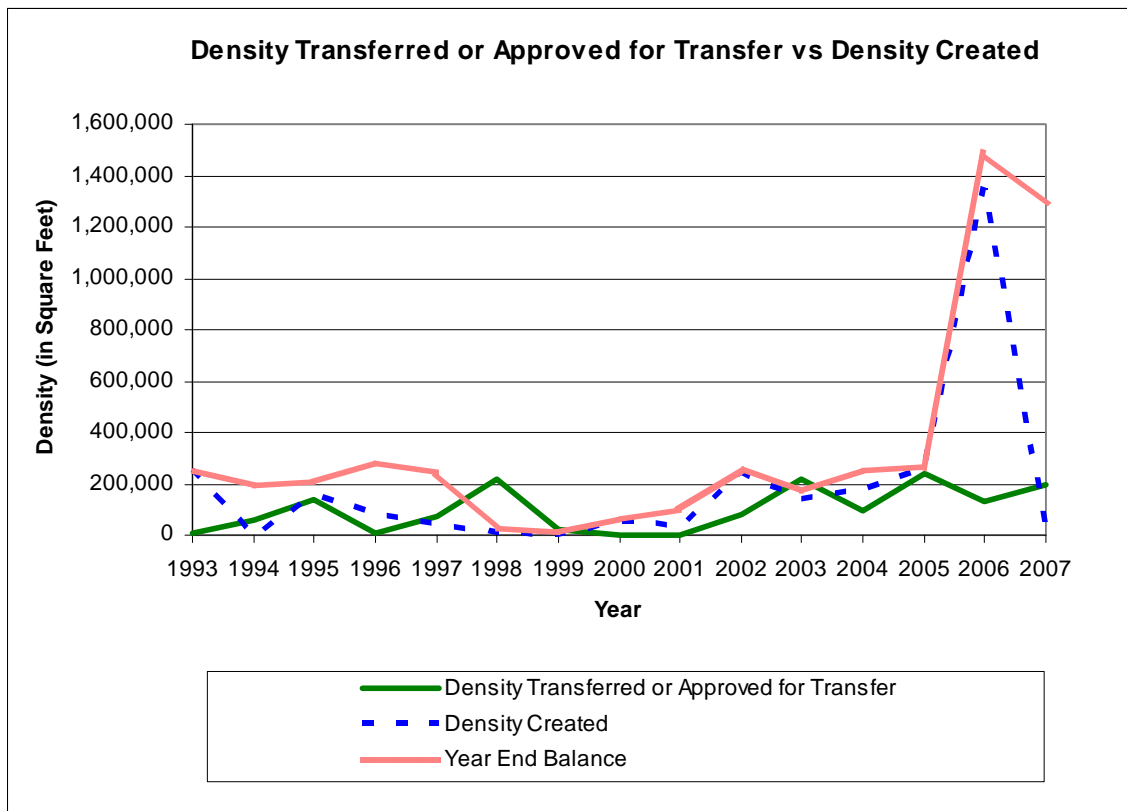
Our own research has confirmed that these continue to be the principal factors affecting demand for transferable density. We can also observe that improving the way in which available transferable density is recorded and transferred could have a positive impact on demand.

The factors affecting the supply of transferable density stem from civic policies. The supply of bonus density is generated through City initiatives promoting heritage rehabilitation and economic revitalization in areas such as the DTES. Transferable density, as an incentive tool to developers and property owners, is created through the programs described previously.

The table and graph on the following page indicate the interaction of the supply and demand for transferable density in recent years (1993-2007).

In reviewing the supply data it is important to note that the amount of supply not yet transferred is not all immediately available for sale. Of the current (June 2008) total balance of around 1.57 million sq.ft. shown on the Transferable Heritage Density Inventory (see Appendix, Page 5), some 270,000 sq.ft. have been designated for transfer but have yet to receive development approval and are not therefore available for sale. Exclusive of this, the amount of density either now available or potentially available once donor site conditions have been met is approximately 1.3 million sq.ft. Of this around 1,140,000 sq.ft. will be available only after meeting the conditions of Heritage Revitalization Agreements, leaving a balance of 157,000 sq.ft. as being immediately available. Nevertheless the amount created does represent a significant supply issue for the next few years.

Transferable Density Inventory			
Year	Density Created	Density Transferred or Approved for Transfer	Year End Balance
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	54,200	3,400	57,424
2001	38,500	2,915	93,009
2002	242,546	80,903	254,652
2003	135,000	219,618	170,034
2004	174,100	97,793	246,341
2005	255,151	239,352	262,140
2006	1,351,057	130,060	1,483,137
2007	0	195,609	1,287,529



3.0 TECHNICAL PRO-FORMA REVIEW

3.1 Alternative Methods of Determining Bonus Density

- As described in the previous section there are two principal ways in which the amount of transferable density is calculated, depending on the location of the Heritage property.
- The first applies to the City generally with specific guidelines being set out for the Downtown, West End and Broadway areas. The second method applies to the Gastown, Chinatown, Hastings Corridor and Victory Square areas.

General Guidelines

- Calculation of Bonus Density is based on:
 - a) the value of the property assuming it can be developed to its highest and best use not encumbered by a heritage designation (called the *Unencumbered Value*) and
 - b) the value assuming the property is retained and renovated in a way that maintains its heritage characteristics (called the *Encumbered Value*).
- The difference between the *Unencumbered Value* and the *Encumbered Value* represents the amount the City regards as being the value of the eligible compensation to which an owner is entitled for retaining the building rather than demolishing it. This compensation is then translated into density by dividing the amount of compensation by the value of that density.
- Where the density is not used on site it can be transferred to another site. The rules for transferring density differ depending on the location of the property. With certain exceptions, density cannot be transferred across zoning lines, density or height district boundaries in an ODP or District Schedule.
- Transfers involving properties in the Downtown, West End and Broadway areas can be transferred within the area specified on the map included in the previous section and may cross zoning lines. Under current policies, heritage density cannot be transferred onto sites in the HA-1, HA-1A, HA-2 zoning Districts. These generally cover the Gastown and Chinatown areas.

- The calculation of the amount of compensation and hence Bonus Density is undertaken in the following way:

The *Unencumbered value* of the property is estimated assuming there is no heritage designation and that the property can be redeveloped to its highest and best use. Because demolition of any building on the land will typically be required to achieve the highest and best use, the *Unencumbered value* is generally based on the value of the land alone.

The *Encumbered value* is estimated based on the assumption that the designated building will be retained and renovated. This estimate typically requires a *land residual valuation*. This involves estimating the value of the property after renovation and deducting from this the allowable renovation costs plus profit. The compensation to the developer is the difference between *Unencumbered* and the *Encumbered* values.

- The following schematic (and much simplified) calculation illustrates how this works:

<i>Unencumbered Value</i>	\$2,000,000
 <i>Encumbered Value</i>	
Value after Heritage Renovation	\$3,000,000
Less: Allowable Renovation Costs	\$2,000,000
Profit	<u>\$ 300,000</u>
Total	<u>\$2,300,000</u>
 Residual Land Value (<i>Encumbered Value</i>)	 <u>\$ 700,000</u>
Compensation for Heritage Renovation	\$1,300,000
Assumed Value of Density per sq.ft.	\$100
Bonus Density	13,000 sq.ft.

- In this example, if the renovation scheme could accommodate 3,000 sq.ft. on site, 10,000 sq.ft. would be available for transfer to another site in accordance with the appropriate policies and guidelines.

- In some cases, the only difference between the *Unencumbered* and *Encumbered* values might be the additional cost associated with maintaining heritage characteristics. In these circumstances, the calculation of compensation (and hence Bonus Density) can be shortened by simply estimating this additional or “premium” cost.

Gastown, Chinatown, Victory Square and Hastings Corridor Guidelines

- Calculating density and other incentives in these areas is more complex and involves a number of different elements. The policy is based on the premise that where the costs of renovation (including profit and pre-renovation property value) exceed the value of the property after renovation, the City will provide compensation and subsidies to encourage development in non-economic situations. The total amount of the incentive package is made up of four principal components:
 - Façade Rehabilitation Grants
 - Property Tax Exemptions
 - Bonus Transferable Density
 - Residual Density
- The first step in the process is to estimate:
 - a) the value of the property after the building has been renovated in a manner which preserves the heritage features,
 - b) the costs of undertaking the renovation,
 - c) the value of the property before the renovation, and
 - d) the profit normally required to undertake such a development.
- The Shortfall Cost is the difference between the project costs (being the total of b), c) and d)) and the value of the rehabilitated building (determined in a)). This represents the amount of compensation/subsidy to be allocated between the Façade Rehabilitation Grant, Property Tax Exemptions and Bonus Transferable Density.
- The *Façade Rehabilitation Grant* assists owners by covering 50% of the costs of rehabilitating heritage building façades up to a maximum of \$50,000 per principal façade. Corner sites are deemed to have two principal façades.

- *Property Tax Exemptions* are granted for a period of up to 10 years. The amount is calculated by estimating the amount of property taxes the property is expected to generate annually after it has been renovated. The value of these annual exemptions is then expressed as a lump sum based on net present value (NPV) calculations.
- The amount of the difference between costs and value (the Shortfall Cost) is used to calculate *Bonus Transferable Density*. In doing this calculation, deductions are made first for any Façade Rehabilitation Grant and second for the estimated present value of Property Tax Exemptions. The amount of the balance represents the total value of the Bonus Transferable Density. The number of sq.ft. of Bonus Transferable Density is calculated by dividing the total value by its value per sq.ft. as determined by the City. Currently this value is set at \$65 per sq.ft.
- The amount of *Residual Density* results from a separate calculation not associated with the calculation of Shortfall Cost. It is determined by first estimating the amount of density that could hypothetically be constructed on the property. In the areas covered by the program the zoning does not specify a maximum density or Floor Space Ratio (FSR). Under current City policy the maximum density to be assumed, for the purpose of this calculation, is 5.5 FSR. For a site with an area of 10,000 sq.ft., the hypothetical density would therefore be 55,000 sq.ft.. *Residual Density* is calculated by deducting the actual density of the development from the hypothetical density. In the example given, if the actual density were 25,000 sq.ft., the *Residual Density* would be 30,000 sq.ft.
- The following simplified, schematic calculation illustrates how the two elements of transferable density are calculated in this program:

1. Bonus Density Calculation

Value of Property as if Renovated (Exclusive of Residual Density) ⁽¹⁾		\$5,000,000
Less: Renovation Costs	\$4,000,000	
Property value before renovation	\$1,200,000	
Profit (15% of Cost less incentives) ⁽²⁾	<u>\$ 652,000</u>	
Total		<u>\$5,852,000</u>
Shortfall Cost (Equals Total Incentives)		\$ 852,000
Less: Façade Grant	\$ 50,000	
Property Tax Exemption (NPV)	<u>\$ 200,000</u>	
Total		<u>\$ 250,000</u>
Amount to be allocated to Bonus Transferable Density		\$ 602,000
Assumed Value of Density per sq.ft.		<u>\$ 65</u>
Bonus Density		9,262sq.ft.

2. Residual Density Calculation

Residual Density		
Site Area	10,000 sq.ft.	
Hypothetical FSR	<u>5.5</u>	
Hypothetical Density		55,000 sq.ft.
Actual Density		<u>25,000 sq.ft.</u>
Residual Density		<u>30,000 sq. ft</u>

3. Total Transferable Density 39,262 sq.ft.

(1) The Value as if renovated, as calculated in the pro-forma analysis, is based on the assumption that there is no Residual Density. See discussion on this issue below.

(2) The method of calculating profit has varied over time. In this example, the amount is calculated as 15% of the total costs excluding profit, façade grant, Property tax Exemption and Bonus Density. See discussion later in the report.

- Although Residual Density has been shown to exist in the above example, this will not always be the case.

3.2 Gastown, Chinatown, Hastings and Victory Square – Incentive Program Process

Overview of The Process

- Publicly available information relating to the incentive programs and the process involved in making applications is found on the City’s website:
<http://www.vancouver.ca/commsvcs/planning/heritage/incentives.htm>
- Prior to a formal application for incentives under the program, applicants have the opportunity to meet with staff to review details of the proposed project and to identify major issues relating to heritage conservation, design, financial analysis and process. Since March 2006, the City’s process has required applicants to meet with City staff at the enquiry stage. In some instances it has been possible to provide an estimate of the “Order of Magnitude” of the amount of incentives. This provides guidance to both the City and applicants prior to a formal application being made.
- Formal applications and requests for incentives under the program are made at the Development Permit Application stage. Applicants are required to submit information relating to:
 - Outline conservation specification
 - Drawings and renderings accurately describing the existing condition and proposed work
 - A development pro-forma
 - Other material such as current and historical photographs

The City may also request the applicant supply additional information necessary for them to determine the incentive amount.

Applicants are provided with a standard pro-forma, but these do not included a common format for cost details. Cost issues in each case are viewed as being different although applicants may be given guidance by being referred to previous examples.

- Evaluation of applications by the City is guided by a number of criteria. These include:
 - Level and quality of proposed conservation heritage work
 - Heritage quality of the building
 - Relationship of the building to other heritage buildings or conservation projects

- Compliance with design guidelines
 - Amount of incentive as proportion of capital investment. Higher levels of private investment are regarded more favourably
-
- Heritage incentive applications are reviewed at the same time as Development Permit applications. The City does not guarantee that incentives will be granted at all, or in the amounts requested.
 - Once the terms of the incentives are agreed by the City and the applicant, they enter into a Heritage Revitalization Agreement. This requires the creation of a by-law. Tax exemption provisions are also incorporated into a by-law which requires a 2/3 majority of council.
 - Bonus density created through the process described above is specified in the Heritage Revitalization Agreement. This Agreement is registered on the title of the heritage property (the "Donor Site"). Once the conditions of the Agreement have been met, density can be transferred in whole or part. The transfer must be done in accordance with City policies and is typically transferred to another site (the "Receiver Site") in one of two ways: sale to a different developer or transferred to another site in the same ownership as the heritage site.
 - Where transfers of density occur participants are required to complete documents recording the identity of the Donor and Receiver Sites, amount and price of the density transferred, and the balance remaining on the Donor Site after transfer.

Commentary on The Process

- The process described above has been discussed with a number of developers who have experience in the program. The purpose of our enquiries was to canvass comments from the market through a series of interviews. The interviews were guided by a questionnaire, a copy of which , together with an aggregated summary of responses, has been included in the Appendix to this report.
- A number of common themes emerged. These are summarized as follows:

Application and Approval Process

- Until July 2007 (when the Review of the program was endorsed by Council), the application and approval process was generally seen to be working well and the program was perceived to be a success. Some respondents expressed concern at the length of time for the process to complete, but this was viewed by one respondent as being more a function of the City's heavy workload rather than the process per se.
- The provision of an "Order of Magnitude" was seen by those with the experience as being a positive element in the program.
- The program was regarded as having a positive impact on values in the area. The opinion was expressed that a number of projects would not have proceeded had it not been for the program, although it was not regarded as having created a boom.

Clarity and Consistency

- Negotiations relating to the pro-forma, particularly as they relate to cost, were perceived by a number of respondents to lack clarity and consistency. They felt that decisions regarding cost estimates were, on occasion, arbitrary and not fully explained.

Processing Applications During the Review

- Concern was expressed regarding the criteria for choosing which projects were to proceed during the Review.
- There was a general consensus that the limitation on approval of new projects had a negative effect on values of potential development/rehabilitation properties in the area.

The Market for Transferable Density

- There was broad concern for the increasing difficulty of marketing transferable density. Among the factors affecting this were:
 - o The more limited availability of large rezoning applications, particularly in the future. As noted above, these account for the majority of transfers of heritage density.

- The limitation on the amount of heritage density that can be transferred through Development Permit Application (rather than rezoning). A number of responders felt that it was necessary to increase the amount above the current limit of 10% in order to broaden demand.
 - Limitations on the areas within which density can be transferred.
 - The supply of transferable density is increased unduly by the creation of transferable density for non-heritage purposes (such as the provision of other amenities) or providing a heritage classification for buildings not currently on the Heritage Register.
 - Competition from other programs in the allocation of developer contributions on rezoning.
 - Lack of reliable information regarding the amount and availability of transferable density. Although the City monitors and provides information about the supply of transferable density and updates this information regularly on the City's website, concern was expressed about the accuracy of this information.
- Some participants expressed the view that the City should have more involvement in maintaining the information for the bank of transferable density. One example given relates to the identification of remaining density at a Donor Site. At present transferable density is identified in a Heritage Revitalization agreement registered on the title of the Donor Site. Transfers are not identified in a similar way. Reliance on City records is therefore necessary for identification of any balance of transferable density.

Tax Exemptions

- A concern was expressed regarding the difficulty for the developer to realize a benefit from tax exemptions relating to residential strata units. It was indicated that although the subsequent purchasers did benefit from the tax exemption, it was not always possible for the developer to obtain the full premium associated with this exemption on the initial sale of the units.
- No concern was expressed in relation to tax exemptions for the commercial components of a project.

3.3 HBRP Pro-Forma Component Review

- A pro-forma project analysis is the basis for estimating the Shortfall Cost used to determine the total incentives for Heritage Projects in the HBRP area, including Transferable Density in the form of both Heritage Bonus Density. The calculation of Residual Density is included in the pro-forma but does not form part of the Shortfall Cost estimate. The principal elements of the pro-forma have been summarized previously, but in order to address the individual components in more detail, a hypothetical example of an HBRP Shortfall Cost analysis has been set out in the pro-forma on the following pages. This is essentially in the format sent by the City to applicants although we have modified the layout slightly in order to assist our commentary.

- The pro-forma has four main components:
 1. Projected value when complete
 2. Cost of development
 3. Allocation of recoverable Shortfall Costs between various heritage incentives
 4. Compensation summary

Applicants are required to complete the first two components only; the other two are completed by the City.

- Our analysis involved the following process:
 - Obtaining copies of 16 pro-forma
 - Discussing with City staff the manner in which the individual inputs are reviewed and/or calculated
 - Preparing a detailed summary spreadsheet of the pro-forma analyzed in order to compare details of the individual components
 - Observation of any inconsistencies resulting from the comparison
 - Review of data used in the pro-forma in comparison to market indicators
 - Discussions with market participants regarding the pro-forma process

We note that have not undertaken a detailed audit of each pro-forma; this was not part of our terms of reference. Our comments therefore relate more to consistency of approach.

SAMPLE PRO-FORMA ANALYSIS - GASTOWN/CHINATOWN/HASTINGS/VICTORY SQUARE

1. PROJECTED VALUE WHEN COMPLETE

Commercial Component

Retail	1,200 sf@	\$30.00		\$	36,000	
Other	<u> </u> sf@			\$	-	
	1,200			\$	36,000	
		less: vacancy @	5%	\$	(1,800)	
				\$	34,200	
		less: operating @	1%	\$	(342)	
				\$	33,858	
		Capitalized @	7.00%	\$	483,686	
				\$	483,686	

Residential

		unit	sf	Index @		
<i>Proposed Prices</i>				2%		
\$	525	1	2,400	\$ 536	\$	1,285,200
\$	525	2	2,400	\$ 536	\$	1,285,200
\$	525	3	2,400	\$ 536	\$	1,285,200
\$	<u>525</u>	4	2,300	\$ 536	\$	1,231,650
			9,500	\$ 536	\$	<u>5,087,250</u>
Total Value Created					\$	5,570,936

2. COST OF DEVELOPMENT

Hard costs	14,000 sf @	\$ 300.00	\$ 4,200,000	<u> </u>
Total Hard Cost				\$ 4,200,000
Contingency	20.00% of hard cost			\$ 840,000
Total Hard Costs plus Contingency				\$ 5,040,000
Soft Costs	20.00% of	\$ 5,040,000		\$ 1,008,000
				<u> </u>
				Total Redevelopment Cost \$ 6,048,000

Land Value Input Determination

	Purchase price within last 3 years (if any)	\$1,000,000	
	Current Assessments (2007)		
	Land	\$600,000	
	Improvements	\$300,000	
	Total Assmt	<u>\$900,000</u>	
	Policy says to use the lesser of:		
	Purchase price within 3 yrs of application:	\$1,000,000	
or	Recent appealed assessed value:	na	
or	Assessed value + 25%:	\$1,125,000	
	Land Value input	<u>\$ 1,000,000</u>	
	Total Construction Costs	\$ 7,048,000	
		<u>\$ 835,640</u>	
Profit	15.00% of Cost less Shortfall (See comments in text below)		\$ 7,883,640
			<u> </u>
	Total cost of the project		\$ 7,883,640
			<u> </u>
	Total Shortfall		\$ (2,312,705)

3. ALLOCATION OF RECOVERABLE SHORTFALL COSTS BETWEEN VARIOUS HERITAGE INCENTIVES

Incentive #1	Facade Grant - a maximum of \$50,000 for each principal façade facing a street	# of façades:	1	\$	50,000
Incentive #2	Property Tax Exemption				
Application date:	1-Jan-07				
Hypothetical Council date	1-Apr-07	Estimated date only			
Hypothetical Occupancy Permit date:	1-Aug-08	Estimated date only			
City advises BCAA	31-Oct-08				
Property Tax Exemption starts July 1st in the year following issuance of the final occupancy permit, say			7/09		
3 year average City of Vancouver tax rate increase - per Finance Dept:	3.60%	for 2006			

		COMMERCIAL COMPONENT			RESIDENTIAL COMPONENT			Total FV of taxes	% of annual tax reduced
Date	Year	Taxable Class 6	Tax Rate Class 6	Tax Class 6	Taxable Class 1	Tax Rate Class 1	Tax Class 1		
	2004	\$483,686			\$5,087,250				
2006 mill rates	2005	\$483,686		\$0	\$5,087,250		\$0		
	2006	\$483,686	\$28.26	\$13,669	\$5,087,250	\$4.95	\$25,173		
	2007	\$483,686	\$29.28	\$14,161	\$5,087,250	\$5.13	\$26,079		
	2008	\$483,686	\$30.33	\$14,671	\$5,087,250	\$5.31	\$27,018		
	2009	\$483,686	\$31.42	\$15,199	\$5,087,250	\$5.50	\$27,990	\$43,189	0%
	2010	\$483,686	\$32.55	\$15,746	\$5,087,250	\$5.70	\$28,998	\$44,744	100%
	2011	\$483,686	\$33.73	\$16,313	\$5,087,250	\$5.91	\$30,042	\$46,355	100%
	2012	\$483,686	\$34.94	\$16,900	\$5,087,250	\$6.12	\$31,123	\$48,024	100%
	2013	\$483,686	\$36.20	\$17,509	\$5,087,250	\$6.34	\$32,244	\$49,752	100%
	2014	\$483,686	\$37.50	\$18,139	\$5,087,250	\$6.57	\$33,405	\$51,544	100%
	2015	\$483,686	\$38.85	\$18,792	\$5,087,250	\$6.80	\$34,607	\$53,399	100%
	2016	\$483,686	\$40.25	\$19,469	\$5,087,250	\$7.05	\$35,853	\$55,322	100%
	2017	\$483,686	\$41.70	\$20,169	\$5,087,250	\$7.30	\$37,144	\$57,313	100%
	2018	\$483,686	\$43.20	\$20,895	\$5,087,250	\$7.56	\$38,481	\$59,376	100%

Discount rate is Govt. of Canada Benchmark Bond Yields - 5 yr + 2%
as of the 1st day of the month the application is received:

1-Oct-06 ; the discount rate was: 4.20% as of Oct 1 2006
+ 2.00%

Discount rate applicable to Property Tax forgiveness is: 6.20% NPV over 10 year tax horizon at 6.20% \$ 364,678

Incentive #3 Bonus Density to be transferred off-site Shortfall remaining \$ (1,898,026)
\$ 1,898,026 divided by \$ 50 /sf = 37,961 sq.ft.

4. COMPENSATION SUMMARY

Façade Grant	\$	50,000	
Property Tax Forgiveness	\$	364,678	sf
Bonus Density	\$	1,898,026	37,961
Total before Residual Density	\$	2,312,705	
Residual Density	\$	125,000	2,500 See Calculation Below
Total compensation	\$	2,437,705	40,461

Residual Density Calculation		
Site area	3,000 sf	
x 5.5 FSR	x 5.5	
Max buildable	16500 sf	Equivalent
Proposed sf	14000	Value
Residual sf	2,500	\$125,000

Compensation as a % of total cost 29%

Compensation + Residual density as a % of total cost 31%

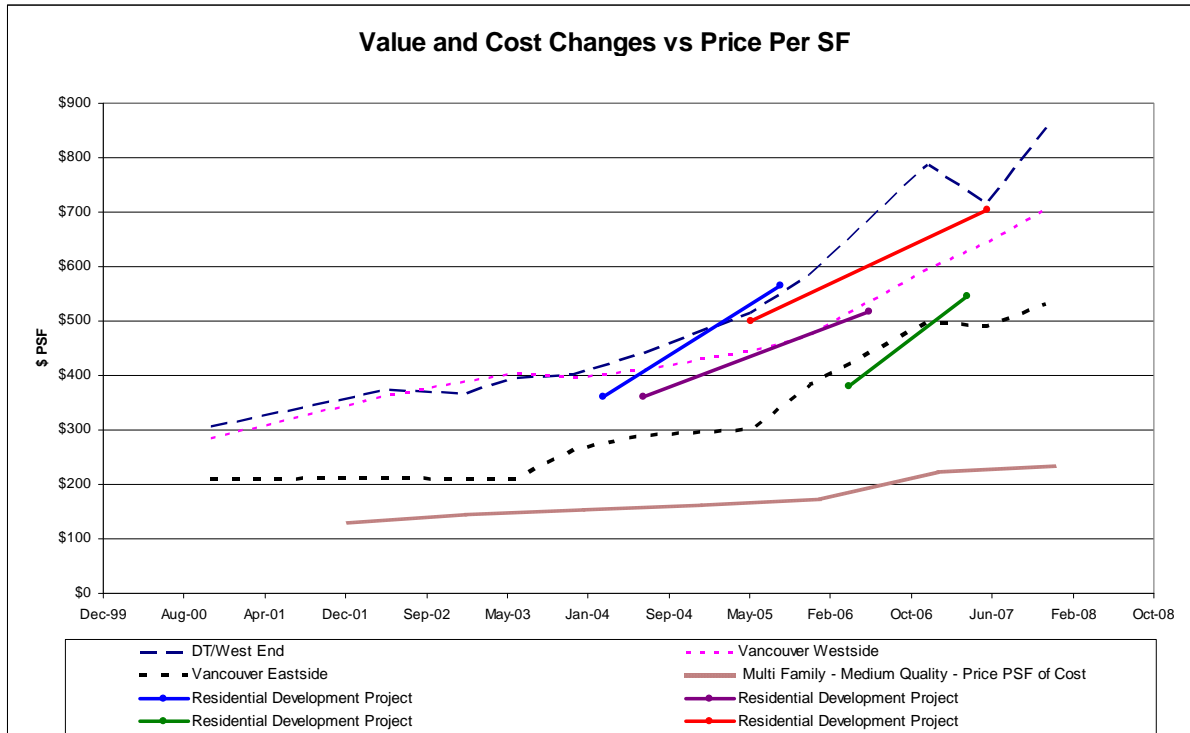
- Individual elements of each of the four main components have been analyzed under their respective headings.

1. Projected Value When Complete

- Values are estimated by reference to a specific date, usually the date of application. Values are estimated by the applicant when completing the pro-forma and reviewed by City staff using other market indicators.
- There are typically two value components: residential units (generally for sale) and commercial units. The value of residential units is estimated at their projected sale price; commercial unit values are estimated using an income approach. The income approach involves estimating the rent and net income (after deducting non-recoverable expenses) to be realized by the completed units. This net income is then capitalized using a capitalization rate. The total of these two components is the value of the project when complete.

Residential Values

- Because prices have been escalating rapidly in recent years, it was considered appropriate to review the way in which subsequent sale prices changed in comparison to value estimates made in the pro-forma at the application stage. This could then be compared to the experience of the market generally.
- In order to ascertain the reasonableness and consistency of the pro-forma approach, we compared average sales prices used in the pro-forma in four projects with average condominium prices in three other areas of the City: Downtown/West End, Vancouver Eastside, and Vancouver Westside. The purpose of the comparison was to ascertain if value/price changes between the original sale date and subsequent commencement of marketing had been consistent with the market in a general way. The results of this are summarized in the following graph.



- Our observation is that although there was an increase in the average sale price of the projects reviewed (referred to in the graph as Projects A,B,C and D) between the date of the original estimate and the commencement of project marketing, the increases were generally consistent with average market experience as reported by Pricewaterhouse-Coopers in their *Condominium Market Review*.
- It can therefore be concluded that the pro-forma approach has been consistent with market experience with respect to this component. It is important to note that for consistency, estimation of the market value of units at the application stage should be based on then current pre-sale values of comparable projects.
- In estimating total revenues from this component, an allowance would be made for marketing and sales costs. In our review of the pro-forma, the amount deducted does not appear to have been estimated in a consistent way. In the five of the projects reviewed, sales costs varied from zero to 5.5% of the gross sales prices

Commercial Values

- As noted above, commercial values are based on an income approach. This involves estimating the market rental value of the commercial areas created, and deducting an allowance for vacancy and non-recoverable amounts in order to arrive at a net annual income. This amount is then capitalized at a rate of return which would typically be derived from a comparison of market transactions.

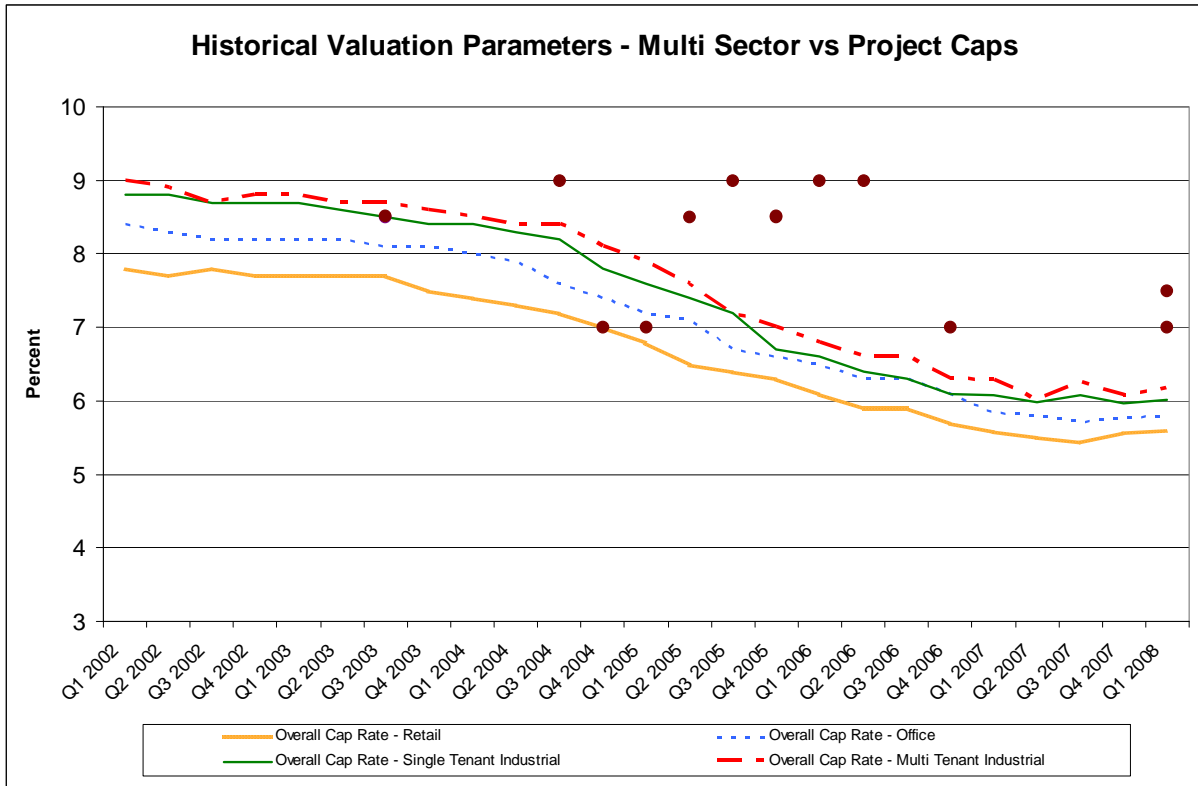
- From our review of the inputs used in the pro-forma, the following comments can be made:
 - o It has been possible to undertake comparison of projected rents to rents actually received on a limited basis only. Unlike the residential sector, rents are often not established until the project is nearing completion rather than at the pre-construction stage. There may be significant (and unpredictable) changes in market conditions between the date of the original estimate and project completion. Consequently, while the information we have obtained from discussions with brokers and owners indicates that there has been an increase in rental values in recent years, there is insufficient data on which to base any meaningful comparison of market changes with original pro-forma estimates and subsequent performance.

 - o A vacancy allowance is typically deducted, consistent with market practice. The amount used in the pro-forma is generally 5% of total income although there are variations in a limited number of instances.

 - o In the pro-forma, a structural allowance of 2% has typically been deducted from the income to allow for structural repairs not recoverable from tenants. This is consistent with market practice. The amount used in the pro-forma is generally 2% of total income although there are variations.

 - o In general terms, capitalization rates used to quantify the capital value of the estimated net income will vary depending the type of property, security of the income stream and market conditions. In the case of the properties reviewed in the pro-forma, a range of 7% to 9% was used over the period of the program between August 2003 and January 2008. We did not attempt to review these individually, but did consider it appropriate to compare the trend in rates used in the pro-forma with the market trend for other forms of real estate investment.

- o Capitalization rates for all classes of real estate investments have declined since 2003. In order to demonstrate this we have analyzed data from Altus Insite Investment Trends Surveys. These are conducted quarterly and track the opinions of investment market participants with respect to capitalization rates of a number of market sectors. The following graph indicates the general trend line for different types of real estate.



- o The capitalization rates used in the pro-forma analyses have also been plotted to indicate the relationship of the rates used to the trend line indicated for the other sectors. In view of the limited sample size for the pro-forma properties, it is difficult to discern a real trend. Nevertheless, it does appear that capitalization rates used for pro-forma purposes have not followed the same pattern as the other market sectors in that they were less inclined to drop in the 2004-2005 period than were the market sectors reviewed. Lower rates are now being used in the more recent pro-forma which would be more consistent with market experience.

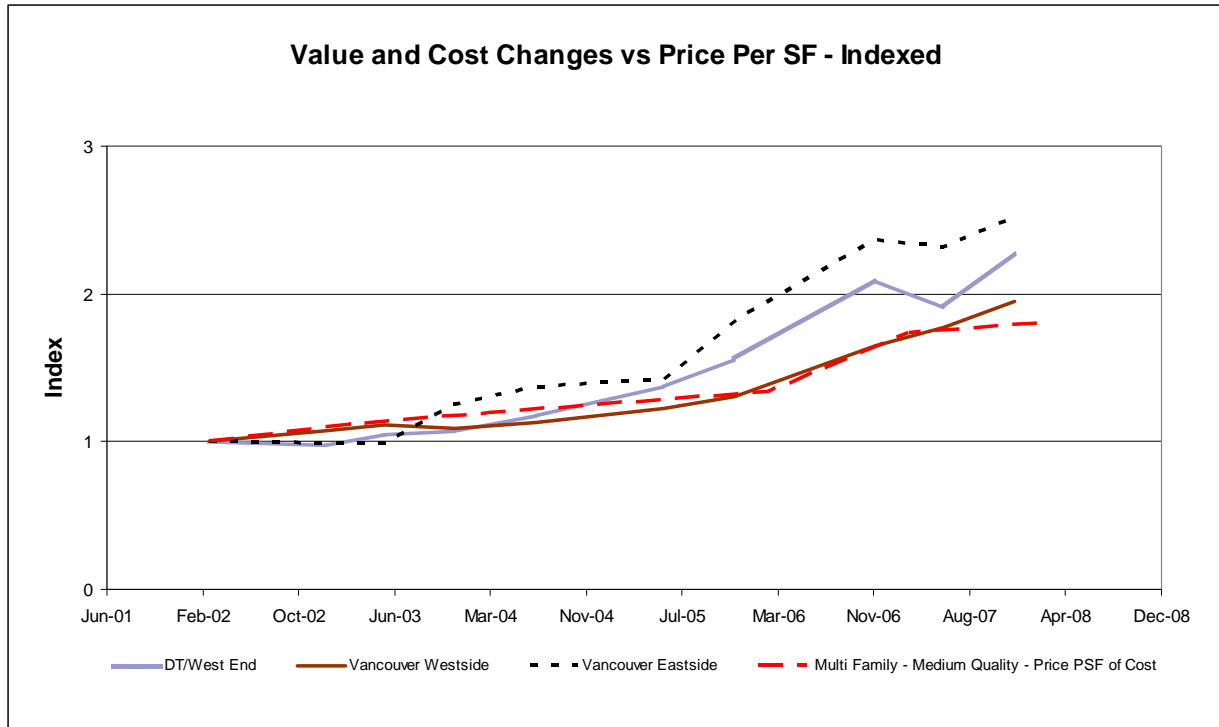
Residual Density

- Residual Density is calculated as separate incentive. It is not dependent on the Shortfall Costs. It is calculated as the difference between a hypothetical density of 5.5 FSR and the actual density after renovation. The mechanics of this calculation were described previously. However, in cases where the total incentive package includes both Bonus and Residual Density, consideration needs to be given to whether the mechanics of the calculation result in double counting.
- The calculation involves estimating the total costs, one component of which is the property value (land and building) before renovation. In theory, the market value prior to renovation should reflect any value associated with the potential to develop to a higher density than that currently on the site. This being the case, it would be consistent and logical to include the value of the Residual Density in the value after the renovation has occurred. The effect of this would be to reduce the amount of Bonus Density by the amount of Residual Density.

2. Cost of Development

Timing of Estimates

- Like revenues, costs have to be estimated in advance of completion. Actual costs could therefore be higher than used in the pro-forma. This has been the experience over the 2002-2008 period.
- There is no index by which changes in cost for heritage renovation works can be measured. Consequently, in order to gain some sense of whether there has been a noticeable difference between the rate of increase for costs generally as compared to revenues, a cost index (using the Altus Helyar Cost Guide for average quality multi-family construction costs) was developed. This was then compared to the average condominium prices as described in the previous section. The following graph illustrates this comparison.



- There is a general upward trend in both value/price and cost indices. However, while having been similar over the first part of the period, more recent value/price increases have tended to outpace cost trends in the sectors measured.
- Because revenue trends in the projects analyzed in the previous section have generally tracked general market trends, it can be concluded that although construction costs have increased there is no empirical evidence to suggest that these have increased at a faster pace than revenues. The caveat here is that residential revenues are set in advance of project completion through pre-sales (to meet bank financing criteria), whereas it is not always possible to fix costs. This can have negative consequences for a project's feasibility.
- From discussions with City staff it is understood that cost escalators are built into the analysis of costs to the extent possible. The method of doing so may vary, however. In preparing the pro-forma, it will therefore be important to ensure that there is consistency in the timing of both the revenue and cost estimates. This can be achieved by ensuring that revenues are based on projections of value on completion by reference to pre-sale or pre-leasing values with costs based on an appropriate average inflation factor over the development period.

Hard and Soft Costs

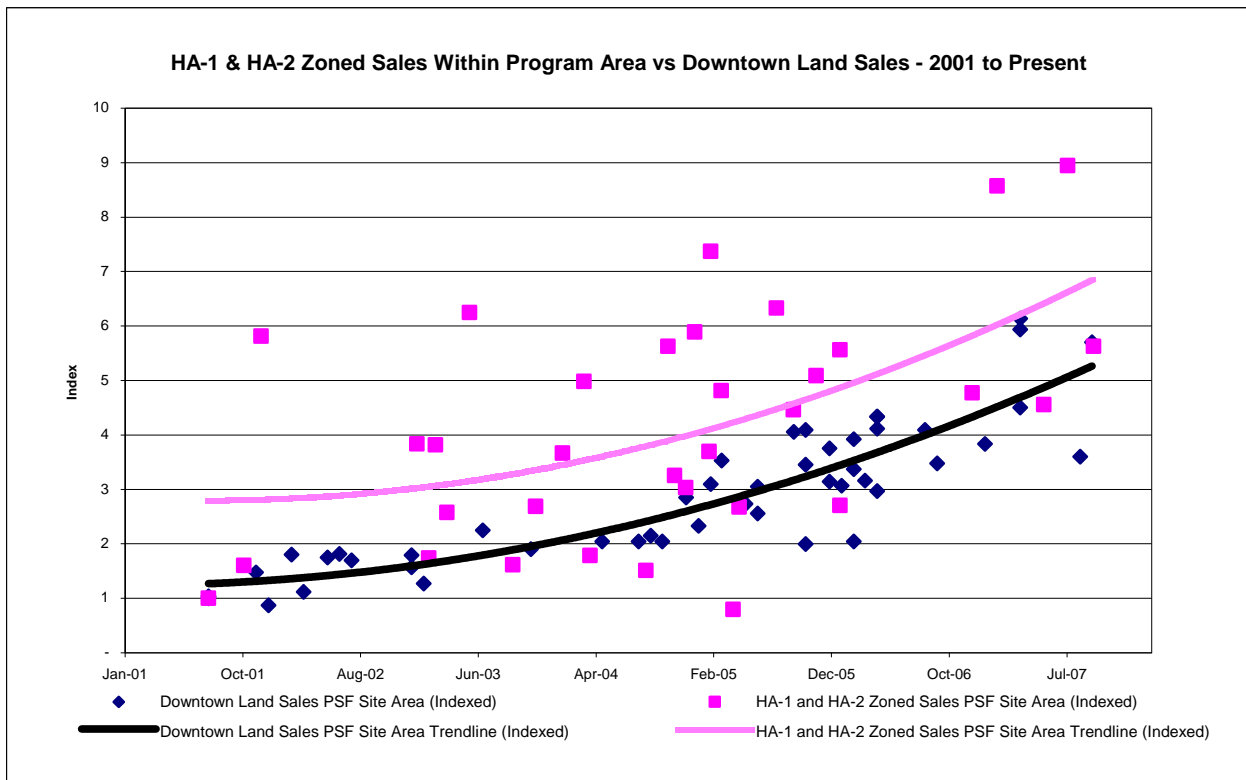
- Hard and soft construction costs are prepared by the applicant and reviewed by City staff. There is no one template for this and the pro-forma reviewed show variations in the manner in which the various cost components are estimated. For example, contingencies can be shown as being included in the costs or they can be specifically identified. Where they are identified, contingency amounts vary from 0% to over 20%.
- Soft cost estimates shown in the pro-forma vary in amount, from 18% to 41% of hard costs. This may be the result of differing levels of detail provided by applicants and different methods of calculating cost inputs.
- Property taxes to which developers are subject during the development process are a typical component of development costs. These were identified in only two of the projects for which pro-forma were provided.
- It is understood that there is no single template given to applicants, each project having different characteristics. However, the process and its consistency would benefit from a higher level of standardization than is currently the case.

Profit

- The pro-forma states that profit is calculated by multiplying 15% by the total costs minus the amount of incentives (Façade Grant, Property Tax Exemption and Bonus Density, but not Residual Density). Incentives are calculated by reference to the difference between total costs and the value as complete – the shortfall. In earlier pro-forma (up to early 2006) the formula did not include the profit itself in the total costs. In more recent pro-forma the profit is included in the total costs for the purpose of calculating the profit. This results in double-counting of a component of profit and has resulted in a slightly higher profit allowance in the more recent pro-forma than was the case previously. As a result, more recent pro-forma have calculated a slightly higher shortfall (and hence slightly higher Bonus Density) than would have been the case if the earlier method of calculating profit had been continued.

Land (Property) Value

- The value of the property before renovation is a relevant component of total project costs. This would typically be estimated by reference to market comparables. In the case of the program area there are complications with this approach. One is that property types are diverse and therefore difficult to compare. A second complication is that the program itself may be affecting property values in the area. If this is the case, resulting in increased property values because the market anticipates a redevelopment subsidy, using comparables from the market area would result in there being an element of double counting in determining the shortfall of cost in relation to revenue.
- In estimating the appropriate input for the land (property) component, the City has adopted a formula. Under this formula, the amount included in the pro-forma is the lower of one of the following amounts:
 - o The purchase price of the property within the 3 years before the application
 - o The value established in a recent assessment appeal
 - o The assessed value plus 25%
- Although the formula eliminates the need for estimating land/property value, it does not address the issues referred to above. Assessed values are also based on market value and should reflect any influence of the program on the market value.
- In order to ascertain whether there is any clear evidence that the program has affected values to a greater degree than market conditions would generally indicate, we have undertaken an analysis of the trend in sale prices in the program area and compared these to the trend in sale prices in an area unaffected by the program. For the purpose of this comparison we have used sales of land with a 5 x FSR in the Downtown South area. These have a relatively high degree of homogeneity and involve a large sample size. In order to compare rates of change, sale prices per sq.ft. of land area have been indexed. The comparison is shown in the following graph:



- Although this graph indicates similar rates of change for both data sets, it must be cautioned that there are many more variables affecting the program area sales than those in the Downtown South area, thus reducing the reliability of the data. Nevertheless, it can be observed that there is no clear evidence to indicate that value trends in the program area have differed significantly from those in the Downtown South market area.
- From this, one might conclude that while the inputs being used in the pro-forma to estimate the land/property component would reflect the impact of the program to some degree this impact could be less significant than might be thought. However, the impact of the program could also be greater than indicated because there is no good measure of what values in the area would have been, absent the program.
- In order to eliminate the potential impact of the program on value altogether, or to a greater degree than may currently be the case, it would be necessary to:

- a) omit the land/property value component in the pro-forma or
 - b) undertake a valuation on the assumption that the program did not exist or
 - c) establish an artificial basis for this component
- The implications of using these alternatives are as follows:
- a) The amount of total incentives and hence the creation of transferable density will be reduced. However, the fewer projects would be feasible and the program would be less effective as a heritage retention/revitalization strategy.
 - b) This presents a complex and hypothetical appraisal problem. Objective evidence would not be available resulting in values which could be easily challenged.
 - c) Modifying the existing basis for determining the land/property value input or establishing a different basis for calculating this component could achieve clarity, address the double-counting issue in whole or part and provide consistency.

3. Allocation of Recoverable Shortfall Cost

Property Tax Exemptions

- Property taxes on completion are estimated by reference to the estimated values on completion as used in the “Projected Value” component of the pro-forma. This is consistent with BC Assessment methodology. Tax rates and projected changes are based on past experience, the result being a projection of the inflated annual taxes to be exempted.
- The discount rate used to derive a net present value of the tax exemptions is established at a 5 year Canada Bond rate. This is relatively low in relation to real estate returns. Were a different basis to be used and a higher discount rate used, the net present value of the tax exemption component would be lower and the amount allocated to the bonus density would be commensurately higher.

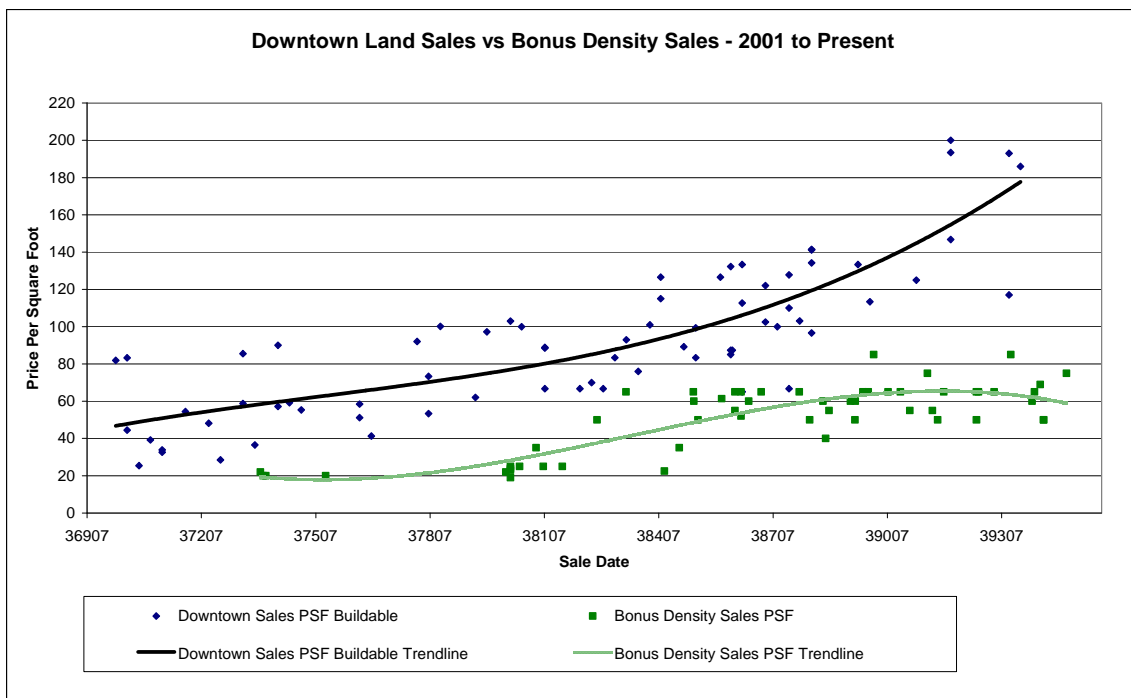
Calculation of Bonus Density

- The amount of bonus density is calculated by dividing the amount of Shortfall Cost remaining after deducting both the façade grant and the present value of the tax exemptions by the estimated value of the bonus (transferable) density.

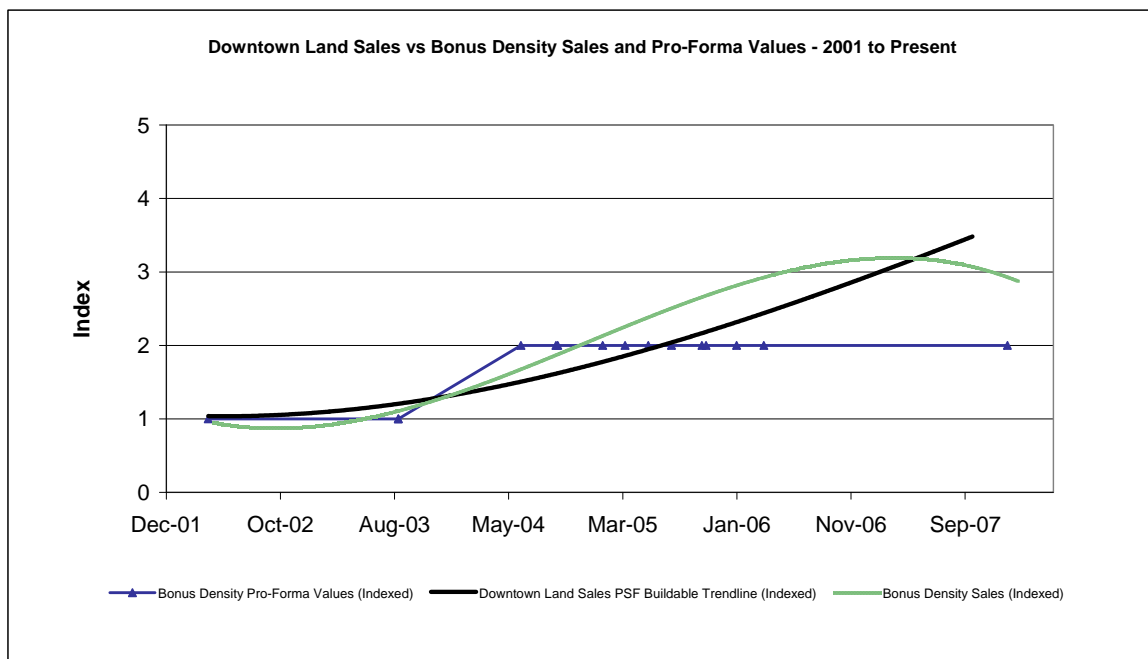
- The higher the value of the bonus density, the lower will be the amount granted as part of the incentive package. The pricing method and the relationship of the values used in the calculation to other value measures is discussed in the next section.

4.0 TRANSFERABLE DENSITY – PRICING ANALYSIS

- Bonus Density is calculated by reference to the value of density per sq.ft. The value is estimated through consideration of market transactions for density. Market data is available to the City through the records of transactions involving the transfer of density from Donor Sites to Receiver Sites.
- The value used to establish the amount of Bonus Density was \$25 per sq.ft. in 2003. In 2004 this increased to \$50 per sq.ft. and remained at that level until 2007. In 2008, this was increased to \$65 per sq.ft.
- While the value per sq.ft. of transferable density might be expected to be below the level of land values per buildable sq.ft., in an effective market the rate of change in value of transferable density should be similar to that of land value. In order to see if this has been the experience in this case, a comparison of the value trends was made of three components: land values in the Downtown South area (using the parameters described above), the sale prices of transferable density, and the value imputed to Bonus Density in the proforma.
- The following graph shows a comparison of the trend in values of bonus density sales as compared to the trend in sales in the Downtown South Area.



- As can be seen, the trend for transferable density sales generally tracked that of the Downtown South land sales in 2006. During that year the value trend for density transfer values started to level while the land value trend continued to increase. As discussed in the next section, one factor affecting this trend could have been the significant increase in supply of transferable density approved by Council in that year (which will not be available for transfer until the conditions have been met).
- A further comparison has been made to indicate the trend of values used to calculate Bonus Density. This shows the indexed trend lines for the two components referred to in the previous graph as compared to the indexed prices used in the pro-forma.



- This indicates that the pro-forma value trend differed from that for both the land market (as represented by the Downtown South) and sales of transferable density.
- As the trend in value used to calculate Bonus Density would be expected to be more similar to the other data sets, an alternative method of establishing this value appears to be necessary. This could be done either through establishing some form of indexing or undertaking more frequent reviews using either internal or external resources.

5.0 PRESERVATION INCENTIVES IN OTHER JURISDICTIONS

5.1 Property Tax Exemption Policies

City of Victoria – Building Incentive Program & Tax Incentive Program

Description

The City of Victoria has two financial incentive programs implemented to preserve the City's heritage components.

The first of these is the BIP (Building Incentive Program), which facilitates façade improvements. The program has been widely used and, though it does not concentrate on long term, structural, full building upgrades, it does improve the outward appearance of heritage buildings and thus aids in the commercial revitalization of areas such as the Old Town. The program provides a 50% reimbursement for façade upgrades, to a total sum of \$50,000.

The second program is the TIP (Tax Incentive Program), introduced in 1998. The program provides major heritage projects that undertake upper storey, residential conversions and seismic upgrades with a tax exemption from municipal tax as well as the school portion of the property tax. The exemption covers a period of 1 to 10 years for projects that accomplish full structural and seismic upgrades.

Comments

Though both the BIP and TIP have come under some recent criticism from developers due to the growing gap between City available funding and the cost of construction, the programs have been successful in revitalizing approximately 2 to 3 buildings per year. The total number of significant heritage buildings revitalized in the Old Town since the programs inception is 17. A possible increase in the length of the period of tax reduction would aid in making the programs more sustainable.²

Developers seeking to take advantage of the program have also recently expressed concern that the tax exemption program is of limited assistance in strata title residential projects.

² Coriolis Consulting Corp. "Downtown Victoria Heritage Building Economic Study." June 2007. Pgs 2-3.

The concern is that although the existence of a tax exemption is a marketing advantage in the sale of residential units, the effect of the tax exemption is not fully reflected in the sale price. In one recent development, instead of granting tax exemption to the residential units in a heritage renovation project, City Council approved tax exemption for the commercial component of a new development project being built by the same developer on an adjacent site. This was treated as a specific case and is not general City policy.

The City of Chicago - Tax Increment Financing (TIF) Program

Description

The City of Chicago has utilized the TIF (Tax Increment Financing) Program to revitalize dilapidated and unproductive areas of Chicago. The program has been praised as one of the most successful measures by which a municipality has promoted commercial and residential revitalization and gentrification of rundown portions of the city.

A property must possess qualifying characteristics in order to be considered for the TIF program. The characteristics include: age, obsolescence, code violations, excessive vacancies, overcrowding of facilities, lack of ventilation, light and sanitary facilities, excessive land coverage, inadequate utilities, deleterious land use or layout, dilapidation or deterioration, lack of physical maintenance, and community planning.³ The program's assistance exceeds \$1 million in most cases and is designed to promote private investment in dilapidated parts of the city.

The program can be implemented in areas designated as TIF districts. These areas are defined by the City of Chicago along with input received from community groups, local businesses and developers. The TIF program is employed for a total of 23 years during which the property tax in the specified districts is set at a base level, referred to as an Equalized Assessed Valuation (EAV) amount, and collected for distribution amongst local government taxing bodies. As private investment allows the area to revitalize and property values grow accordingly, the property tax generated in the area above the set EAV amount is gathered and reused to fund further redevelopment within the district. Once the program expires, the increase in the increment of property tax revenues over the EAV amount is redistributed amongst the various local property value taxing bodies.

Comments

Though the TIF program has come under some criticism as being unnecessary, it has proven to be useful in promoting revitalization in many areas. The program has enabled the retention and creation of jobs and has provided funding for heritage projects in Chicago that would have otherwise been too costly to undertake. For every dollar of public funds contributed to the program, the private sector contributed nearly five and a half dollars making the TIF program a widely successful economic development tool.⁴

³ City of Chicago website – Tax Increment Financing (TIF) Program.

⁴ Healey, Lori and McCormick, John. "Urban Revitalization and Tax Increment Financing in Chicago" in Government Finance Review, December 1999. Pg 27-30.

City of Nanaimo - Downtown Residential Conversion Tax Exemption Program

Description

The Downtown Residential Conversion Tax Exemption Program is designed to preserve the heritage aspect of the City of Nanaimo as well as encourage new residential development in the Downtown core by providing a full property tax exemption over a maximum period of ten years for residential renovations completed in heritage buildings. The tax exemption is applied once full renovations of the property have been completed. The period of tax exemption is calculated by calculating the full cost of seismic, building code, sprinkler and façade upgrades (to a maximum of 35% of total construction costs) and dividing that sum by the current annual tax value.

Although titled “Residential Conversion”, the program is not limited to purely residential projects as not all heritage buildings are convertible into dwelling units. Commercial projects are eligible to apply for the tax exemption as long as they meet specific guidelines including urban design guidelines, owner investment of at least 25% of the total pre-renovation value of the project, provide clear heritage benefit in revitalizing the area, improvement of the building’s structural condition and commercial viability. Each commercial application is evaluated on an individual, case-by-case basis.⁵

Comments

Initially, it was necessary to decide whether the program should be based on a tax exemption or a cash grant program. The Advisory Project Team and the City’s Development Services Department concluded that the tax exemption program was more feasible since it required fewer funds up front and the incurred costs would be spread over a lengthier time period.

The program has seen only two successful projects completed thus far; the first being the Painted Turtle Guesthouse, a commercial project, and the second, the Gusola Block, a 3-unit, second storey residential conversion. The City has concluded the program issues to include: fear of the unknown on behalf of the owner, lack of return on investment, the risk of losing current good tenants vs. the uncertainty of improvements, and while the tax exemption is appreciated, cash up front and sharing the risk by the owner and the City would be preferable.⁶

⁵ City of Nanaimo. “City of Nanaimo – Downtown Residential Conversion Tax Exemption Program”. 06.25.04. Pg. 2.

⁶ City of Nanaimo. “Downtown Residential Conversion: Constraints and Opportunities – Final Report”. 03.18.04. Pg. 6.

City of Winnipeg – Heritage Conservation Tax Credit Program

Description

The City of Winnipeg implemented the Heritage Conservation Tax Credit program (HCTC) in 1998. The program's primary objectives have been heritage preservation as well as Downtown economic development. The program has helped rehabilitate approximately 18 buildings, with a maximum of 4 buildings per year.

The HCTC is open to building owners and long term tenants of properties defined on the Building Conservation List with proposed future structural and heritage redevelopment plans. Participants must demonstrate a minimum of \$10,000 in proposed repairs and are eligible to receive a tax credit value of up to 50% of the net private funds invested in the redevelopment work. Municipal property taxes are forgiven on the particular property upon completion of the renovations for a maximum of 10 years during which the omitted taxes are drawn from a Heritage Investment Reserve and redistributed to the City's taxing bodies. The Heritage Investment Reserve is self-replenishing by absorbing the incremental value of the tax increase until the full amount of the tax has been repaid to the City.⁷

Comments

The HCTC program has been considered a success by the City though it has been acknowledged that some modifications must take place. Several concerns have been raised such as the lack of clarity in objectives. Program participants have stated that heritage preservation is often contradictory in nature to the Downtown economic redevelopment that the City is promoting. An inability to recover all costs through the tax credit as well as the application of the tax credit to strata developers have also been mentioned as concerns.⁸

⁷ City of Winnipeg. http://www.winnipeg.ca/PPD/historic/historic_incentives.stm#citytaxcredit

⁸ Urban Edge Consulting Inc. "HCTC Review". 05.18.07.

City of Calgary - The Rivers District Community Revitalization Plan

Description

The Rivers District Community Revitalization Plan, simply known as “the Plan”, has been established and implemented in the City of Calgary to revitalize and redevelop the Rivers District. The plan enables the implementation of a Community Revitalization Levy (CRL), which acts as a tool for tax increment financing.

Underdeveloped areas in the City of Calgary are defined by both the municipal and provincial governments. Within the established area, the property assessment values will remain at base levels as defined in the first year of the program. The property taxes will continue to be collected at this base rate and distributed amongst the taxing bodies for the duration of the 20 year CRL period.

A CRL rate is determined to be equivalent to the tax rate being levied by the provincial and municipal governments. As market values in the CRL defined area change and improve, the CRL rate is applied to the incremental assessed value above the predefined base level. The gathered CRL amounts are then reused for further redevelopment efforts in the formerly underdeveloped area. Upon completion of the 20 year CRL period, full property taxes are once again redistributed between the provincial and municipal taxing bodies.

The Rivers District Community Revitalization Plan is implemented and monitored by a government governing body, known as the Calgary Municipal Land Corporation (CMLC). The CMLC collects the CRL as well as administrates and manages project costs.⁹

Comments

This program is similar to that used in Chicago in that taxes above a set base level are reinvested in the specified area rather than being used as part of the overall City budget.

The significant difference, however, is at the commencement of the Calgary program all the land within the area is owned by the City. In Chicago land in the TIF area is primarily in private ownership.

⁹ City of Calgary. “Rivers District Community Revitalization Plan”. Pg. 73-74

5.2 Other Preservation Incentives

City of Calgary – Preservation Incentives

Description

The City of Calgary is relatively new at implementing preservation incentives. There has been a Downtown CM-2 zoning bonus density program in place for the past 20 years however it has only been applied 3 times and is rarely considered by developers. The new policies that are either approved by Council or in the process of being approved are the following¹⁰:

1. The **Density Bonus/Transfer Program** has been primarily in use in the Beltline Redevelopment project and has been available in the Downtown core for 20 years. In Downtown, sites zoned CM-2 are eligible to transfer excess density to other CM-2 zoned sites. Council may approve transfer to non CM-2 zoned districts on case by case bases. Other commercial heritage sites with unused density are able to transfer that density to City approved sites.

Bonus density in the Beltline Redevelopment is calculated by the following formula:

$$\frac{\text{Total Rehabilitation Cost}}{\text{Average Land Value}^* \times 75\%} = \text{Allowable Bonus Density}$$

*average land value per square metre of buildable floor area for the area

Any bonus density created over and above the maximum allowable FSR for the subject property will remain on the subject property through an agreement with the City of Calgary and registered on title. The density may also be transferred to other sites within the Beltline project.¹¹

Properties undergoing rehabilitation are also able to generate transferable density through meeting City defined rehabilitation standards. In the case of converting residential heritage space into commercial heritage space, buildings are ranked into a classification system ranging from A to C. Category A and B buildings are automatically eligible for the commercial conversion while category C buildings are considered on an individual basis.

¹⁰ The City of Calgary: Incentive Programs for Heritage Conservation.

¹¹ Darryl Cariou, Beltline Heritage Density Bonus.

2. The **Matching Grant Program** is currently not in use. The program is based on the principle of matching the privately invested sum (to a maximum value) used to rehabilitate a commercial property. The provincial government also offers a similar matching program referred to as the Alberta Historical Resources Foundation. The grant specifics are as follows:
 - for commercial A and B buildings on the Inventory of Potential Heritage Sites that pay municipal property taxes
 - up to 50% of the value of approved restoration and rehabilitation costs
 - total grant cannot, without Council's specific direction, exceed the value of the municipal portion of property taxes over a ten year term or \$300,000, (whichever is the lesser) based on the projected value of the first post rehabilitation assessment
 - grants will not be approved prior to finalization of the current year's municipal tax rate or, where time is of the essence, would be based on the previous year's tax rate
 - minimum total project value of \$75,000
 - property must be designated, by Bylaw, a Municipal Historic Resource
 - all applications subject to Council approval¹²

3. The **Tax Abatement** has only been used once thus far. It allows for property taxes to be frozen at a base level for a period of 15 years.¹³

¹² Darryl Cariou, City of Calgary Heritage Incentive Program (HIP).

¹³ Darryl Cariou, City of Calgary, Land Use and Planning Policy. July 3, 2008.

City of San Francisco – Preservation Incentives

Description

The City of San Francisco has several Financial Incentive programs¹⁴. These include the following:

1. The **Property Tax Reduction** program, known as the Mills Act. The act allows the owner of a historical property to sign a contract with the City to freeze the base value of the property for a defined period of time. Thus, taxes will remain at the base level allowing for rehabilitation, restoration and preservation.
2. **Loans** including:
 - a) Community Housing Rehabilitation Program helps owner-users of residential properties to correct San Francisco Housing Standards violations.
 - b) Code Enforcement Rehabilitation Fund provides between \$250 to \$15,000 with which to correct current building code violations, especially if they relate to health and safety.
 - c) Unreinforced Masonry Building Loans provide \$350 million of bonds for improvements of UMB buildings. \$150 million is used in low interest loans of 2.5% for rehabilitating affordable housing. \$20 million is used for rehabilitating all other kinds of UMB buildings.
3. The **Federal Tax Credit** provides a 20% Rehabilitation Tax Credit to buildings that are designated as National Historic Landmarks and are contained on the National Register. The properties must be income producing, rehabilitated to pre-specified set of standards, and either commercial, industrial, agricultural or rental residential in use.
4. **Tax Deduction for Preservation Easements** allows the deed that creates the preservation easement to be donated or sold to a preservation organization. The property owner is provided with a one time tax deduction.
5. The **State Historical Building Code** is an alternative flexible building code that allows heritage buildings a certain degree of leniency when it comes to building code upgrades. The State Historical Building Code takes into account that it is often very costly and difficult for heritage properties to upgrade to current upgraded building codes, therefore, by specifying more flexible building codes, aimed specifically at heritage properties, owners and developers are able to reduce cost.

¹⁴ San Francisco's *Preservation Bulletin No. 6 – Preservation Incentives*.

6. **Transfer of Development Rights** is a planning tool used by the City of San Francisco to redirect development away from heritage areas and protecting historic properties. The Planning Code allows for the transfer of unused density from specified historic and heritage properties. This density can then be transferred to other parcels granted that it is within the same zoning district and complies with other Planning Code specifications, such as if the receiver property permits the increased density. As stated in the 2002 Coriolis report to the City of Vancouver, the transferable density can be absorbed by third parties. Transferable density buyers tend to be:
- a. Developers who may not have a suitable site but are gathering density in hopes of using it in the future.
 - b. Investors who believe that the value of bonus density is rising.
 - c. Brokers who buy and sell density, thus acting as an external density bank.

City of Seattle – Preservation Incentives

Description

The City of Seattle has several preservation incentives which include a zoning and building code relief, Downtown incentives as well as a tax valuation program¹⁵.

1. **Zoning Code Relief** allows an owner to request that the Director of the Department of Planning and Development authorize a use that is not otherwise permitted on the site in question. By doing so the City is promoting the preservation of heritage property.
2. **Building Code Relief** is made to accompany the Zoning Code Relief. The Director of Department of Planning and Development has the authority to make the current building code more flexible as long as certain degrees of safety to the public and the building are met.
3. The **Downtown Incentive** allows for transfer of density from heritage sites to non heritage sites. The City has restricted the means by which a developer can acquire extra density and has stated that a percentage of density acquired for use on a site must be heritage in origin, thus promoting demand for transferable density. The City also manages a Density Bank which has the ability to purchase transferable density at a minimum price when demand for transferable density is low. Developers as well as third party investors without current sites are able to purchase transferable density, further promoting demand.¹⁶
4. The **Tax Valuation** allows a 10 year freeze on property taxes which are stabilized at the pre-renovation rate. Properties eligible for the tax freeze must apply with the Department of Assessment, have completed all the rehabilitation work with the rehabilitation costs making up at least 25% of the assessed value of the improvements prior to rehabilitation (excluding the land value).

¹⁵ www.seattle.gov/neighborhoods/preservation/incentives_state.htm.

¹⁶ Coriolis. *Evaluation of the City of Vancouver's Heritage Density Transfer System*. October 30, 2002.

5.3 Tax Policies - Implications

- Tax exemption policies or Tax Increment Financing (TIF) policies play an important role in other jurisdictions. In many instances, they are the primary means of funding heritage rehabilitation or economic revitalization.
- TIF is used in a defined area (as described in the Calgary and Chicago examples) and is different from the more building-specific tax exemption programs referred to. These are more similar to the tax exemption program in the study area.
- The problems of ensuring tax exemption programs are effective are common to a number of jurisdictions. These problems arise from the difficulties experienced by developers in realizing the full benefits of tax exemption in the case of strata title properties. In the case of the HBRP, the tax exemption component has been reduced on a limited number of occasions. While these instances are the exception, it may be noted that reducing the tax exemption component of the incentive package increases the amount of Bonus Density. Methods of ensuring the full tax exemption is reflected in the pro-forma should therefore be explored if creation of Bonus Density is to be minimized. This is discussed further in the next section of the report.

6.0 CONCLUSIONS AND RECOMMENDATIONS

1. The HBRP has had a significant impact on redevelopment in the area. The principal effect has been to make feasible a number of projects which would not otherwise be economic. This impact can be seen from an analysis of the 26 projects approved under the program between 2003 and 2008.¹⁷

The aggregate data for these is summarized as follows:

Projected Costs, Estimated Values and Incentive Amounts:

Total Projected Rehabilitation Costs		\$518,226,143
Total Estimated Value of Completed Projects		<u>\$423,929,048</u>
City Shortfall Incentives	\$ 90,063,380	
Federal Incentives	<u>\$ 3,218,671</u>	
Total Shortfall Incentives Provided		\$ 93,282,051 ¹⁸

Transferable Density

Bonus Density Portion of City Shortfall Incentives: ¹⁹	1,361,223 sq.ft.
Residual Density	164,118 sq.ft.

The HBRP serves two functions: to act as an economic stimulant and to encourage heritage preservation. As such, it provides a greater level of subsidies/incentives than other heritage programs.

2. The level of transferable density rose dramatically in 2006. There are currently approximately 1.3 million square feet potentially available for transfer. The latest demand projections (Coriolis, August 2006) indicate that in the absence of changes to the system, there will be an oversupply of transferable density during the period 2006 to 2011.

Because this study is now two years old it is recommended that the projections of the supply and demand be reviewed in order to ascertain their anticipated relationship in light of current market conditions.

¹⁷ Includes the Woodward's project. Exclusive of Woodward's, total cost is \$224,544,435 and value created is \$153,423,984. Bonus density is 1,174,223 sq.ft.

¹⁸ Reflects adjusted shortfalls. Does not include Residual Density value (approx. \$7,000,000).

¹⁹ Includes 187,000 sq.ft. of Heritage Density in the Woodward's project, but does not include the 179,000 sq.ft. of non-heritage amenity density at Woodward's.

3. The supply of transferable density in the City since 2002 has been almost entirely the result of the HBRP. The Shortfall Cost approach used to estimate incentives under the HBRP provides a subsidy to projects that would not otherwise be economic. Consequently, it creates more generous incentives than do other methods used by the City. Adopting alternative methods of estimating incentives in the HBRP areas would result in a lower amount of incentives being granted and hence reduce the increase in the supply of transferable density.

We recommend that an assessment be made of the potential impact of replacing the current HBRP with an alternative program. It is suggested that such a program would be more similar to other methods of determining compensation through granting bonus density for heritage retention. If applied, an alternative program (such as providing compensation for heritage cost premiums on renovation) would result in the creation of less density than is the case under the current HBRP. Undertaking an assessment of the impact of changing the program would establish a basis for making a policy decision on this issue.

4. Residual Density accounted for just over 11% of the total supply of transferable density created. Although not included as part of the Shortfall Cost analysis directly (it is calculated separately) the main reason for its inclusion appears to be to provide an additional subsidy in certain cases. We recommend consideration be given to removing this component of the subsidy on the basis that it is not required to ensure the feasibility of a project if the Shortfall Cost approach is used.
5. A number of issues relating to the Shortfall Cost process and methodology used in the HBRP were identified during the course of our analysis. The more important of these issues and the recommendations which flow from them are as follows:
 - a) Because the process relies on input from applicants, the nature and quality of the submissions varies. This has resulted in variations in the format of the inputs which create inconsistencies in the method of reporting and summarizing costs.

It is recommended that a more uniform template, particularly for submission of cost data should be developed. Completion of this should be a submission requirement for applicants. This would facilitate the processing of applications and assist in the review process. We recommend the City retain a cost consultant to design two templates to provide: a) a project overview and b) a cost pro-forma. The cost consultant should design these with input from City staff. The templates would be intended to cover project details under the following major headings:

i) Project Overview

- Base building description
- Project description
- Gross building areas
- Net saleable or rentable areas
- Parking
- Development timing
- Procurement process

ii) Cost Analysis

- Hard Costs
- Soft Costs (fees, financing etc.)
- Inflation factor
- Contingency

Each template could be designed to be no greater than one page in length but would contain sufficient detail to enable a greater level of consistency to be maintained than is currently the case.

The template should also include the appropriate reference to the revenues component of the pro-forma.

- b) A greater level of consistency should be sought in the City's request for and the applicants' supply of relevant material. We therefore recommend that the cost consultant prepare a summary of the material applicants should be requested to submit. This material would include the following:

- Schematic design drawings and renderings
- Environmental or Hazmat report
- Structural report
- Seismic report
- LEED/sustainability report (if applicable)

Other material as described in the Policies and Procedures should also be requested.

- c) In order to ensure that submissions from applicants are reviewed by the City in a timely, effective and consistent way, we would recommend that staffing levels be reviewed if the program is to continue in its present form. Adequate resources need to be made available to deal with the review of submissions. These resources could involve hiring additional in-house staff with cost estimating experience and/or retaining the cost consultants involved in the preparation of the cost templates. They could provide in-house training and guidance for a period of time. Evaluation of submissions would then be based on market criteria and experience. The need for continuing external guidance is expected to diminish as the program continues.
- d) The HBRP Policies and Procedures describe a process for calculating the amount of incentives. In broad terms the process described results in the incentives equating to the difference between total rehabilitation costs (including land and profit) and the value of the completed project. However, the Procedures do allow the City discretion. They state: "All applications will be carefully considered, but will not necessarily receive incentives at all, or to the level being requested."

Although the Procedures do set out the evaluation criteria for costs, applicants interviewed expressed concern that it was not clear how the criteria were applied. On occasion, decisions by the City on allowable costs seemed to be arbitrary.

We would therefore recommend that if the program is to be continued in its present form, the criteria for approval of costs be more clearly established.

- e) Determination of revenues and costs should be undertaken using consistent time parameters. Changes in market conditions affect both costs and revenues. Nevertheless, estimates such as those undertaken in the pro-forma must of necessity be undertaken prospectively and consistency in the method of projecting both costs and revenues is important. In general, it appears for the most part that the projections used in the pro-forma have been consistent with market experience.

Our recommendation is that, in order to ensure continued consistency with market valuation parameters, a detailed analysis of current market conditions summarizing comparables, using appropriate appraisal practices be undertaken for each application.

- f) Because the land value included in the pro-forma costs is based on either sale prices or assessed values (which could in some cases include the effect of the program), the probability exists that the effect of the program on value is included in the Shortfall Cost analysis. There is therefore potential for there to be an element of double-counting and, as a consequence a tendency for the shortfall to be greater than would otherwise be the case. This in turn increases the amount of transferable density allowed.
- In order to eliminate the impact of the program on value altogether, or to a greater degree than may currently be the case, it would be necessary to:
 - i) omit the land/property value component in the pro-forma or
 - ii) undertake a valuation on the assumption that the program did not exist or
 - iii) establish an artificial basis for this component
 - The implications of using these alternatives are as follows:
 - i) Omitting the land value from the pro-forma would eliminate the problem of potential double counting. The amount of total incentives and subsidies, and hence the amount of transferable density created, will be reduced. However, omitting the land value will have a negative impact on project feasibility and would likely reduce the number of applicants.
 - ii) This presents a complex and hypothetical appraisal problem. Objective evidence would not be available resulting in values which could be easily challenged.
 - iii) Modifying the existing basis for determining the land/property value input or establishing a different basis for calculating this component could achieve clarity, address the double-counting issue in whole or part and provide consistency.

Despite the lack of empirical evidence for quantifying the impact of the program on value, we do believe that the existence of the program will have had an impact on the value of eligible property to some degree. We therefore recommend the current policy of using the lower of the most recent purchase price or 125% of assessed value be modified. Because the assessed value provides an objective and readily available

figure, we recommend that this form the basis for the “land value” component. The purpose of the review would be to establish an appropriate percentage of assessed value to be adopted for the “land value” component in the pro-forma. The review would start with an analysis of current assessment practice in the study area.

- g) The method of calculating the profit component changed in 2006 as a result of which, the amount of profit included in the total costs increased slightly. As a consequence, more recent pro-forma have calculated a slightly higher shortfall (and hence slightly higher Bonus Density) than would have been the case if the earlier method of calculating profit had been continued.

We consider the earlier method to be more correct and therefore recommend it be re-adopted for future calculations.

- 6. The creation of the supply of transferable density is affected by the value it is given in the Shortfall Cost pro-forma. Our analysis found that the value used in the pro-forma had lagged behind the value changes for both land values in other areas of the Downtown peninsula and the prices at which transferable density was trading.

In order to ensure that the value assigned to transferable density is appropriately determined, it is recommended that this value be frequently reviewed and assigned values consistent with the market. In order to provide stability in the pricing, values could be established periodically by reference to market parameters and adjusted between reviews through an index mechanism.

- 7. As outlined in the report, there are a number factors affecting demand for transferable density. Improving the demand would have the propensity to increase the value of transferable density and hence reduce the amount of transferable density that would otherwise be created.

In order to improve demand it is recommended that consideration be given to the following:

- a) The Potential Capacity Technical Review is currently being prepared and will be completed in 2009. It is recommended that ways of defining options for increasing demand for transferable density be considered as part of this process.

- b) At present the amount of density capable of being transferred without re-zoning is 10%. This occurs as part of the development permit process. If the amount of heritage density that can be allocated to a development site at the development permit stage were to be increased to 15% (as is currently being requested through proposed Charter amendment) within the design objectives for an area, this would increase the propensity for transferable density to be absorbed.
- c) Expand the current receiver area and increase potential on the receiver sites.
- d) If the method of recording the availability and take up of transferable density were to be improved, this would create a more transparent and more readily understood process. Creating certainty with respect to the availability and location of transferable density will assist in the marketing process.

We therefore recommend a system be designed to provide a continually updated accounting of transferable density. We also recommend that sufficient staff resources be set aside to ensure the system is fully maintained

- 8. The system of property tax exemption has been described as being of greater benefit to commercial properties than to residential strata title properties where units are sold following project completion. Developers interviewed expressed the view that despite the financial benefits to purchasers of residential units, they were not able to fully recover these benefits in the pricing. Similar situations have been experienced in other jurisdictions.

In recognition of this issue, there have been a limited number of cases in the HBRP area where the tax exemption period for the residential component has been reduced from the standard period of 10 years. Allowing for a reduced number of years' tax exemption in the pro-forma calculations reduces the Present Value of the tax exemption component and increases the amount of bonus density created.

Assuming the current program does not change - and if the City's goal is to minimize the amount of the subsidy attributable to bonus density - it will be necessary to ensure the tax exemption component is fully utilized. This could be done either by including the tax exemption component at the maximum level and leaving the developer to realize the benefit through their marketing strategy, or by devising another method through which the developer could realize the tax exemption benefit. No universally applicable solution has been identified in other jurisdictions reviewed, although ad hoc solutions (such as that noted in Victoria) have been used.

In order to enhance the effectiveness of tax exemption it is therefore recommended that an alternative solution be explored. One approach could be to collect taxes from the eventual purchasers of units on an annual basis and reimburse the developer over the exemption period. The administrative mechanics of such an approach will therefore need to be addressed.

Extending property tax exemption to areas other than those covered by HBRP would also have the effect of reducing the amount Heritage Density created in non-HBRP projects.

The issue of heritage tax exemption for property owners already exempt from property taxation because of their status will also need to be considered. We would therefore recommend that the number of potential tax exempt applicants for the HBRP program be identified. The implications of their existing tax exempt status for the future creation of heritage density can then be addressed.

As a final comment, heritage retention and incentive programs used in other cities such as those outlined in Section 5 of this report should be further explored.

HBRP AND TOD - DEVELOPER QUESTIONNAIRE

Name: _____

1. How many projects involving Heritage Agreements have you been involved with? Please identify them.
 - How many under the HBRP?
 - How many involved transferable density outside the DTES?
2. How many projects or potential projects do you have in the pipeline?
 - How many under the HBRP?
 - How many involve transferable density outside the DTES?
3. To what extent does the City's HBRP and ToD program influence a) your choice of potential development sites and b) the market value of the property?
4. Do you have any general comments on the Heritage Building Rehabilitation Program with respect to successes, challenges and areas of improvement and where the program should go in the interim?
5. Do you have any general comments on the Transfer of Density program with respect to successes, challenges and areas of improvement and where the program should go in the interim?
6. What happened to or is proposed for the transferable density granted to each of your projects?
 - Was it sold?
 - If sold, period over which it was sold and the price range.
 - How necessary is it to identify potential receiver prior to entering into the agreement with the City?
 - If kept, what are the motivations? Please provide examples.
 - a) Holding for future sale?
 - b) Use on another development site yet to be acquired by the developer (i.e. density banking)
 - c) Use on other identified site already owned or about to be acquired by the same or related entity?
 - d) Other

7. What are your perceptions/comments regarding the following aspects of the program?
 - The liquidity of density – i.e. the ability to dispose of it
 - The reasonableness of price/value of density set by the City for the purpose of quantifying the amount of transferable density to be granted to a project.
 - The current and potential amount of Heritage and other density available for transfer.
 - The process of applying for transferable density and other incentives.
 - The process of the negotiations between the developer receiving transferable density and the City
 - The availability and clarity of information regarding the application and approval procedures.
 - Are you aware of the information available from the City's website?
 - The overall timing of the process. Are there specific parts of the process where timing is a particular issue?
 - In some cases it has been possible for the City to provide an estimate of the "order of magnitude" of the potential grant package earlier in the negotiations. Is this of assistance to the developer?
 - How can the cost of conservation on older commercial buildings be reduced? Do you have examples of how this was achieved?

8. Tax Exemptions and Incentives
 - What are the pros and cons of the current tax exemption program?
 - Can you identify specific reasons (using examples) why the current system is or is not working?
 - Do you have suggestions for improvement?
 - Do you have knowledge of other tax incentive/exemption systems? Can you provide comments regarding them?

9. Do you have any comments on ways in which the overall process could be streamlined?

10. What are some of the challenges and/or opportunities associated with the remaining building stock yet to be rehabilitated?

11. With the growth of heritage rehabilitation, has the availability of expertise increased? If it has, will this have a positive impact on costs?

SUMMARY OF RESPONSES TO QUESTIONNAIRE SUMMARY

COMMENT	SUGGESTION
<ul style="list-style-type: none"> ▪ Lack of clarity in the process ▪ There is a need for greater consistency in approach ▪ Lack of information when numbers change 	<ul style="list-style-type: none"> ▪ Clarify the precise parameters at the commencement
<ul style="list-style-type: none"> ▪ Process of monitoring supply and demand is not clear. ▪ Information regarding availability on the web-site is not clear or reliable. 	<ul style="list-style-type: none"> ▪ Clearly define which density is available for purchase and which for sale ▪ Generally improve information gathering and recording techniques
<ul style="list-style-type: none"> ▪ Approval process is generally reasonable but lengthy ▪ Time taken reflects heavy workload of the City staff ▪ Program was working well until the Review ▪ Concern expressed that the reason for not continuing the program (i.e. too much density being created) may not be correct. 	<ul style="list-style-type: none"> ▪ Recommend more staff or out-sourcing ▪ Review the supply of density in order to identify more specifically who is holding it and why. This will enable more informed judgments to be made regarding the actual supply.
<ul style="list-style-type: none"> ▪ Tax incentive program does not work for condo sales. 	<ul style="list-style-type: none"> ▪ Improve method of creating tax exemption incentives in order to ensure they are effective.
<ul style="list-style-type: none"> ▪ Lack of certainty regarding available balance at a particular site if TD is sold piecemeal. There is currently no requirement to register transfers on title and consequently they are not registered on title. 	<ul style="list-style-type: none"> ▪ All transfers should result in amendments to the Heritage Revitalization Agreement (which is registered on title)..These amendments should also be registered on title.
<ul style="list-style-type: none"> ▪ Values in Gastown are influenced by the scheme. The program made projects happen which would not otherwise have taken place. Not a real boom, though. 	
<ul style="list-style-type: none"> ▪ Do not like the manner in which heritage density has to compete with other CACs 	<ul style="list-style-type: none"> ▪ Allow more heritage density as part of CAC.
<ul style="list-style-type: none"> ▪ The method of selecting projects for processing during the Review was arbitrary in that some projects were allowed to proceed and others out on hold. ▪ Not enough consultation prior to deciding which projects are to proceed during Review ▪ The Review process has not had a positive effect on values in the area 	

COMMENT	SUGGESTION
<ul style="list-style-type: none"> ▪ Order of Magnitude estimates early in the process are considered to be advantageous 	
<ul style="list-style-type: none"> ▪ Introduction of previously non-heritage buildings into the equation distorts market and is unfair in that further increases the supply of transferable density. 	<ul style="list-style-type: none"> ▪ Allow transfers in order of historical application
<ul style="list-style-type: none"> ▪ Existence of program can be a factor in deciding whether to purchase a site in the benefitted area. ▪ The program does affect the value of the property 	
<p>Market for density is uncertain. There are limitations on the amount of density that can be transferred due to</p> <ul style="list-style-type: none"> ▪ Limit of 10% additional density at DP stage ▪ Competition from other sources ▪ Limited availability of new development sites for rezonings (Downtown South now getting built out) ▪ Limitations on where receiver sites are located 	<ul style="list-style-type: none"> ▪ Increase % of additional density on DP application ▪ Allow purchasers to buy excess density and use as a tax-write off ▪ Expand receiver areas. The limitation restricts the potential market for density ▪ Increase the ability to use transferable density as part of the CAC process. ▪ City should be more involved in monitoring the process and facilitating transfers ▪ Price differential between selling price and purchase price seen as being reasonable in that it provides an “extra buffer” for the developer, taking into account the big risks in undertaking renovation projects ▪ Current price (around \$65 per sq.ft.) does not seem over priced. Demand is still limited.



Transferable Heritage Density Inventory

Heritage Conservation Program

453 West 12th Avenue, Vancouver, BC V5Y 1V4

Phone: 604.873.7041 Fax: 604.873.7060

www.vancouver.bc.ca

Updated: 6/25/2008 (City does not guarantee the accuracy of this information)

Heritage Site Address	Building Name	Council Approved Density for Transfer *	Balance Not Transferred	City Holds on Density Transfer +	Conditional Sale (confirmed with Letter A) ++	Not Available for Sale +++	Density Available for Sale ~	SEFC Density	Contact	Phone
TOTALS		2,004,105	1,569,755	1,140,601	156,207	115,650	157,297	-		
602 Dunsmuir St.	St. Regis Hotel	16,091	16,091	16,091	-	-	-		Macdonald Development Corporation	604.331.6018
55 Water St.	Malkin Building	60,800	7,150	-	-	7,150	-		Reliance Holdings Ltd.	604.683.2404
640 W. Pender St.	Bank of Montreal	135,000	81,724	15,000	19,709	-	47,015		Joseph Segal	604.687.1520
46 Water St.	Franks Building	45,500	8,262	-	8,262	-	-		Scott Hawthorn	604.632.3765
52 Water St.	-	68,600	64	-	-	-	64		Niels Bendtsen	604.684.4919
55-99 East Cordova St.	McLennan & McFeely Bldg.	60,000	7,737	-	-	-	7,737		Mark Williams	780.974.9782
955 Burrard St.	YMCA	89,260	89,260	89,260	-	-	-		George Sexsmith	604.622.4954
528 Beatty St.	The Marquis	43,517	12,160	-	12,160	-	-		Robert Fung, Salient Group	604.669.5536
36 Water St.	Terminus	18,640	8,682	8,682	-	-	-		Robert Fung, Salient Group	604.669.5536
546 Beatty St.	Crane Building	68,400	68,400	68,400	-	-	-		Garry Wong, Townline	604.276.8823
5 West Pender St.	Chinese Freemasons Bldg.	35,344	30,971	-	-	-	30,971		Brian Greer	604.514.9614
51 East Pender St.	Wing Sang Building	159,162	116,220	7,720	-	108,500	-		Tom Pappajohn	604.732.7122
101 West Hastings St.	Woodwards	187,000	175,236	-	103,726	-	71,510		W. East Holdings	604.484.8186
1285 West Pender St.	Evergreen Building	177,000	177,000	177,000	-	-	-		Tony Astles, Bentall	604.661.5095
736 Granville St.	Vancouver Block	20,174	20,174	20,174	-	-	-		Lotte & John Hecht Memorial Foundation	604.683.7575
40 Powell St.	A. MacDonald & Co. Bldg.	76,595	56,595	56,595	-	-	-		Sean Lindberg, West 8th Holdings Ltd.	604.681.1816
53 West Hastings St.	Paris Building	99,061	99,061	99,061	-	-	-		Robert Fung, Salient Group	604.669.5536
12 Water St.	Nagle Bros. Garage	114,154	114,154	114,154	-	-	-		Robert Fung, Salient Group	604.669.5536
1 W Hastings	-	54,403	54,403	54,403	-	-	-		Portland Hotel Society	604.683.6853
163 W Hastings	Flack Block	118,208	89,215	85,465	3,750	-	-		Robert Fung, Salient Group	604.669.5536
412 Carrall	Pennsylvania Block	89,998	89,998	89,998	-	-	-		Portland Hotel Society	604.663.6853
388 West 1 Ave	Best Building	31,291	31,291	22,691	8,600	-	-		PCI Best Projects	604.602.7747
<i>Density associated with 388 W 1 Ave must be used within Southeast False Creek</i>										
6 Water Street	Alhambra Hotel	136,397	116,397	116,397	-	-	-		Robert Fung, Salient Group	604.669.5536
265 Carrall Street	-	61,825	61,825	61,825	-	-	-		Craig Doherty, King Tiger Investments Ltd.	604.631.9114
<i>Enactment must still occur for 265 Carrall Street</i>										
71 E Hastings	B.C. Collateral Building	37,685	37,685	37,685	-	-	-		Landpower Development	778.885.3181
<i>Enactment must still occur for 71 E Hastings</i>										

Legend

* Approved through Heritage Revitalisation Agreements

** The Historic Places Initiative (HPI) is a Federal government program

*** Letter B is a City form letter which confirms that the sale of density between the owner of the donor site and the owner of the receiver site has taken place.

+ Density held until conditions specified in a Heritage Revitalisation Agreement (or other) have been met

++ Density to be transferred pending Development Permit approval for receiver site. Letter A is a City form letter which confirms that an agreement has been reached between the owner of the donor site and the owner of a receiver site to sell a specific amount of heritage density.

+++ Owner of donor site has private arrangements

~ Density which is not subject to City holds, pending transfers or is being held by the owner of the donor site