

3.0 EXPERIENCE WITH THE EXISTING SYSTEM

3.1 EXISTING SUPPLY OF TRANSFERABLE SPACE AND HISTORIC TRANSFERS

3.1.1 Existing Situation

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

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

Table 1

Summary of the Existing Supply of Transferable Density

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

3.1.2 *Historic Bonuses and Transfers*

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

Table 2
Summary of Approved Transferable by Year (all figures in sq.ft.)

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

Source: City of Vancouver (April 2002)

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

Table 3

Summary of Density Transferred to Receiver Sites by Year

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

Source: City of Vancouver (April 2002)

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

Table 4
Estimated Year End Density Bank Balance

All figures in sq. feet

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

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

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

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

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

3.1.3 Value of Transferred Density

Sales information is not available for most of the density transfers that have occurred since 1993⁷. However, based on available information, transferable density has been sold at prices in the range of \$21 to \$38 per sq.ft. of buildable floor space.

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

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

3.1.4 Factors Influencing the Value of Transferable Density

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

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

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

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

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

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

However, some of these factors are either directly or indirectly influenced by City policy, such as levies and fees, the approved supply of transferable density, and some of the costs and risks associated with obtaining approval to transfer density. In addition, the City may be able to influence the demand for transferable density⁸ through some of its policies.

3.2 EXPERIENCE OF PARTICIPANTS/STAKEHOLDERS

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

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

Stakeholder comments can be summarized as follows:

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

1. The existing heritage bonus and transfer of density system is a very good tool for heritage preservation as it helps meet some of the City's objectives and provides developers a valuable tool to improve the financial performance of a new project.
 - It has helped preserve numerous heritage buildings in the Downtown area accomplishing some of the City's heritage objectives.
 - It provides developers an opportunity to increase project size.
 - It provides developers an opportunity to acquire and use small amounts of transferable space to avoid potentially expensive changes to designs. For example, one developer mis-calculated the required size of bicycle storage space in the building. Incorporating the additional storage space within the permitted FSR would have required costly changes to the building design. Therefore, they purchased the required density and transferred it to the site avoiding design changes.

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

2. The potential for an increase in density at a receiver site through the development permit process is a very valuable part of the policy. However, the magnitude of the density increase without rezoning (10%) is not large enough to create a strong incentive in many cases.
 - Although rezoning may not be required, the approvals process (development permit and urban design) can often be lengthened and costs increased (e.g., holding costs, architectural fees) when seeking approval for a density transfer. However, the outcome is uncertain. The additional costs and risks of the process reduce the incentive of attempting to achieve a 10% increase. Most developers indicated that they would be more interested in the program if the potential bonus was significantly higher.
 - Some developers indicated that the legal paperwork can be complex and costly for individuals who are not experienced with the process.

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

3. The system is complex and is not well understood by some potential purchasers and most individuals indicated that information on density available for sale is not made widely available by the City. Therefore, it was suggested that the City should:
 - Make information on the companies, individuals and sites that have transferable density available for sale widely available.
 - Provide very specific guidelines about which sites are suitable candidates to receive transferable density. This will remove some of the uncertainty of obtaining approvals.
4. The flexibility created by allowing transfers to cross zoning districts and geographic areas helps make the system more effective. However, there are limitations on the geographic locations of receiver sites, constraining the effectiveness of the policies. For example, it was perceived that excluding CD-1 sites from the receiver area dramatically reduces the potential pool of receiver sites. Individuals suggested that the City should:
 - Increase the geographic area of receiver sites. Many individuals suggested that there are locations outside the existing policy area that are suitable for higher permitted density via a transfer. Some suggested that the geographic area should be expanded to include the entire City as the approval process to use the transferable density ensures it will not negatively impact a neighbourhood.
 - Include the CD-1 sites within receiver area. Some of the major growth areas are zoned CD-1. Inclusion of these areas could increase the number of good quality receiver sites.
5. Due to site size, location and zoning, there is actually a limited number of sites in existing receiver areas that are realistic candidates for significant density transfers. For example:

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

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

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

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

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

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

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

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

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