

## 8.0 RECOMMENDATIONS

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

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

- a) Up-to-date information on the total amount of space that is available in the bank.
  - b) Up-to-date information on all potential additions to the bank (projects, amount of space) that are under consideration.
  - c) Monitoring the rate of take-up of space (number of transactions, size of transactions, and total amount of space) and analyzing trends in the rate of creation versus the rate of absorption.
  - d) Monitoring the price of space. Normally, the City is not party to actual transactions for the sale of transferable space. The City should consider changes to the system that require participants to provide price data, on the condition that individual transactions remain confidential but on the understanding that this data benefits all parties. If there is concern about the City obtaining this information for reasons of confidentiality, it may be possible to work with real estate organizations to develop an approach to monitoring price.
2. There are some administrative improvements the City can make to the system that should increase demand, increase efficiency and reduce transaction costs without any changes to existing planning, heritage, or urban design policies. These improvements could be implemented almost immediately:
    - a) The City should publish clear instructions and guidelines regarding the creation, acquisition and use of transferable density. The system is relatively complex and

- at the present time it takes too much work to develop a thorough understanding of how the system works. The City should include in these materials information about the other programs that are available to developers to obtain density increases.
- b) The City should maintain a publicly accessible data base showing how much density is available for purchase, the vendors of this density and contact information. This could be available on the City's web site. The aim is to make it as easy as possible for developers (purchasers) to find potential vendors of transferable density.
  - c) The City should actively market the program to developers. Not all developers active in receiver areas are fully aware of the program. Every applicant for a rezoning or development permit in the receiver area should be made aware early in their design process of the availability of transferable density. Staff could make presentations to development industry and property owner groups.
  - d) The City could also market the program at the community level, so that residents are encouraged to understand that allowing higher densities in some projects produces heritage benefits.
3. If the City determines that a significant backlog in space is accumulating and that price is falling, the City should be prepared to take action to manage the system. Falling price will impair the City's ability to expand the program into new areas or to encourage specific buildings regarded as priority heritage assets to take part in the program. The City could consider these kinds of responses to a drop in price:
- a) The City could implement a temporary moratorium on additional heritage density bonuses. A temporary hold on the approval of new projects would slow the rate of accumulation of unsold inventory.
  - b) The City could define priorities and criteria for eligible heritage buildings, so that density bonuses granted to lower priority buildings do not have a negative impact on the market, to the detriment of rehabilitation projects involving higher priority buildings.

- c) The City could consider setting annual limits or targets on the total amount of space to be approved for transfer, in total or by area.
- d) The City could set priorities for locations to be added to the policy area or at least add new areas incrementally.

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

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

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

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

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

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

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

- a) The City could eliminate the DCL charges on heritage density incorporated into a project. The rationale for this change is that the act of buying transferable density constitutes a kind of amenity provision (in an indirect sense) that warrants a credit in the calculation of charges.
- b) The City should definitely explore opportunities to expand the range of receiver sites to locations outside the existing policy area. The aim would be to find portions of the City in which there would be a market for additional space and in which density increases would be compatible with existing land use, density, and community values.
- c) The City could consider allowing developers to obtain density bonuses from amenity or social housing bonus provisions and still obtain a bonus for a heritage density transfers. The total density of a project would have to be subject to urban design considerations, but the use of more than one bonus density source should not be excluded when other City objectives are still being met.
- d) The City could consider expanding the range of potential purchasers of density. At present, a purchaser must be a person (or company) who owns a receiver site and who then directly transfers the density from the source to the receiver property. Two other kinds of purchasers are possible:
  - The City should allow the acquisition of density by developers who do not yet own a suitable receiver site but want to have a small pool of density available to an upcoming project. This would allow developers to plan in additional density from the inception of a project because they would already control it.
  - The City could allow “third parties” to buy and hold density as an investment. A long term investor might hold density on the expectation of price increase. A short-term investor might be more of a broker, acquiring density and then working aggressively to help project developers find ways to use it.

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

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

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

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

- The City could investigate whether the approvals process for obtaining heritage density increases could be streamlined. The objective should be to give applicants a quick decision on the likelihood (considering urban design and other factors) of approval, without protracted evaluation or community involvement. Again, there is a trade-off here but the City should keep in mind that a significant proportion of potential heritage density transfers are sufficiently small in total dollar value (and potential profit) that it is simply not worth extending the approvals time on a large project.
  - An even more significant policy change would be to consider raising the permitted density increase above 10% at receiver sites in some locations and/or making the permitted increase outright. This probably would not be acceptable on a “system-wide” basis, but there may be some locations in which these changes produce acceptable tradeoffs with regard to urban design considerations.
  - Under existing policy, CD-1 sites are currently ineligible to receive transfers without rezoning. The City could consider making existing CD-1 sites eligible for the 10% bonus without rezoning.
- f) The City could consider requiring that a portion (or all in some instances) of the additional density granted in a rezoning (or for some types of rezonings) be purchased from the heritage density bank. When the City rezones properties, it levies charges and in some cases it negotiates a package of benefits. However, the City does not impose any conditions on where the density “comes from”. Density granted via rezoning essentially increases the total capacity of the City for built form. The cost of additional density gained by rezoning (in applications the City regards as standard) is made up of the cost of the rezoning process, any costs associated with the time to rezone, and the payment of the City’s standard CAC rate of \$3 for the net additional space. Buying extra density from the heritage bank can cost considerably more, so there may be circumstances in which it makes more sense to rezone rather than acquire heritage density.

- g) The City could consider creating a formal density bank. Some jurisdictions actually buy some or all of the density that they create and they sell it to developers. This creates an immediate market for the density, but it means that all risk is transferred from the owners of heritage properties to the City. This option would require capital to buy density, would need investment management, and of course exposes the City to substantive risks (e.g., risk of falling price) and opportunity costs on any capital tied up to acquire transferable density.
  
- h) The City could consider using other tools to expand the incentives and resources available to heritage building owners, at least in some areas, to reduce the dependence on transferable density. For example, some jurisdictions make wide use of property tax abatement for heritage projects. The City should pursue financial support from other levels of government (e.g., the City could urge the federal government to proceed with federal tax incentives as part of the Historic Places Conservation Initiative strategy).