



Background and Scope

The City of Vancouver is considering ways to encourage (but not require) the retention of character and Heritage homes in older single-family neighbourhoods.

The City developed a list of possible changes to the RS-5 zoning regulations (which mainly apply to Dunbar, Kerrisdale, and Second Shaughnessy) and asked Coriolis Consulting Corp. to analyze the financial impacts of these changes and to comment on whether the findings are applicable to other parts of the City that have a large stock of character houses (including Cambie Village, Hastings Sunrise, Kensington Cedar Cottage, Riley Park, Third Shaughnessy, Upper Kitsilano, and West Point Grey).

The existing conditions (e.g. lot size, existing house size, condition of existing house, siting of existing house) for un-renovated, pre-1940s houses on RS zoned lots in the character zoning review focus areas vary significantly, so we used illustrative examples to test whether each change being considered would have a positive, negative, or neutral impact on the decision to demolish and build new versus retain and renovate.

Our detailed analysis is documented in a report dated October 2016 entitled, "Economic Analysis of Possible Changes to RS-5 Zoning Regulations to Encourage Retention of Pre-1940s Character Houses." Readers interested in the detailed analysis should contact the City of Vancouver.

Zoning Changes Being Considered by the City

The existing maximum density and allowable forms of housing in the RS-5 zone and the changes being considered by the City are summarized in the table on the following page.

The table distinguishes between what is permitted and what is being contemplated under three circumstances for RS-5 zoned properties:

- Demolishing an existing house and replacing it with a new house.
- Retaining a pre-1940 house with character merit and renovating it to a "character" standard (i.e. projects that maintain the existing external architectural character but are not required to use specific materials and are not legally protected).
- Retaining a pre-1940 house with character merit and renovating it to a "Heritage" standard (i.e. projects with a Heritage Revitalization Agreement, heritage designation, or covenants where the owner agrees to restore, preserve, and protect the building and/or specific heritage features and is required to meet a high standard of conservation).

Existing Maximum Density and Allowable Forms of Housing in the RS-5 Zone and Possible Changes Tested

	Maximum Density		Housing Forms Permitted in Addition to Single Family Dwelling	
	Existing	Scenarios Tested	Existing	Scenarios Tested
Demolish existing house and build new	0.7 FSR	0.6 or 0.5 FSR	<ul style="list-style-type: none"> • Secondary suite • Rental laneway house 	Same as existing regulations
Retain/renovate existing pre-1940 house to a "character" standard	0.7 FSR	0.7 or 0.75 FSR	<ul style="list-style-type: none"> • Secondary suite • Rental laneway house 	Same as existing regulations plus <ul style="list-style-type: none"> • Infill dwelling (for personal use or stratified) or • Multiple Conversion Dwelling ("MCD") with 2 units or • MCD with 2 units and an infill dwelling unit
Retain/renovate existing pre-1940 house to a "Heritage" standard	0.7 FSR	0.7 or 0.83 FSR	<ul style="list-style-type: none"> • Secondary suite • Rental laneway house 	Same as existing regulations plus <ul style="list-style-type: none"> • MCD with 2 units and an infill dwelling unit

Notes about terminology: FSR (Floor Space Ratio) is the amount of floorspace that can be built on a lot expressed as a ratio of the lot area. Under the existing regulations, the outright maximum density for both new houses and retention/renovation projects in the RS-5 zone is 0.6 FSR but this can be increased to 0.7 FSR at the discretion of the Director of Planning based on specific considerations and adopted guidelines. FSR includes the floorspace in a secondary suite or infill dwelling but the floorspace in a rental laneway house is in addition. A Multiple Conversion Dwelling ("MCD") is a strata titled project with townhouses or apartments in a conversion of the former single family dwelling.

The City does not necessarily plan to implement all of the possible changes, so the economic analysis evaluated the potential financial impact of each proposed change independently and then considered whether each change (or a combination) might reduce the number of pre-1940 houses that will be at risk of demolition.

Increasing density or allowing additional forms of housing for retention/renovation projects are possible incentives for retention of character and Heritage houses, but restricting new houses to a lower maximum density than renovation/expansion projects (i.e. 0.6 FSR or 0.5 FSR) would be a disincentive for demolishing a pre-1940 house and replacing it with a new house. The City's objectives in restricting new houses to a lower maximum density than renovation/retention projects would be to increase the financial difference between building new and retention/renovation (thereby creating more of an incentive for renovation) and to improve the relationship of new houses to the neighbourhood in character areas.

Summary of Findings

1. Retaining a pre-1940 house that would otherwise have been demolished and replaced can result in additional construction cost, as renovation is often more expensive than new construction. For houses that require extensive renovation to create an updated residence the cost premium is significant. For houses that need only partial or cosmetic renovation to produce an updated residence, renovation is less expensive than demolition/replacement although this can involve compromises in floor plan, room sizes, and other house features.
2. Providing an incentive in the form of a small increase in the maximum allowable floor area for a character house retention is, on its own, not likely to create enough financial incentive for retention over demolition/build new for most projects involving extensive renovation.
3. Providing an incentive in the form of allowing new types of units on the lot (such as an infill dwelling unit or stratified main house) does not generate enough new value to offset the renovation cost premium and create a financial incentive for retention of houses that require extensive renovation of the whole house.
4. Even the combination of a small increase in density and the ability to accommodate new unit types is not enough to offset the cost premium of a full renovation of a house that would otherwise have been demolished/replaced and create a material financial incentive for retention/renovation.

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5. To tip the balance more in favour of retaining pre-1940 character houses, it is necessary to offer incentives (extra density and additional unit types) and to also reduce the maximum floor area that can be achieved in construction of a new house. The City is considering reducing the density achievable in a new build to 0.5 or 0.6 FSR. This disincentive to demolish coupled with the incentives to retain is likely to result in more retentions of pre-1940 character houses.
 6. The overall impact of these changes is likely to be downward pressure on all single detached lot values. However, this impact is lower on retained/renovated houses (because of the higher achievable density) than on demolition/replacements (because of the reduction in achievable density), so the net result is likely to be more retentions. The market wide downward pressure on lot values of the proposed changes is likely in the range of 5% to 10%. To put this in the context of price trends, new single detached house prices and lot values in Vancouver increased by about 25% to 35% during September 2015 to July 2016. Starting in August 2016, though, there have been signs of market softening in part due to policy changes such as the new 15% tax on non-resident purchasers (the effects of which are still not fully known as not enough time has passed) and other changes such as new resilience rules for mortgage qualifications. Taken together, these changes (including the City's proposed zoning changes) suggest that house prices may return to mid-2015 levels.
 7. Post-1940 houses and pre-1940 houses not deemed to be character houses will have the negative financial impact of reduced maximum density for new construction but will not be eligible for any offsetting financial benefits. For these properties, there will be a negative impact on value due to the reduced density. This is likely to result in more retention and renovation of large non-character houses so they can keep all of their existing floorspace.
 8. The reduced maximum density in new builds is likely to cause some decline in interest in secondary suites or result in smaller secondary suites, especially if allowable density in new builds is reduced to 0.5 FSR, because secondary suites use some of the (reduced) floorspace available for the main house. This impact will be felt most strongly on small lots (i.e. 33 foot frontage) because the size of new house that can be achieved at 0.5 FSR on a small lot would be more like a townhouse (about 2,000 square feet) than what can be built under zoning today.
 9. While the economic analysis focused mainly on RS-5 zoned properties in Kerrisdale, Dunbar, and Second Shaughnessy, the findings can be generalized to other single detached neighbourhoods that are being considered for the character house retention policies (i.e. RS-3 zoned properties in Kerrisdale, RS-3A zoned properties in Third Shaughnessy, and RS-1, RS-5, and RS-7 zoned properties in Cambie Village, Hastings Sunrise, Kensington Cedar Cottage, Riley Park, Upper Kitislano, and West Point Grey).