



Supports Item No. 1
P&E Committee Agenda
April 22, 2010

POLICY REPORT
URBAN STRUCTURE

Report Date: April 8, 2010
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Meeting Date: April 22, 2010

TO: Standing Committee on Planning and Environment
FROM: Director of Planning
SUBJECT: Density Bank Update and Continuation of Heritage Property Tax Exemption Incentive

RECOMMENDATIONS

- A. THAT Council receive the update on the density bank for INFORMATION.
- B. THAT the property tax exemption program be re-activated until the end of 2013, applicable in the former Heritage Building Rehabilitation Program (HBRP) area, utilizing the same eligibility criteria, application requirements and calculation methodology.
- C. THAT HBRP projects previously approved that involved Class 6 - Business & Other properties be eligible to apply for conversion of density transfer to property tax exemption subject to the guiding principles and approval process as outlined in this report.

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services RECOMMENDS approval of the foregoing.

COUNCIL POLICY

- Transfer of Density Policy (adopted 1983)
- Heritage Polices and Guidelines (adopted 1986)
- Heritage Building Rehabilitation Program Polices and Procedures (adopted July 2003)

SUMMARY AND PURPOSE

In July 2009 Council approved a number of recommendations aimed at rebalancing the density bank in order to bring it back to a viable position (RTS No. 7281). In addition, Council directed staff to report back on targets to land density, to seek opportunities to land density, to consider the extension of property tax exemption as an incentive and conversion of density to property tax exemption. This report provides a progress report on the density bank and it summarizes the efforts taken over the past eight months to respond to Council's directions. This report also recommends the property tax exemption tool for heritage rehabilitation be re-activated.

BACKGROUND

In July 2003 Council approved implementation of an incentive program for Gastown, Chinatown, Victory Square and the Hastings Corridor with the objective of facilitating heritage building rehabilitation and economic revitalization in these Downtown Eastside neighbourhoods. The incentives included façade grants, property tax exemption, bonus density and transfer of density and were available for a five year period (2003-2008).

Combined, the incentives will have resulted in the following achievements once construction is completed:

- 22 major heritage projects with buildings fully rehabilitated and designated ensuring long-term protection;
- 49 heritage facades rehabilitated (33 facades are part of the 22 major upgrades noted above, and 16 are "stand alone" façade grant projects);
- \$532 million of total direct investment in the area (based on project cost estimates); including \$105 million in HBRP incentives, which will leverage \$427 million in private investment (1:4 leverage ratio);
- 3,000 feet of street frontage rehabilitated, re-animating the public realm and contributing to the viability of the area; and
- 934 market residential units built.

In addition, the incentives have helped to create jobs in the construction sector, have contributed to the overall area revitalization such as Woodward's and projects along Water and Carrall Streets, have complemented other public initiatives such as the Carrall Greenway, and have encouraged structural upgrading of unreinforced masonry buildings which are common in the historic areas.

DISCUSSION

Density Bank - Current Status

In July 2009 the balance of the density bank was 1.5 million square feet. Subsequently and to the end of 2009, a number of re-zonings involving density transfers were approved by Council and further transfers were approved by the Development Permit Board. Those transfers represent a total of nearly 100,000 square feet making the current balance in the density bank 1.4 million square feet. In the first quarter of 2010, rezoning and development permit applications proposing transfers of approximately 150,000 square feet have been received and are subject to review. If all of those proposals gain approval, a total of 250,000 square feet of density will have been approved and ready to land since July 2009.

Beyond applications that have been submitted, a number of development enquiries are expected to proceed to application that include public benefit allocations including density transfer. In aggregate, those enquiries involve a total of about 500,000 square feet of public benefit allocations which could include heritage density transfer. While not all are likely to proceed to the application stage, these are indicators of significant interest and activity which could result in future reduction of the density bank. If this pace of applications submission and this level of enquiry continues, it appears very likely that the annual absorption target anticipated by staff and Council of at least 200,000 square feet per year would be achieved or even exceeded.

Density Bank - Creation of New "Landing" Capacity

During the past 12 months the City proceeded on a number of planning initiatives that have resulted or are expected to result in increases to the capacity to achieve public benefits including the landing of density from the density bank. Examples include:

- In April 2009, three million square feet of new development potential was achieved in the downtown core through the approval of the Downtown Capacity and Corridor Review;
- In November 2009, Council approved the Northeast False Creek Policy which includes a target of landing a minimum of 10% of residential floor space from the density bank (equivalent to 400,000 sq. ft.);
- In January 2010, additional capacity of approximately one million square feet was created through the Historic Area Height Review and the Downtown View Corridors study;
- The Central Broadway Planning program has now commenced and it will be reviewing opportunities for increased density transfers in the Broadway C-3A area; and
- Scoping of a work program to establish targets for landing density outside of the Central Area has now been initiated.

In July 2009 Council also directed staff to pursue an increase in the density transfer amount that can be approved by the Development Permit Board from 10% to 20%. This requires a change to the Vancouver Charter. A formal request to the Province for such a Charter change has now been submitted and it is anticipated that amendments will be brought forward in an upcoming session of the Provincial legislature.

Property Tax Exemption

Property tax exemption for heritage buildings was one of the tools available through the HBRP from 2003-2008. Developers have traditionally favoured density bonusing and transfer over property tax exemptions due to the extended timeline over which the incentive is being realized. Additionally, because the tax benefit is realized by strata owners rather than the developer in the case of residential developments, property tax exemptions were less attractive for some projects.

In the absence of density bonusing and transfer as heritage incentive tools at this time, staff recommend that property tax exemption be re-activated, alongside the façade improvement program, to provide some degree of financial support to encourage the continuation of heritage rehabilitation and economic revitalization in the Downtown Eastside. As residential

projects have not typically availed themselves of this incentive for reasons stated earlier, staff expect that a re-activation of property tax exemption, within the current context of limited heritage incentives, will result in fewer and more modest commercial development proposals relative to those put forward over the 2003-2008 period when density bonusing and transfer were available.

It is proposed that the eligibility criteria, application requirements and calculation methodology as approved under the HBRP (2003-2008) continue to apply. This means buildings would need to be structurally upgraded, applicants would need to submit development proformas for review, a Heritage Revitalization Agreement (HRA) would be required, and the final decision on the rehabilitation program and provision of property tax exemption and/or heritage façade grants would be made by Council. The 10 year maximum timeframe for property tax exemption as stipulated in the Vancouver Charter will continue to apply.

The total incentives that can be provided (façade grant and property tax exemption) will in most cases not equal the total shortfall costs. In the past the remaining shortfall costs would be compensated through density bonus for transfer but at present no density transfer incentive is available until rebalancing of the density bank is achieved. No additional property tax exemption will be provided to make up for the density component previously available as part of the compensation.

Eight enquirers (including several Chinatown Society Building owners) have indicated an interest in applying for the property tax exemption and at least one proponent has indicated an intent to proceed with an application to rehabilitate a heritage building should the program be re-activated. Based on previously approved heritage rehabilitation projects under the HBRP (2003-2008), staff estimate there could be three to five applications for property tax exemption per year.

Conversion of Transferable Density to Property Tax Exemption

Council also directed staff in July 2009 to report back on a request to consider converting existing transferable density to additional property tax exemption to reduce the density bank.

Staff have completed an analysis and determined that if a property was granted a property tax exemption previously, the amount of density that could be converted to additional property tax exemption and still fit in the 10 year maximum timeframe allowable for property tax exemption under the Vancouver Charter would be minimal. Staff estimate that approximately \$250,000 (or equivalent to 5,000 sq. ft) may be converted. This amount of density would have negligible impact of the density bank balance. Although the benefits of accommodating conversion of density to property tax exemption are minimal, staff have concluded that it does offer some opportunity to reduce the density bank. Staff, are therefore, recommending that Council endorse the eligibility of projects to apply for conversion subject to criteria described below.

A number of guiding principles are recommended by staff for those wishing to consider this option including: the total value of incentives as approved by Council remains the same; the maximum 10 year exemption limit would not be extended; and only business class (class 6) properties would be eligible. It is proposed that conversion of density to property tax exemption be limited to Class 6 properties as other property classes are typically strata units which have been sold and, therefore, the developer would not be able to convert density to

property tax exemption. Assuming these guidelines, it is anticipated only four properties could apply. Approval of any change to the distribution of incentives would require a report to Council, amendment of the Heritage Revitalization Agreement and adoption of a new property tax exemption by-law which will result in administrative costs to the City.

FINANCIAL IMPLICATIONS

Heritage Property Tax Exemptions

To date, \$105.4 million in heritage incentives have been awarded to 34 projects under the HBRP (2003-2008). Of these, 17 projects took advantage of property tax exemptions totaling \$21.8 million which will be realized over a period of up to 10 years. The value of exemptions varied across projects from \$144,500 to \$11.6 million, of which the City's general purpose tax accounts for approximately 50% and taxes levied by other taxing authorities account for the rest.

Within the current context of limited heritage incentives, should the property exemption program be re-activated, staff anticipate the types of projects applying for the exemption will be more modest in scale with a maximum property tax exemptions around \$500,000. Based on five applications a year and the annual property tax exemption of similar projects already in the program, this will result in an additional \$200,000 to \$250,000 per year in property tax exemptions for a maximum of ten years.

As the value of exempt properties (including those exempted for heritage purposes) is not factored into general purpose tax rate calculations, there will be no impact on the City's tax revenues. Any forgone taxes as a result of the exemption are shared among non-exempt properties in the normal course of balancing the annual operating budget. However, it should be noted that the provision of heritage incentives is to increase the financial viability of projects so they can be advanced. In other words, those redevelopments might not have happened without the property tax exemptions and/or other incentives. Upon completion, the redevelopment will broaden the City's assessment base and the City will realize tax revenues upon expiration of the property tax exemptions. To the extent that additional taxable value is created before it might otherwise be, the City's tax revenues will increase.

Besides forgone taxes, there are additional costs associated with the administration and oversight of the property tax exemption program. Finance staff spend considerable time tracking the commencement and expiration of each property tax exemption approved and liaising with BC Assessment to ensure that the exemption status is reflected on the assessment roll and in tax billing for each property folio impacted (545 folios to-date). This will likely involve upgrades to the City's property tax system which is currently being considered.

Conversion of Transferable Density to Property Tax Exemptions

Based on the proposed guiding principles, it is estimated that only four projects will be eligible to apply for the conversion for additional property tax exemptions of up to \$250,000, which will be realized within the 10 year maximum timeframe allowable under the Vancouver Charter.

CONCLUSION

This report provides Council an update on the status of the density bank indicating transfer activity has increased in the past six months and significant additional capacity for density transfer (and other public benefits) has been created. In addition, continuation of the property tax exemption as an incentive to encourage heritage building rehabilitation and economic revitalization in the Downtown Eastside is recommended. Approval of the recommendations will facilitate heritage conservation activities in City's historic downtown neighbourhoods.

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