New civic strategy – not gambling on land lift – needed to pay cost of real estate development

Beyond "let's make a deal"

URBAN PLANNING

MICHAEL GELLER

I was recently quoted in this newspaper as saying one reason for the development slowdown around Metro is excessive greed on the part of some landowners and municipalities. I would like to elaborate.

For years, municipalities across Canada have been struggling with how best to finance the costs associated with new development, especially residential development.

In 2004, Vancouver city council approved a report entitled *Financing Growth*, which identified two revenue sources in addition to the numerous permit fees that apply to all developments.

Development cost levies (DCLs) would be charged on most new developments to help pay for community facilities and community amenity contributions (CACs) would be charged when new development occurred as the result of a rezoning.

Who pays?

Today, these DCL and CAC fees are used to help finance a variety of amenities including child-care facilities, parks and social housing. However, the *Financing Growth* report raised an important question: Who really pays these fees?

While the developer writes the cheque, city staff concluded the fees are not paid by the developer or the "end user" of the homes or businesses. Rather, the city determined they are paid by the original landowner, since the fees have a downward pressure on land values.

Most Vancouver developers and economists do not agree with this analysis, contending that new purchasers and tenants ultimately pay the additional costs through higher housing prices and commercial rents.

So, is this a bad thing?

Many would say there is nothing wrong with a system that charges new homeowners or office tenants for the additional services they consume. While I might agree in principle, there is a serious problem with the city's approach, especially when it comes to rezonings and calculating CACs.

Land lift

Rather than establish a CAC related to the cost of providing services, the city calculates the CAC based on the anticipated increased value of the land. The city's policy is to collect about 75 per cent of the increase or "lift" from the developer.

In order to determine the lift, developers are required to submit pro formas forecasting revenues and project costs including anticipated interest rates, estimated material, labour costs, etc.

The **City of Vancouver** is not alone in this approach. The districts of North Vancouver, West Vancouver and other municipalities are involved in similar practices. However, there are many unforeseen problems with this approach.

First, it gives the city an incentive to improperly zone land, thus encouraging developers to bring forward rezoning applications that will hopefully be accompanied by cash or in-kind payments.

But, if developers are not prepared to accept the rezoning risks, there will be insufficient zoned land for certain types of development.

This is happening right now.

New townhouse developments, for example, are both limited and expensive in Vancouver since there are few zoned sites available.

Second, if landowners price their properties too high, there may be no lift for the developer and the city to share. This is also happening – along the Cambie corridor and other arterials – where single-family properties have been priced well above their zoned value.

Further, when the amount of the city's payment is tied to the size of the development and corresponding land lift, there is a temptation to approve larger projects just for the money or other benefits. While staff and politicians vehemently deny this could ever happen, many of us suspect otherwise.

As an example, one of the more controversial Vancouver rezonings last year was a mixed-use, highrise proposal by **Rize Alliance** for a site at Kingsway and Broadway. Many in the community opposed the development, which they considered out of character with the neighbourhood. Others questioned the floor-space ratio, which was almost twice the permitted density.

However, city planners and council justified the rezoning, in part, because the larger development would result in a $6.25 million CAC cash payment.

Finally, if there are no rezonings there may be insufficient funds to finance needed community facilities, such as child-care space. No rezoning, no child care. This is no way to plan a city.

Solution

New developments should be required to pay for themselves over time through a combination of up-front, pre-determined fees and future taxes. Further, rather than an ad-hoc "let's make a deal approach," the city should pre-zone land through a proper community planning process. In exceptional circumstances, a negotiated approach may still be appropriate.

I am confident new procedures can be established so that properties are assessed on their current use, not their future development potential.

Ultimately, municipalities, landowners, consumers, neighbourhood associations and developers will be the beneficiaries of this more rational approach to financing growth.◆

Michael Geller is a Vancouver-based architect, planner, real estate consultant and developer with more than 35 years' experience in the public and private sectors. He also serves on the adjunct faculty of Simon Fraser University. Follow his blog at www.gellersworldtravel.blogspot.com *and contact him at geller@sfu.ca.*

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