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Redevelopment in Downtown

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REDEVELOPMENT IN DOWNTOWN

Summary

For many years, politicians have been dreaming of Toronto as a city of skyscrapers. To make their dreams come true, the land has been zoned for high density buildings throughout much of downtown: the area bounded by University, College-Carlton, Jarvis. But the function of the area is such that the proposed use of land -- as provided by zoning -- is not in accord with demand for space.

By 1980, all users of downtown will be accommodated in buildings which take up far less space than provided for by present zoning. The balance of downtown land will remain either vacant, under-used or occupied by decaying buildings. As much as 23 acres of prime land in the high density commercial zones south of Queen Street may remain in this state.

Out-of-date zoning discourages the redevelopment of this under-used land by raising its price beyond the point at which it is economical to build. Yet land in downtown is Metro's most valuable resource. Its under-use is a luxury we cannot afford. Recent proposals by the Toronto City Planning Board point the path that Council must follow if the potential of downtown is to be fully exploited. But even these proposals will not effectively ensure maximum redevelopment. If downtown is to achieve the growth expected of it, there must be a basic revision of zoning policy. City Council faces a formidable challenge as it decides the future of downtown.

Redevelopment in Downtown

THE NATURE OF THE LAND MARKET

Toronto is a commercial city. Its downtown* is one of the busiest in North America. Yet the third largest land use in downtown is car parking. Some 11.7%** of the downtown area is accounted for in this way. This compares with 12.5% for retail uses and 14.5% for offices. Apart from this apparent misuse of some of Canada's most expensive land there is also the accompanying ill-effect upon the appearance of downtown. This effect is heightened by the blighted condition of much of the downtown residential, industrial, and commercial property.***

Early in 1963, the City Planning Board made public its Plan for Downtown Toronto. This plan, in attempting an interpretation of the future of the area expresses an acute awareness of the need to retain the vigour of downtown. Several fairly radical proposals for changing the appearance of downtown were made by the Board which will now look to private enterprise to undertake redevelopment. It is questionable, however, whether the perpetuation of this partnership, which has not fully exploited the visual or economic potential of downtown can bring about satisfactory redevelopment without a re-evaluation of the methods employed by the City Council to guide and encourage renewal. Apart from carrying out its own development projects, the City's influence is exerted through zoning by-laws and building regulations. Zoning specifies, for designated areas of land, the type and amount of development that is permissible. It is intended to provide for the present and future needs of the community and land market. Revised zoning proposals, along with the City's Plan for Downtown Toronto are now going through the 'hearing' stages before finally being put to City Council. Sound zoning is essential to the proper functioning of the land market and before analyzing the zoning of downtown Toronto, it would be well to examine the nature of this land market.

The quality and quantity of development are directly related to its cost. This in turn is influenced basically by two factors—cost of construction and price of land.

COSTS OF CONSTRUCTION

Variation in construction costs, although less than for land prices, is considerable. Certain parts of a city virtually dictate that new development offer prestige refinements if floor space is to be let. Costs rise accordingly. Apart from this, it is the type and size of building that most influences the cost of construction. For example, at seven stories or thereabouts, a frame constructed building is cheaper than a load-bearing building.

**The area bounded by College St., Carlton St., Jarvis St., Front St., Simcoe St., University Ave., unless otherwise referred to.*

***1.5% comprised of parking structures; 10.2% comprised of surface parking lots. The scope for reduction of this 11.7% is obvious.*

****In census tracts 73 and 74 some 47% of the dominantly residential structures have been classified as being in poor condition. There were no structures dominantly residential in census tracts 75 and 76. Judgment of condition of industrial and commercial property is based upon more subjective criteria and does not easily lend itself to statistical interpretation.*

Again, at about sixteen stories, plumbing and heating systems require installation of an additional series of pumps. At greater heights wind pressures will require a further strengthening to the basic construction. Thus the graph relating building height to construction costs does not show a smooth curve. Certain heights are more economic per square foot of floor space than are others. This influences height and volume of a building and in turn influences the economics of the venture as related to the zoning. Thus where zoning permits tall buildings, developers may be deterred solely by costs of construction.

PRICE OF LAND

This factor, certainly, is more influential than the cost of construction in determining development. In most markets price is a rational outcome of supply and demand. However, because the land market is subject to much speculation, both on the part of the buyers and the owners, a third element, the floating value of land may have to be accounted for.

SUPPLY OF LAND

Three factors affect supply of land. They are the amount of land available, the uses permitted, and the location. These factors are completely controlled by land use zoning by-laws. Thus municipal councils through the use of zoning by-laws can balance the supply of land with demand so enabling a proper functioning of the land market. Community interests can likewise be safeguarded through provision of an adequate supply of land for certain requirements, such as parks, in areas which would otherwise be developed for residential or commercial uses. Because satisfactory development will result only through a careful control of supply of land, the onus of responsibility for such development must lie with the municipal councils.

DEMAND FOR LAND

The factors influencing the demand for land vary with time and place. Those varying with time are:

(a.) National Economy. The amount of money available to finance development; the interest rates on borrowed capital; the economic prospects of trade for commercial development; and governmental policy (e.g. as towards residential development) all influence demand.

(b.) The Change in the Nature of Businesses. Examples of this are the growth of expansive shopping centres and the greater demand they bring for land devoted to retail uses; the growth of office buildings upwards and not outwards to provide for the greater use of floor space per employee; and the reverse trend of industry to spread itself over one floor rather than over several floors. These changes may be slow but of grave implication.

Those factors varying from one site or location to another but not varying in time are:

(c.) The Size of Lot. This is more noticeable within some land use categories than in others (e.g. retail stores prefer few floors over an extensive area whereas office structures rise high over a small area). Buildings, particularly prestige office blocks, require certain facilities such as elevators, lobbies, corridors and washrooms that reduce the floor area that can be rented. Since these facilities take up proportionally* less space in large buildings than in small ones, structures with large floor areas are the more economic. The larger the floor area required, the larger the lot size demanded.

Apart from this factor, the smaller the area of floor space on any one floor the less chance of letting the space for offices. With more floor space per employee being required, this factor is of great importance in

**The proportion of rented floor space relative to total floor space is referred to from henceforth as the net:gross floor area rental ratio.*

estimating the possibilities for development of, and the demand for any one particular site. As a result of this, a lot of approximately 15,000 sq. feet fully built over is now regarded as being the minimum area that will prove economic for downtown office space rental.

(d.) The Availability of Services. This factor influences some land users more than it does others. Land well served by transport facilities, especially, is far more valuable than is land served only by rudimentary transport services.

(e.) External Economies. These are the benefits that accrue from surrounding properties or land uses. They will vary from location to location according to the user of the land. Office space is worth more in a commercial area where service industries are close at hand. On the other hand, residential property adjoining an industrial area may well suffer a reduction in value.

(f.) Taxation. The variance in taxation from place to place has a greater influence on demand than has its change over a period of time. It will also have a varying effect on demand for land according to land use type. For example, businesses that are tied to a downtown location will not be able to react quickly to property tax changes although a new business may think twice about actually moving into the area. Owners of a highly taxed residential property can flee the tax jurisdiction more easily—resulting in a change in demand for land for development and a decay of older properties.

THE FLOATING VALUE

This is one of the most important factors in determining the price of urban land and the likelihood of its development. The floating value of a property is an estimated value that is thought to be realizable if it were to be developed, or sold for development, at the highest and best use at present permitted. It is determined by capitalizing potential return on development to maximum permitted densities. It is 'floating' in that the same value attaches to any land within a prescribed area bearing the same designated zoning. Since the value is conditional upon development, or sale for development, at maximum zoning densities, this floating value (or potential value) differs from the 'present value' (or actual value) according to the present use of the land.

The present value varies throughout any land use zone according to (a) desirability of site and (b) estimated time lapse before development is possible at various densities. Thus it is set by the price that the market is willing to pay. For example, along the south side of King Street West, from Yonge Street to University Avenue, the floating value for land, set by the zoning density of 12.0,* stands at about $100 per square foot. However, the present value shows considerable variation along the street. At Bay Street, $100 could certainly be realized immediately —it being a prime location for immediate development at maximum densities as permitted by present zoning by-laws. Further west along the street, away from the centre of business, it may be sometime before a building of 12.0 density as presently permitted could be regarded as economically feasible and the present value may stand at about $40 per square foot.

A further qualifying factor is lot size, for if it is impossible to assemble a building site of at least 15,000 square feet, then that land may be worth as little as $10 per square foot.**

The rational behaviour of land owners with a feel for the market is to trade at

**Density as used here is an expression of the Floor Area Ratio. The Floor Area Ratio is arrived at by dividing the total area of floor space of a building by the area of the lot occupied by that building. Thus on a lot of 10,000 sq. ft. development to a maximum permitted density of 12.0, the total floor area is 120,000 sq. feet.*

***These land prices are only approximate (they have been used in preference to algebraical terms for the sake of clarity).*

present values. Others, who ignore time and locational factors and estimate the value of their property solely on the basis of development to maximum permitted densities, hold out for the floating value. Since the floating value is often quite unrealistic, its observance inhibits turnover of land and consequently development. Potential developers know that it may be impossible to realize a sufficient return to justify payment of the floating value and take their business elsewhere. Obviously, the larger the area zoned for a particular use the more extensive the area over which this maximum or floating value can spread and the wider the area over which land may be held indefinitely. On the other hand, if the supply of land zoned for any one use is brought into line with demand there will be a good percentage of turnover in property and consequently, ensuing development. This is because the floating value has been reduced to the present value. To illustrate more specifically these problems of development, the downtown area of Toronto is examined in the context of its own zoning and land values.

OVERZONING IN DOWNTOWN

The floating value thus would not inhibit development if there were no overzoning. Overzoning takes on two forms. First, the designation throughout a zone, of a density which is known to be more than adequate for potential development over that entire area. Second, the extension of any land use zone over an area which is known will be far from fully developed within a reasonable period of time. Either way there is surplus land for the floor space requirements of the market. With excess land the floating value begins to have its inhibiting effect on development. That is, prices over this large area are higher than the level at which the relatively limited market demand wishes to trade. This situation exists in downtown Toronto. Land prices are exorbitantly high (the cost of acquisition and clearing an acre of land in downtown may be as much as $600,000) and development is slow if judged by the amount of open space and obsolete buildings. The function of downtown is changing but zoning by-laws, present and proposed, are not in step with the market changes.

THE CHANGING DOWNTOWN

Investigation of the employment structure of downtown confirms what is already apparent to the eye. Table I shows that while there has been a decline in certain occupations there has been a corresponding growth in other sectors.

This change in employment structure means a change in land use, which in turn requires a change in zoning. Manufacturing industry is moving out whereas the biggest demand by far is for new office space. However, as was noted earlier, offices are growing upwards and not outwards. They are providing plentiful floor space without using all the land vacated by the previous land users. Thus the increase in the demand for land is not at the same rate as for the demand for floor space. This concentration of much floor space on little land is an attempt by the developer to justify economically the cost of the land. The cost of the land, because of the floating value, is related to the ceiling set by the maximum density of development permitted and thus it is to this ceiling that developers will build. Consequently, under such circumstances, unless there can be a very great increase in employment, the concentration of floor space will lead to further 'unemployment of land'*. In other words

**Charles M. Haar—Land Use Planning—published by Little, Brown & Co. 1959.*

TABLE I

EMPLOYMENT IN DOWNTOWN*

	Declining[1] Sector	Growing[2] Sector	Total
1956	73,000	49,000	122,000
1960	55,000	63,000	118,000
% change	—24.6	+28.6	—3.3

1. Declining sector comprises manufacturing, wholesale, retail, recreational and personal service employment.
2. Growing segment comprises finance, insurance, business services, government, etc.

there is more than enough land set aside for those uses that can afford to develop it at the maximum densities permitted which are the only densities at which it is economical to build. Overzoning thus exists.

REZONING DOWNTOWN

If the City's proposals for rezoning downtown are to achieve satisfactory redevelopment, they must resolve the unemployment of land. To the extent that demand is inelastic, they can either encourage (or force) present uses to occupy more land by reducing densities, reduce the amount of land zoned for one use so making it possible for new uses to come into the downtown area, or use a combination of these two approaches. With this in mind, it may be well to examine the approach of the City Planning Board in revising its zoning for downtown.

The Downtown Plan is based upon what is expected to occur over the period 1960 to 1980. Estimates of the demand for future floor space were made from projections of trends where these could be traced. These past trends may have been for the downtown area—as in the retail trade and personal services, or more often, because of the lack of previous data on downtown, they may have been based on city, metropolitan, or national experience. Providing this procedure is followed with care, a fair picture of the future can be obtained. Forecasts were modified after discussion with representatives from all downtown business groups. Most of these projections are reasonable guesses and there is no room for questioning their value here. They are, however, only guesses as is indicatd by the estimate that retail trade will respond to the 32% increase in the downtown** labour force with a 32% expansion (this is when its custom is relying increasingly upon lunch-time trade and facing competition from shopping centres). This same guess is further distorted by an allowance for some movement, on the part of the large department stores, that may result in a reduction of 4,500 of their employment roll. The net result of all these projections is an anticipated increase of 27% in the total downtown work force and an increase in total downtown floor space of 30.8%. While it is obvious that the declining sector referred to in Table I was not expected to continue for

**These figures from the Metro Toronto Planning Board have been questioned by the City of Toronto Planning Board. The City revised Metro's 1960 total to 123,000 thus showing an increase in employment. The City did not, however, revise the 1956 figures on the same statistical basis. If this had been done a decrease in total employment would still be shown to have existed.*

***Here downtown is taken to include the downtown as referred to on page 1 plus the blocks on the opposite side of the bounding streets excepting those blocks on the west side of Simcoe Street.*

ever to decline at the same pace, the forecast is certainly significant. To accommodate this growth an inventory of land available was made. This consisted of the total of open space (including surface car lots) to which was added the land on which stood buildings that were regarded as obsolete or that would be pulled down if the price made it worthwhile redeveloping. Replacements for the floor space demolished in this way were accounted for in the demand for new space.

Having estimated supply of land and demand for floor space the next step was to decide the distribution of land uses and the maximum permissible densities for development. Average density for all uses in downtown in 1960 was 2.48; in 1980 the figure is estimated to be 3.28. These figures are, however, averages for the whole of downtown—old buildings and new buildings and do not reflect the densities of recent developments. By taking an individual land use it is easier to see the effect of this allocation of land on future development. Table II shows the density (5.5) at which development of new office space would have to take place if the anticipated amount of office space were to be provided in the zones allocated for office development.

This density is extremely low and is hardly an economic proposition considering present land prices. The area where most of the office development will take place is the high density commercial zone south of Queen Street. The estimated price of all land available for development in this area is such that only a density at or above 11.5 is economic. Thus if development takes place at a density of 11.5 and not at 5.5 then approximately 50% of the land available for redevelopment will not be redeveloped. Present maximum zoning permitted in the area in question is 12.0. Future proposals are for a density of 9.0 with possibilities of reaching a density of 12.0 providing certain features such as plazas, walkways and malls are incorporated as provided for under a bonus scheme. The City Planning Board estimates that if all new commercial development takes place at a density of 9.0 in this zone then only 57.4% of the land available for development (Table II—(i)) will actually be developed. Estimates of the percentage of available land that would have to be developed at maximum densities to meet this demand for commercial uses are given in the Supplementary Report to the Plan for Downtown Toronto

TABLE II

OFFICE DEVELOPMENT 1960-1980

(a) 1960	Land occupied by offices, sq. ft.	5,459,000
(b) 1960	Floor space occupied by offices, sq. ft.	20,129,000
(c) 1960	F.A.R.* (b/a)	3.6
(d) 1980	Floor space occupied by offices, sq. ft.	27,224,000
(e) 1980	F.A.R.* (d/a)	4.9
(f) 1960-80	Increase in Floor Space, sq. ft.	7,095,000
(g) 1960-80	Land remaining untouched (as in 1960), sq. ft.	1,479,800
(h) 1960-80	Floor space remaining untouched (as in 1960), sq. ft.	5,327,280
(i) 1960-80	Land available for redevelopment, sq. ft.	3,979,200
(j) 1960-80	Floor space to be displaced, sq. ft.	14,801,720
(k) 1960-80	Floor space to be constructed, sq. ft. (f & j)	21,896,720
(l) 1960-80	F.A.R.* for new development (k/i)	5.5

F.A.R.—Floor Area Ratio or Density.

(Figure 13)*. If the percentages shown on this map are good guesses then the end result will be large areas of open space—i.e. 'the unemployed land'. Indeed, if all new development in the high density commercial zones south of Queen Street were to be at a density of 10.0 (quite possible under the bonus scheme), this unemployed land would total 23.3 acres. This is solely for one zone, although the phenomenon is bound to occur in other zones to a lesser extent.

It is apparent therefore that the zoning proposed for downtown Toronto will reduce but by no means prevent this unemployment of land. The City's and maybe Canada's most valuable asset in urban land will not be fully exploited. Downtown will remain overzoned unless there is further revision of the zoning. There is little possibility of attracting even more new development to fill the gap. Indeed the Planning Board is being extremely optimistic as it is. An anticipated downtown employment of 168,293 in 1980 is not only out of line with Metro calculations (Table I) but also very different from what is anticipated for other downtown areas in North America. The New York core area is expected to provide an increase in employment of 9.4% from 1965 to 1985 compared with Toronto's estimates of 27% increase for a twenty year period. What concerns us is not that the Planning Board may be wrong in their calculations but that they certainly cannot hope for more development than they anticipate.

THE EFFECTS OF OVERZONING

With the newly proposed zoning for downtown becoming the actual zoning we can still expect densities up to 12.0 under the bonus scheme. Land prices will remain high and thus force development to the maximum densities. Development will be concentrated around the core area with those uses that cannot afford top prices moving to the extreme fringe of downtown (University Avenue, Jarvis Street and College Street) where prices may be ten times lower—if sold at present value. In between the core and the fringe will be undeveloped lots (being used as temporary parking lots) and decaying property—the result either of a landlord holding onto his property or of the lot being too small to make development economic. Obsolete buildings will be under-used (i.e. housing businesses that normally would not be found downtown) and exhibit high vacancy rates. This situation is further accentuated when all new development is taking place on a few choice sites. The new head office of the Toronto-Dominion Bank will be putting at least one million square feet of office space on the market. This is virtually enough to fill the market demand for a two year period. On top of this, there is over one million square feet of office space already vacant downtown. Unused property means a loss of assessment. There is also the necessity for the highly developed areas to carry the costs of a street system and other services that are not being fully used and may even be regarded as outmoded. The effect upon architecture is such that all buildings have to climb skywards. The long, low (nine story) facade once proposed for the south side of Civic Square proved uneconomical on the ground that the density of development would not have met the ceiling set by the floating value.

The net effect is detrimental to downtown's ability to attract outside investment —apart from any effect upon the well-being of the downtown workers. Some of these characteristics may be brought about by other causes also but overzoning is seen to be a cause of each of them and where overzoning exists each of these symptoms can be discerned, just as they can be seen in downtown Toronto.

*These reports may be obtained from the City of Toronto Planning Board.

WHY WE ARE OVERZONED

While present zoning may reflect the dreams of Toronto politicians for a grand city of skyscrapers, the realities of growth dictate otherwise. Although outwardly downtown is still the major business district, the nature of its function has changed. The growing mobility of people is basic to much of this change. The shift in emphasis from rail to road transport offers industry a wider choice of location. Downtown shopping has suffered from the ability of people to travel quickly and easily to shopping centres. Even offices are tending to move out of the Central Business District. In Toronto minor office centres are developing, as along Bloor Street and Eglinton Avenue. These are within easy reach of downtown for transaction of business and yet benefit immensely from freedom of space and lower overheads. Thus with this mobility of people the disadvantages of locating downtown tend to take on greater weight. Downtown Toronto is not unlike other Central Business Districts in this way. There has been anticipation of extensive growth that has not fully materialized. In hope of eventually realizing a big business centre over the whole of downtown, the area has been zoned to make such development possible. However, the policy has failed, land prices have risen and we are now committed to keeping our overzoning on the grounds that a reduction in zoning densities will incur a loss for so many luckless individual owners of land. On this basis there will never be the possibility of changing the zoning to a lesser use and so deflating land values. It would seem that zoning must ever be for 'higher and better', but often unrealizable, uses.

THE ALTERNATIVES

Immediate alternatives to the present zoning are either no zoning or tighter zoning.
No Zoning—This term is used in referring to either a complete absence of density designations for land use zones or, and more correctly, an absence of any zoning whatsoever.
Tighter Zoning—Tight zoning is said to exist if the amount of land zoned (supply) approximates the amount of land required by the land market. There will be little surplus land for any one use and little flexibility in the market. A 10% surplus of land would allow for free movement of the market. Tighter zoning could be brought about:

(a.) by reduction of the area of the zone
(b.) by reduction of the density of the zone
(c.) by reduction of both the area and density.

Different approaches are employed according to what is desired. In downtown, the basic aim is to encourage attractive buildings on more sites and to maintain downtown as a business and retail centre. More land at a lower price must be made available.

To reduce the price of land is the greatest problem. However, the actual or present value of land is high only at the centre of downtown. Elsewhere it is only the floating value that is keeping the price up. Since there will never be any problem in attracting development to these central core sites it is suggested that a small area be zoned for commercial uses of office nature without a density being specified. Siting and appearance of buildings could be controlled by building by-laws. The main advantage would be that developers would build to the most economic density according to the market trends at the time. They would not be misled by a zoning designation that pointed to a supposed 'ceiling of economic development'. Once this move is made the former determinant of the floating value is eliminated. Zones outside this central area, but of the same land-use category, should be further reduced in size and carry lower density designations than at present (12.0) or as has been proposed (9.0). By reducing supply, the turnover of land and consequently the pace of development is stepped up. By reducing densities, the type of development should be improved due to less variation in heights of buildings. More important, floating values, being set by the new densities, are reduced to a level virtually on a par with present market values. This is the outcome of a far greater proportion of the land zoned being developed to maximum densities to provide for market demands. Whether owners will be willing to sell at the reduced floating values is questionable. It should be made clear they have lost nothing since it is unlikely that present values have suffered any reduction in that the lowering of densities permissible will be compensated for by a greater chance of immediate realization. Indeed with present values virtually unaltered, the price that any owner should expect to realize will be unaltered. All that has been proposed therefore is a reduction of the floating value to present value levels so removing incentives for land holding.

Concentration of business and commercial development in a smaller area leaves much land undeveloped. High density residential development is suggested for those areas. This development would best be in the north-east corner of downtown. The case for residential development here is a sound one. Redevelopment is needed urgently. City owned streets could be built over by developers in exchange for provision of open space. Downtown residents would stimulate downtown trade and reduce need for commuter traffic. Apartment vacancy rates indicate downtown apartments would be successful. Land prices, however, must be in accord with residential densities. Zoning densities for commercial uses (if allowed) and for residential uses must be so arranged as to make residential development a more economic proposition for developers.

To make land available is the other major obstacle in the path of development. Large scale development as envisaged for downtown has to be achieved against a background of multi-ownership. Various ways of achieving large scale development are:—

(a.) to outwait present owners holding land.
(b.) to encourage pooled ownership; and
(c.) to exercise powers of municipal land assembly.

There is recent evidence of successful large-scale private land assembly particularly in the heart of downtown. This is best illustrated by the seven acre parcel assembled for the Toronto-Dominion Centre. But the need for municipally assisted assembly to permit private development is growing. The benefits accruing from new building in the form of taxes should far outweigh any losses incurred by a municipality in the process of its assembly of land. However, if expropriated land is paid for at the present value the City should incur no loss. Compensation, for loss of the value on a proprety through zoning changes, should be at present market value and not at the floating value.

If downtown is to achieve the growth expected of it, there must be a basic revision of downtown zoning policy. Until overzoning is reduced, future development will be neither satisfactory nor at the pace expected of it. The impressive redevelopment of the Bay-King area is dramatic evidence of zoning which realistically reflected requirements of the land market in this area. The developer has the money and will invest it if he sees an economic proposition. The City has the power both to make land cheaper and to make land available in the lot sizes required today.

The re-zoning proposals of the Planning Board have pointed the path for Council to take to ensure the vigorous growth of downtown. It can only be hoped that the implications of overzoning are realized as the Downtown Plan passes through the various 'hearing' stages on its way to Council.