ATTACHMENT G

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Land Economists – Development Strategists

September 25, 2018

Rob Bateman
City of Victoria
1 Centennial Square
Victoria, BC V8W 1P6

Re: 1400 & 1412 Quadra Street and 850 Johnson Street Development Land Lift Analysis

G.P. Rollo & Associates (GPRA) has been retained by the City of Victoria to complete a Land Lift and Amenity Contribution Analysis for the proposed rezoning of 1400 and 1412 Quadra Street and 840 Johnson Street Victoria (the Site) from the base density allowable in the OCP for Mixed Use Residential District Zoning (MRD-1) and Central Business District Zone (CBD-1) to the proposed new Zone (CBD-2) by Alpha Project Developments Ltd. (the Developer).

The purpose of the analysis is to estimate the land lift and amenity contribution on the site from an increase in density on the Site from that which would allow for development of a mixed commercial and residential building with a maximum of 3.0 FSR for residential use (identified as the 'base density' under the current Density Bonus Policy) to a proposed density of 5.5 FSR mixed commercial and residential rental project on the combined Site. The Developer is proposing all residential units developed be secured as market rental in perpetuity through a housing agreement.

The analysis consisted of preparation of residual land value analyses which determines the maximum value that a developer could afford to pay for the Site assuming it already had the new Zoning for 5.5 FSR and the maximum value a developer could pay for the site if developed as permitted under the OCP with prevailing market conditions. GPRA has been asked to assess the value of the Site with the following potential uses:

1) Residential rental
2) Commercial retail uses;

GPRA used standard developer proformas for each case to model the economics of typical development as proposed/allowed under the each zoning. The 'Lift' is then calculated as the difference in residual land values under both current zoning and the proposed new zoning/density.

METHODOLOGY & ASSUMPTIONS

The Site is roughly 1,370 square metres in area and can be developed under the OCP with a mix of ground floor commercial with residential density up to 3.0 FSR above. The proposed new development at roughly 5.5 FSR would amount to approximately 7,537 square metres of GBA, comprised of 7,216 square metres (gross area) of residential (composed of 113 rental apartments

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to be secured as rental in perpetuity through a housing agreement), and 321 square metres of ground floor commercial space, with 104 parking stalls to be provided. The developer has indicated that there is significant environmental remediation required on the site, but the cost of this would be carried under both scenarios and does not impact the analysis.

The analyses are created using a standard developer proforma wherein estimates of revenues and costs are inputs and the remaining variable is the desired output. In typical proformas this output is usually profit, following a revenues minus costs equals profit formula.

For a residual land valuation, however, an assumption on developer's return needs to be included in order to leave the land value as the variable to solve for. For these analyses GPRA has determined the residual value based on the developer achieving an acceptable profit of 15% on total project costs (calculated as a representative portion of overall project costs for the proposed development) for the base analysis as a strata apartment building. For the rezoned rental apartment project a profit to project cost metric is not appropriate, as it would be difficult to support any land value and achieve a profit. Instead, developers would typically look at the yield of ongoing revenue measured as an internal rate of return (IRR). GPRA has determined the residual land value for the rezoned property using a target IRR of 5.55%, reflective of current capitalization rates for rental apartments and commercial retail in the City (the 5.55% IRR is set at 2% points above the blended cap rates for rental at 4.0% and the cap rate for commercial at 5.25%). The residual values are the maximum supported land value a developer could pay for the site (under the density and conditions tested) while achieving an acceptable return for their project.

The residual land value determined from this analysis is then compared to the value of the site using the supported base density as determined by the OCP to establish a 'lift' in value that arises from the change in density. This lift in value is the total potential monies that are available for public amenities or other public works not considered as part of the analysis. GPRA have made allowances for streetscape and public realm improvements that would typically be incurred through development in both sets of analysis. Any additional improvements that would be required only from the proposed rezoning to 5.5 FSR and not from development under the OCP would impact the lift and would need to be identified, priced, and included in a revised analysis.

Typically there is some sharing of the lift value between the Municipality/District and the developer, but the percentage shared varies by community and by project. It is GPRA's understanding that in compliance with current policy, the City has determined that they will seek 75% of the lift for amenities.

GPRA determined strata revenues used in the base analysis from a review of recent sales and offerings for sale of recently developed apartments of wood frame and of concrete construction within roughly 10 km of the Site, with a focus on projects that were deemed comparable to that which has been proposed for the Site. Rents for apartment units and commercial uses have also been drawn from a scan of projects with current listings in the area. Consideration has been given to how the adjacency to various social services in the neighbourhood might impact revenue.

Project costs were derived from sources deemed reliable, including information readily available from quantity surveyors on average hard construction costs in the City. Development or soft costs

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have been drawn from industry standards, and from the City's sources. All other assumptions have been derived from a review of the market and from other sources deemed reliable by GPRA.

CONCLUSIONS & RECOMMENDATIONS

GPRA estimates that there is no lift from the proposed zoning for market rental as compared to a strata project at 3.0 FSR with commercial at grade as indicated in the OCP. As such, GPRA does not recommend the City seek an amenity contribution from this rezoning under these conditions.

I trust that our work will be of use in the City's determination of the Amenity Contribution they will seek as part of rezoning 1400 and 1412 Quadra Street and 840 Johnson Street, Victoria. I am available to discuss this further at your convenience.

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