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Land Economists – Development Strategists

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

Re: 1025-1031 Johnson Street & 1050 Yates 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 1025, 1029, and 1031 Johnson Street and 1050 Yates Street Victoria (the Site) from the current mix of Harris Green District Zone (R-48) and Limited Service District Zone (S-1) to the proposed new Zone by the Developer.

The purpose of the analysis is to estimate the land lift and amenity contribution on the site from an increase in density between the base density and the proposed development with an overall density of 6.8 FSR with 48,980 square metres of gross building area. The City of Victoria Density Bonus Policy (2016) and the OCP (2012) establish the criteria by which the base density is determined. The base density (as specified in Policy) would result in a maximum of 42,578 square metres of gross buildable area on the 7,200 square metre site. The City has also asked for GPRA to consider an additional land lift analysis that examined a potential lift between the proposed density and a base density determined after incorporating design guidelines and building heights up to the maximum within the R-48 Zone at the OCP base density of 3.0 FSR for the S-1 Zone Through this analysis, the base density would result in a gross buildable area of 33,810 square metres.

The Developer is also proposing 130 residential units be secured as Affordable Housing in perpetuity through a housing agreement. The City has also requested a new fire hall of roughly 3,880 square metres be built on the site which will be purchased by the City from the Developer, along with some compensation for off-site servicing, sidewalk improvements, equipment, and project management.

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 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 strata
2) Residential rental
3) Residential Affordable
4) Commercial retail uses;

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GPRA used standard developer proformas for each case to model the economics of typical development as proposed/allowed under the each zoning scenario. 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 can be developed under the OCP Policies with up to 42,578 square metres of gross building area (GBA) for strata apartments (33,810 square metres with the lower base density allowance). The proposed new development would amount to approximately 48,980 square metres of GBA, comprised of 31,911 square metres (gross area) of strata apartments, 9,155 square metres (gross area) of residential rental (composed of 130 rental apartments to be secured as rental in perpetuity through a housing agreement), 4,034 square metres of commercial space, and 3,880 square metres for the fire hall. The developer has indicated that their intention is to dedicate the residential rental units as Affordable Housing.

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 on cost when building in concrete materials and with rents at market rates. 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 5.68%, reflective of current capitalization rates for rental apartments and commercial retail in the City (the 5.68% IRR is set at 1.5% 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 or Community Amenity Contributions required as a condition of the rezoning 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 concrete construction within roughly 10 km of the Site, with a focus on projects that were deemed comparable to that which could be developed at the Site. Rents for apartment units and commercial uses have also been drawn from a scan of projects with current listings in the area. For the Affordable Housing analysis the Developer has indicated they would follow BC Housing's guidelines wherein rental units would be split 30% for affordable market rental ($1,211 max rent in 2018), 50% with rents geared to income ($725 max rent in 2018), and 20% of units with a deep subsidy ($455 max rent in 2018). Under a market rental scenario GPRA has utilized an average rent of $1,795 per month.

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 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 the entire site when 9,155 square metres (or 130 units) is devoted to either market rental or affordable housing as compared to a strata project at the base density as indicated in the OCP, in fact there is a drop in supported land value from the rental compared to the strata. When shifting to the Affordable Housing analysis the supported land value drops even further. 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 1025, 1029, and 1031 Johnson Street and 1050 Yates Street, Victoria. I am available to discuss this further at your convenience.

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