

MEMORANDUM



DATE: 2 November 2018

TO: Jessie Tarbotton, City of Victoria

FROM: Blair Erb, Coriolis Consulting Corp.
Andrea Renney, Coriolis Consulting Corp.

RE: Fixed Rate CAC on Rezoning to Base OCP Density

1.0 Introduction

The City of Victoria Official Community Plan (OCP) and Density Bonus Policy provides the opportunity for applicants to seek bonus density in five different Urban Place Designations, including:

- Town Centre, with base densities of 2.0 FSR and the opportunity for increased density up to approximately 3.0 FSR.
- Large Urban Village, with base densities of 1.5 FSR and the opportunity for increased density up to approximately 2.5 FSR.
- Small Urban Village, with base densities of 1.5 FSR and the opportunity for increased density up to approximately 2.0 FSR.
- Urban Residential, with base densities of 1.2 FSR and the opportunity for increased density up to approximately 2.0 FSR.
- Core Residential. There are a variety of subareas in this designation with base densities ranging from 2.0 to 3.0 FSR and the opportunity for increased residential density up to approximately 3.5 to 5.5 FSR.

Under the current Density Bonus Policy, rezonings are expected to provide Community Amenity Contributions (CACs) based on the increased density (and increased land value) above the base OCP density.

The City currently uses two different approaches to determining CACs depending on the type of rezoning:

- A target fixed rate CAC per square foot of bonus floorspace is used for Urban Place designations outside of the Core. The fixed rate approach provides transparency and cost predictability to the development process by allowing developers to calculate the cost of the contribution up-front.
- For sites in the Core Residential designation, the City uses a target fixed rate approach for projects seeking less than 30,000 square feet of bonus floorspace and a negotiated approach for rezonings seeking 30,000 square feet or more of bonus floorspace.

The City is currently considering a draft policy where rezonings inside and outside of the Core would provide a fixed amount of affordable housing (rather than an amenity contribution) for all rezonings.

There are a large number of zoning districts in the five Urban Place designations that provide the opportunity for bonus density. Some of these zoning districts permit densities that are equal to or higher than the base OCP density. However, for some zoning districts, the existing permitted density is lower than the base OCP density. For sites in these zoning districts, the existing Density Bonus Policy does not seek an amenity contribution for the additional permitted floorspace between existing zoned density and the base OCP density. As part of the Density Bonus Policy update, the City wants to know if it would be practical to establish a target

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fixed rate CAC that could be applied to any increase in permitted floorspace between the existing zoning and the base OCP density.

Therefore, the City retained Coriolis Consulting Corp. to:

1. Complete financial analysis for a sample of the different types of rezonings that involve an increase in density from existing zoning to the base OCP density to determine:
 - Whether the increase in density from existing zoning to the base OCP density increases the value of the site.
 - The implications for establishing a fixed rate CAC for any increase in permitted floorspace up to the base OCP density.
2. Comment on other factors that the City should consider when determining whether to seek a CAC on the increase in permitted floorspace up to the base OCP density.

This memo summarizes our findings.

2.0 Approach to Financial Analysis

1. We selected nine case study sites for the analysis, including five in the Core Residential designation, two in the Large Urban Village designation and two in the Urban Residential designation. The selected sites include a variety of different existing zoning districts (and existing permitted densities) and are representative of the types of properties that are likely redevelopment candidates in each designation. Each of the case study sites is improved with older, low density commercial/service buildings or older single family homes, similar to the types of properties that have been the focus of development in density bonus policy areas over the past several years.
2. We examined two indicators of the existing value under existing zoning for each case study site:
 - a. The value supported by the existing use. For income producing properties, the value supported by the existing use is the capitalized value of the net income stream generated by the existing improvements. For single family or duplex properties, the value supported by the existing use is the value of the property as a residence. For residential properties that require assembly, we add an assembly premium, assuming that a developer would also need to pay a 25% premium over existing value in order to create an incentive for the existing home owner to sell for redevelopment.
 - b. The land value under existing zoning.

We determined which indicator supported the highest value, which is the market value of the site under existing zoning.

3. We estimated the rezoned land value at the base OCP density and determined whether the rezoned land value is greater than the value of the site under existing zoning (the higher of 2a and 2b). For case study sites where there is an increase in value due to the rezoning, we calculated the increase in value per square foot of additional permitted floorspace between the existing zoned density and base OCP density.
4. We estimated the amount of any potential amenity contribution at 75% of the estimated increase in value (this is the City's current practice for negotiated CACs and the methodology used to determine the existing and proposed fixed rate CACs) per square foot of additional permitted floorspace between the existing zoned density and base OCP density.

3.0 Results of Financial Analysis

The results of the case study financial analysis are separated by location:

- **Downtown Core Area.** In the Core Residential designation, there are eight specific subareas in the Core Area Plan and OCP which identify base densities and discretionary additional (bonus) density. We tested case studies in four of these subareas (Core Residential B1, B2, C2, C3).
- **Outside of the Downtown Core Area.** Outside the Downtown Core Area, there are four specific OCP Urban Place designations which identify base densities and discretionary additional (bonus) density. We tested case studies in two of these subareas (Large Urban Village and Urban Residential).

For each case study site this section summarizes:

- The address/neighborhood.
- The site size.
- The current use and current zoning.
- The density assumed under existing zoning.
- The estimated value of the existing use (a).
- The estimated land value under existing zoning (b).
- The estimated value of the site under existing zoning (higher of a or b).
- The estimated land value at the base OCP density.
- If applicable, the increase in value from rezoning to the base OCP density.
- If applicable, the increase in value from rezoning to the base OCP density per square foot of additional permitted floorspace.
- If applicable, the potential fixed rate CAC at 75% of the increase in value from rezoning to the base OCP density per square foot of additional permitted floorspace.

3.1 Downtown Core Area Case Studies

Exhibit 1 summarizes our findings for the five case sites that we examined in the Downtown Core Area.

Exhibit 1: Summary of Financial Analysis for Downtown Core Area Sites

Scenario - OCP Designation	Core Residential B1	Core Residential B2	Core Residential C2	Core Residential C3	Core Residential
Address	1800 Block Blanshard	800 Block Fisgard	900 Block Pandora	1700 Block Blanshard	1100 Block Yates
Location/Neighbourhood	Downtown	Downtown	Downtown	Downtown	Downtown
Site Size (sf)	21,780	20,426	28,837	8,150	16,554
Current Use	1 Storey Retail	2 storey Office	1 Storey Industrial	1 Storey Retail	1 Storey Retail
Zoning	S-1	R3-C	CA-1	C-1	C-1
Density Assumed Under Existing Zoning	1.5	2.5	2.0	1.4	1.4
Base OCP Density (FSR)	3.0	3.0	3.0	3.0	2.0

Estimated Values						
1	Existing Use Value	\$1,796,200	\$2,288,107	\$2,888,362	\$1,429,914	\$2,829,867
2	Land Value Under Existing Zoning	\$1,286,698	\$7,456,701	\$7,532,073	\$1,448,497	\$2,707,041
3	Value Used in Analysis (Higher of 1 and 2)	\$1,796,200	\$7,456,701	\$7,532,073	\$1,448,497	\$2,829,867
4	Land Value at Base OCP Density	\$4,397,546	\$4,096,029	\$3,485,259	\$1,421,520	\$3,686,182
5	Increase in Value to Base OCP Land Value	\$2,601,346	n/a	n/a	n/a	\$856,315
6	Increase in Permitted Floorspace from Rezoning	32,670	10,213	28,837	13,040	9,932
7	Increase in Value PSF of Increased Floorspace	\$80	n/a	n/a	n/a	\$86
8	Potential CAC PSF at 75% of Increased Value from Rezoning	\$60	n/a	n/a	n/a	\$65

1800 Block Blanshard

The site in the 1800 Block of Blanshard is zoned S-1 and is designated Core Residential - B1. The value of the existing use is higher than the land value supported by the existing zoning, which permits commercial development up to a density of 1.5 FSR.

Rezoning to the base OCP density of 3.0 FSR would increase the property value by \$2.6 million, or \$80 per square foot given an increase in permitted density of 32,670 square feet. The potential fixed rate CAC equal to 75% of the increased value supported by the rezoning up to the base OCP density is \$60 per square foot.

800 Block Fisgard

The site in the 800 Block of Fisgard is zoned R3-C and is designated Core Residential - B2. The existing R3-C zoning permits mixed use development and the achievable FSR depends on site coverage. We assume the site would be redeveloped as a lowrise apartment building at 2.5 FSR and built using woodframe construction. This supports a land value which is significantly higher than the value of the existing use.

Rezoning to the base OCP density of 3.0 FSR does not increase the value of the site. This is because the site would be redeveloped as a concrete apartment building which supports a lower land value due to the high cost of concrete construction. There is no increase in property value associated with rezoning to the base OCP density and no financial room for a CAC on the increase in permitted floorspace between the existing zoning and base OCP density.

900 Block Pandora

The site in the 900 Block of Pandora is zoned CA-1 and is designated Core Residential - C2. The existing CA-1 zoning permits mixed use residential development up to 2.0 FSR. Based on existing zoning, we assume

the site would be redeveloped as a lowrise apartment building at 2.0 FSR and built using woodframe construction. This supports a land value which is significantly higher than the value of the existing use.

Rezoning to the base OCP density of 3.0 FSR does not increase the value of the site. This is because the site would be redeveloped as a concrete apartment building which supports a lower land value due to the high cost of concrete construction. There is no increase in property value associated with rezoning to the base OCP density and no financial room for a CAC on the increase in permitted floorspace between existing zoning and the base OCP density.

1700 Block Blanshard

The site in the 1700 Block of Blanshard is zoned C-1 and is designated Core Residential – C3. The existing C-1 zoning permits mixed use development up to 1.4 FSR. This supports a similar value as the value of the existing use.

Rezoning to the base OCP density of 3.0 FSR supports a similar value as the value under existing zoning. Since there is no increase in property value associated with rezoning to the base OCP density there is no financial room for a CAC on the increase in permitted floorspace between existing zoning and the base OCP density.

1100 Block Yates

The site in the 1100 Block of Yates is zoned C-1 and is designated Core Residential. The value of the existing use is higher than the land value supported by the existing zoning, which permits mixed use development up to 1.4 FSR.

Rezoning to the base OCP density of 2.0 FSR would increase the property value by \$0.9 million, or \$86 per square foot given an increase in permitted density of 9,932 square feet up to the base OCP density. The potential fixed rate CAC equal to 75% of the increased value supported by the rezoning up to the base OCP density is \$65 per square foot. This assumes the project is built using woodframe construction at the maximum OCP density of 3.5 FSR. If the project is built using concrete construction, rezoning to the base OCP density of 2.0 FSR would not increase the value of the site above the value supported by the existing zoning.

3.2 Outside of Downtown Core Area Case Studies

Exhibit 2 summarizes our findings for the four case sites that we examined outside of the Downtown Core Area.

Exhibit 2: Summary of Financial Analysis for Sites Outside of the Downtown Core Area

Scenario - OCP Designation	Large Urban Village	Large Urban Village	Urban Residential	Urban Residential
Address	200 Block Menzies	200 Block Cook	1100 Block Burdett	1400 Block Hillside
Location/Neighbourhood	James Bay	Fairfield	Fairfield	Hillside
Site Size (sf)	12,947	34,872	12,120	16,862
Current Use	1-Storey Retail	1-Storey Retail	2 SFD's	2 SFD's
Zoning	C1-S	CR-3M	R1-B	R1-B
Density Assumed Under Existing Zoning	1.4	1.0	0.65	0.65
Base OCP Density (FSR)	1.5	1.5	1.2	1.2

Estimated Values				
1 Existing Use Value	\$2,420,768	\$6,310,895	\$2,709,641	\$2,419,136
2 Land Value Under Existing Zoning	\$2,031,434	\$6,642,169	\$2,503,750	\$1,762,500
3 Existing Property Value (Higher of 1 or 2)	\$2,420,768	\$6,642,169	\$2,709,641	\$2,419,136
4 Land Value at Base OCP Density	\$2,182,660	\$8,697,968	\$2,519,242	\$1,476,596
5 Increase in Value to Base OCP Land Value	n/a	\$2,055,799	n/a	n/a
6 Increase in Permitted Floorspace from Rezoning	1,295	17,436	6,666	9,274
7 Increase in Value PSF of Increased Floorspace	n/a	\$118	n/a	n/a
8 CAC PSF at 75% of Increased Value	n/a	\$88	n/a	n/a

200 Block Menzies Street

The site in the 200 Block of Menzies is zoned C1-S and is designated Large Urban Village. The value of the existing use is higher than the land value supported by the existing zoning which permits mixed use development up to a density of 1.4 FSR.

Rezoning to the base OCP density of 1.5 FSR does not increase the value of the site above the value supported by the existing use so there is no financial room for a CAC on the increase in permitted floorspace between existing zoning and the base OCP density.

200 Block Cook Street

The site in the 200 Block of Cook is zoned CR-3M and is designated Large Urban Village. The existing CR-3M zoning permits mixed use development up to 1.0 FSR which is higher than the value of the existing use.

Rezoning to the base OCP density of 1.5 FSR would increase the property value by \$2.1 million, or \$118 per square foot given an increase in permitted floorspace of 17,436 square feet. The potential fixed rate CAC equal to 75% of the increased value supported by the rezoning up to the base OCP density is \$88 per square foot.

1100 Block Burdett

The site in the 1100 Block of Burdett is zoned R1-B and is designated Urban Residential. This assembly is currently improved with older single family dwellings. The value of the existing single family dwellings is higher than the land value supported by the existing zoning which permits single family development.

Rezoning to the base OCP density of 1.2 FSR does not increase the value of the site above the value supported by the existing use so there is no financial room for a CAC on the increase in permitted floorspace between existing zoning and the base OCP density.

1400 Block Hillside

The site in the 1400 Block of Hillside is zoned R1-B and is designated Urban Residential. This assembly is currently improved with older single family dwellings. The value of the existing single family dwellings is higher than the land value supported by the existing zoning which permits single family development.

Rezoning to the base OCP density of 1.2 FSR does not increase the value of the site above the value supported by the existing use so there is no financial room for a CAC on the increase in permitted floorspace between existing zoning and the base OCP density.

3.3 Summary of Findings

Most case studies sites cannot support a CAC on the increased floorspace between the existing zoning and the base OCP density. Out of the 9 case sites we tested in density bonus policy areas, 6 case studies cannot support a CAC up to the base OCP density. These include:

- 4 case study sites which cannot support a CAC due to the high land value under existing zoning, so rezoning to the base OCP density does not create additional land value. While the OCP base density is higher than the density permitted under existing zoning, the increase in density requires a shift from redevelopment with woodframe construction to redevelopment with concrete construction which supports a lower land value due to the higher cost of concrete construction.
- 2 case study sites which cannot support a CAC due to the value of the existing use. These sites are not development sites at the base OCP density and require bonus density beyond the base OCP density to be development candidates.

For the 3 case study sites we tested which can support a CAC, the calculated supportable CAC rate varies from \$60 to \$88 per square foot of increased permitted floorspace up to the base OCP density.

The rezoning up to the base density of most properties in the City that are identified in the OCP for increased height or density does not result in an increase in value. Therefore, most rezonings cannot support any material amenity contribution for the additional permitted floorspace between existing zoning and the base OCP density.

In fact, for many properties, the additional floorspace permitted at the base OCP density (beyond existing zoning) is required to make sites financially viable for redevelopment and to create an incentive to rezone. If amenity contributions are sought for the increased floorspace up to the base OCP density, then it will reduce the number of sites that are financially viable for redevelopment. This could reduce the pace of new housing development which would mean less new supply of all housing types in the City (including affordable housing). Reduced new housing supply in the face of continued demand will result in market-wide increases in housing prices.

Because most rezonings cannot support an amenity contribution on the increased permitted floorspace up to the base OCP density, it is not practical to establish a target fixed rate CAC on this increased permitted floorspace. However, for some rezonings, there will be an increase in land value due to the additional permitted floorspace between the existing zoning and the base OCP density. If the City wants to seek amenity contributions for the increase in permitted floorspace, it would need to negotiate amenity contributions for each rezoning application.

4.0 Other Factors to Consider

In addition to the results of the case study financial analysis, there are other factors that the City should consider when deciding whether to charge a fixed rate CAC up to the base density, including:

- The City's existing Density Bonus system calibrates amenity contributions based on the value of bonus density between the base OCP density and the maximum OCP density, not on the value of the increased density beyond current zoning. Therefore, the current market value of development sites in Victoria is calibrated to the base density permitted in the OCP. If there was a requirement to make an additional amenity contribution on any increased floorspace between current zoning and the base OCP density, it would negatively affect owners of development sites, particularly owners who have purchased land since the current base densities were adopted.
- Each of the Urban Place designations that provide the opportunity for bonus residential density include a variety of existing zoning districts, each with different existing permitted densities. If amenity contributions are calculated based on the increased value created by additional density beyond current zoning, then the CAC potential within each Urban Place designation will vary by zoning district. This will limit the ability of the City to introduce a CAC policy that identifies a uniform target across an Urban Place designation. The City would need different CAC targets for each zoning district in each Urban Place designation, which would be complex to administer and update over time.
- The City updated its Density Bonus Policy in 2016 to include target fixed rate CACs for many types of rezonings. In addition, it is currently considering new draft policies that would target a fixed amount of affordable housing for projects seeking bonus density rather than negotiating amenity contributions. The City has been moving toward the fixed rate approach to provide greater transparency and cost predictability to the development process by allowing developers to calculate the cost of the contribution up-front. If the City wants to seek amenity contributions for the increased floorspace up to the base OCP density, our evaluation indicates this will require site by site negotiations. This is inconsistent with the City's move towards a fixed rate approach.

5.0 Implications for Establishing a Fixed Rate CAC

1. Because most rezonings cannot support an amenity contribution on the increased permitted floorspace up to the base OCP density, it is not practical to establish a target fixed rate CAC on the increased permitted floorspace up to the base OCP density. However, for some rezonings, there will be an increase in site value due to the additional permitted floorspace between the existing zoning and the base OCP density. If the City wants to seek amenity contributions for this increased permitted floorspace, it would need to negotiate amenity contributions for each rezoning application. This will increase the administrative load on the City and make the rezoning process more complex for the City and for applicants. It is important to note that the City is considering draft policies where rezonings from the base OCP density to the maximum OCP density would provide a fixed affordable housing amenity contribution. Negotiating CACs is not consistent with this draft policy.
2. If the City decides to negotiate amenity contributions for the increase permitted floorspace up to the base OCP density, it should include a grace period for projects that are currently being planned. The City should ensure that all stakeholders (property owners, real estate industry professionals, developers, etc.) are aware of any proposed changes to the existing policy. In addition, developers should be given significant notice before any changes are implemented. This will give applicants that have already

purchased property the opportunity to make an application under the existing policies without facing the financial impact associated with an increased community amenity contribution.