



March 11, 2019

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

Re: 1400 Vancouver Street & 952 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 Vancouver Street and 952 Johnson Street Victoria (the Site) from the current zone to the proposed new zone by CGS Property Group (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 (identified as the 'base density') on the 2,151.7 square metre S-2 Zoned lands to a proposed density of 4.4 FSR as a mixed commercial and residential project. The Developer is proposing all residential units be secured as rental in perpetuity through a housing agreement. In addition, the Developer is proposing to retain, rehabilitate and designate a heritage building on the Site as part of the development. The bonus density of 1.4 FSR is expected to finance the costs of conservation and seismic upgrading of the proposed heritage designated building on the Site and to offset the provision of all residential space as 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 4.4 FSR compared with the maximum value a developer could pay for the Site if developed as permitted under the base density at 3.0 FSR with prevailing market conditions. GPRA has been asked to assess the value of the Site with the following potential uses:

- 1) Residential rental in perpetuity
- 2) Commercial retail uses (both new construction and in a rehabilitated chapel);

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

METHODOLOGY & ASSUMPTIONS

The Site is roughly 2,151.7 square metres in area and can be developed under the current OCP designation with a mix of ground floor commercial with residential above at a base density of 3.0 FSR, of which the commercial portion shall not exceed 1:1 FSR. The proposed new development at roughly 4.4 FSR would amount to approximately 9,468.8 square metres of GBA, comprised of 8,920 square metres (gross area) of residential (composed of 93 rental apartments), and 549 square metres of ground floor commercial space, with 99 parking stalls to be provided along with 130 long term bicycle parking stalls plus 12 short term bike parking stalls.

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 the rezoned rental apartment project a profit to project cost metric is not appropriate to determine the residual land valuation, as it would be difficult to support any land value and achieve a profit with a rental building built using concrete construction materials. 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 5.57%, reflective of current capitalization rates for rental apartments and commercial retail in the City (the 5.57% 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 the acceptable 5.57% IRR on their project.

The residual land value determined from this analysis is then compared to the value of the Site using the base density as determined by current Official Plan policy 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 on Vancouver Street and Johnson Street that would typically be incurred through development in both sets of analysis. Any additional improvements that would be required from the proposed rezoning would impact the lift and would need to be identified, priced, and included in a revised analysis.

It is GPRA's understanding that because this application was received prior to November 8, 2018, the 2016 Density Bonus Policy applies.

Market rents for apartment units and commercial uses have been drawn from a scan of projects with current listings in the area. Project costs were derived from sources deemed reliable, including information readily available from quantity surveyors on average hard construction costs in the City. The developer has provided an estimate of \$710,000 for the heritage conservation strategy of the Chapel as adaptive re-use. The heritage conservation costs include \$250,000 for shoring, \$100,000 for seismic upgrading, and \$125,000 for glazing, along with other costs for flooring, lighting, doors, electrical upgrades, bathrooms, roofing, and other miscellaneous costs. 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 rezoning. As such, GPRA does not recommend the City seek any contribution from the developer if they provide a rental covenant for the 93 residential units in perpetuity and the Heritage designation and conservation measures are fulfilled.

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 952 Johnson and 1400 Vancouver. I am available to discuss this further at your convenience.

A handwritten signature in black ink, appearing to read "Gerry Mulholland".

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