July 22, 2019

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

Re: 829-899 Fort St & 846 Broughton St Land Lift and Amenity Contribution Analysis

G.P. Rollo & Associates (GPRA) has been retained by the City of Victoria to complete land lift and amenity contribution analysis for the proposed rezoning of 829-899 Fort Street and 846 Broughton Street in Victoria from a mix of CA-2, CHP-OB, and CHP-CR to a new zone permitting development of a mixed use seniors rental and commercial building of up to 5.25 FSR.

The purpose of the analysis is to estimate the land lift and amenity contribution for the overall project which will consist of Independent Seniors rental units, affordable Seniors rental units, market rental units, commercial retail and office space, a licensed childcare, and a centre for music wellness.

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 if developed under existing zoning (as the OCP is silent on density for the site the analysis has used existing zoning to establish the base FSR) as well as the land value supported by the proposed change in density to the proposed 5.25:1 FSR. GPRA used standard developer proformas to model the economics of a seniors development project assuming it already had the zoning for a density of 5.25:1 FSR. The ‘Lift’ is then calculated as the difference in residual land values under both existing zoning and the proposed new zoning.

METHODOLOGY & ASSUMPTIONS

The Site is 5,164 square metres in area and can be developed under existing zoning under a mix of CA-2, CHP-OB, and CHP-CR zones at an aggregate density of 1.69:1 FSR with 4,144 square metres in gross floor area of residential (net saleable area of 3,523 square metres), 2,444 square metres of commercial at grade, and 2,124 square metres of office. Parking at the base density would be in an underground parking structure. Under the proposed new zoning with an FSR of 5.25:1 there would be a mix of rental units with a total rentable area of 17,233 square metres consisting of 193 market independent units for seniors, 14 units to be secured as below market rentals at a 60% discount, as well as 61 student rentals for 4 years after which time they would be converted to independent seniors rentals. In addition, plans are for a mix of retail, office, childcare, a music wellness centre, and multi-purpose rooms, as well as exterior public open space, and a bicycle storage space. The developer is also burying the overhead hydro lines at a cost of nearly $2 million which is in compliance with the City’s Downtown Core Area Plan.

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 base analysis GPRA has determined the residual value for the residential strata portion based on the developer achieving an acceptable profit of 15% on total strata project costs (calculated as a representative portion of overall project costs for the proposed development). 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.

It is often the case that a developer cannot achieve a profit on the sale of a rental or commercial project component immediately after completion and instead takes a long term perspective looking at value as an ongoing income stream with a potential disposition at some point in the future. As such, for the residual value of the project utilized for seniors rental and other income producing uses, GPRA has instead looked at the developer achieving an acceptable return on their investment measured as an Internal Rate of Return (IRR) and the maximum supported land value that would allow a developer to achieve a target IRR.

The residual land values determined from this analysis of the property developed as proposed under the rezoned density of 5.25:1 FSR as seniors rental is then compared to the residual land value of the Site if developed under existing zoning at 1.69:1 FSR as residential strata and commercial uses to establish a 'lift' in value that arises from the change in density and use. 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, as well as specific costs identified by the proponent for public open spaces, and the bicycle storage space. Any additional improvements that would be required only from the proposed rezoning and not from development under current zoning 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 analyses for the base density from a review of recent sales and offerings for sale of recently developed apartments of wood frame within roughly 10 km of the Site, with a focus on projects that were deemed comparable to that which would likely be developed on the Site under existing zoning. Seniors rental rates were derived from a review of seniors developments offering a similar scope of services in the Victoria region. 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 there will be no lift from rezoning the Site from 1.69:1 FSR to 5.25:1 FSR with the uses discussed herein and the public amenities being developed as part of this project.

It should be noted that GPRA has prepared this analysis with assumptions regarding reduced revenues for the 14 affordable independent living units at a 60% discount for 12 years and the student housing rentals were also subject to different rents for the first four years before being converted to independent living based on information provided to us by the proponent. In addition, there is no rental income assumed from the music wellness centre and the close to $2 million cost to the developer for burying the hydro lines. These factors significantly reduce the revenue for the project.

I trust that our work will be of use in the City’s decision on the rezoning of 829-899 Fort Street and 846 Broughton Street in Victoria. I am available to discuss this further at your convenience.

Gerry Mulholland | Vice President
G.P. Rollo & Associates Ltd., Land Economists
T 604 275 4848 | M 778 772 8872 |
E gerry@rolloassociates.com | W www.rolloassociates.com