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Land Economists – Development Strategists

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Re: Mount St Angela Seniors Development 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 913-929 Burdett Avenue and 914-924 McClure Street Victoria (the Site) from CD-10 Zone, Mount St. Angela District to a new zone with an increase in density from 1.2:1 FSR multiple dwelling to a proposed density of 1.96:1 FSR seniors residential project on the Site. This lift is expected to finance the costs of rehabilitation, restoration and seismic upgrading of the heritage buildings on the Site.

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 current zoning at 1.2:1 FSR as well as the land value supported by the proposed change in density to the proposed 1.96:1 FSR. GPRA used standard developer proformas for each case to model the economics of a seniors development project assuming it already had the zoning for a density of 1.96:1 FSR. The 'Lift' is then calculated as the difference in residual land values under both current zoning and the proposed new zoning.

METHODOLOGY & ASSUMPTIONS

The Site is 5,429 square metres in area and can be developed under current zoning under the CD-10 zone at a density up to 1.2:1 FSR with 6,515 square metres in gross floor area of residential (net saleable/rentable area of 5,537 square metres). Parking at the base density would be in an underground parking structure. Under the proposed new zoning the additional 0.76 FSR would add approximately 4,126 square metres of gross area to the building, with a proposed mix of rental independent and assisted living units for seniors, with 5 units to be secured as below market rentals, as well as 26 independent living units and 50% of the remaining units to be secured as rental for a 20 year term through a housing agreement.

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.

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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 analyses GPRA has determined the residual value for the residential strata 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 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 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 1.96:1 FSR as seniors rental is then compared to the residual land value of the Site if developed under current zoning at 1.2:1 FSR as residential strata 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 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 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 would likely be developed on the Site under current planning. Seniors rental rates were derived from a review of seniors developments offering a similar scope of supportive 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.

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CONCLUSIONS & RECOMMENDATIONS

GPRA Estimates the lift from rezoning the Site from 1.2:1 FSR to 1.96:1 FSR with the uses discussed herein would be roughly $1.35 million, with the City's 75% share totaling $1.013 million.

However, as the purpose of this exercise is in part to determine whether the lift is sufficient to offset the cost of the heritage retention, it must be noted that the proponent has estimates for the refurbishment of the heritage building and seismic upgrades at a cost well in excess of $5 million according to an estimate provided by Beacon Construction Consultants Inc. This would indicate that there is still a substantial shortfall between the increase in land value from the additional density and the cost of the heritage retention. As such, GPRA does not recommend the City seek any amenity contribution from the rezoning of the Site as proposed.

I trust that our work will be of use in the City's decision on the rezoning of 913-929 Burdett Avenue and 914-924 McClure Street Victoria. I am available to discuss this further at your convenience.

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