ROLLO LTD
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Land Economists – Development Strategists

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City of Victoria
1 Centennial Square
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Re: 1306-1330 Broad Street Land Lift and Amenity Contribution 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 rezoning of 1306-1330 Broad Street in Victoria (hereafter referred to as 'the Site') in order to determine an estimate of the potential lift land values created from rezoning the Site from OTD-1 Old Town District to a OTD-1 Zone with site specific regulations. Specifically, the purpose of the analysis was to estimate the land lift and amenity contribution for the overall project which consists of the following:

- Construction of a Commercial Hotel including upgrading and rehabilitation of a heritage building and addition of a fifth and sixth storey
- Current Density allowed: 3.17 FAR; Proposed Density: 4.37 FAR
- Site Area: 1,889sm

The lift is expected to finance the costs of seismic upgrades and rehabilitation of the exterior envelope of the heritage building and the retention of the rock ballast wall on the Site. In addition to retention of the heritage component on the project, Chard has indicated that they are providing a Statutory Right of Way for the rear laneway and improvements to the lane.

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 4.37 FSR and the maximum value a developer could pay for the site permitted under the OTD-1 Old Town District Zoning under current market conditions. GPRA has been asked to assess the value of the Site with the following potential uses:

1) Residential strata;
2) Commercial boutique hotel;

3) Commercial retail uses;

GPRA used standard developer proformas for each case to model the economics of typical development as proposed/allowed under the each zoning. The 'Lift' is then calculated as the difference in residual land values under both current OTD-1 Zone and the proposed new zoning/density.

METHODOLOGY & ASSUMPTIONS

The Site is 1,889 square metres in area and can be developed under the current zoning which supports a mix of ground floor commercial with residential above at a density up to 3.17 FSR. The proposed new development at roughly 4.37 FSR would amount to approximately 8,255 square metres of GBA, comprised of 7,561 square metres (gross area) of hotel with 139 rooms, 354 square metres for commercial retail, and 339 square metres of ground floor restaurant space, with 36 on-site parking stalls to be provided.

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). While this is appropriate for valuing a strata project, this can result in undervaluation for an income generating development, such as a hotel. In this case GPRA has looked at the yield of ongoing revenue than can be measured as an internal rate of return (IRR). The target IRR has been set at 9.25%, 1.5% points above the cap rate indicated for similar commercial properties, in this case a cap rate of 7.75% based on CBRE Cap Rate Report for the Victoria hotel market. 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 noted in 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 that would be required only from the proposed rezoning to 4.37 FSR and not from development under current planning 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 both wood and concrete construction within roughly 5km of the Site, with a focus on projects that were deemed comparable to that which has been proposed for the Site. Hotel rates were based on a scan of nightly posted rates for similar levels of service in the City both in the high and the low season. Rents for commercial uses have also 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. Chard Development has provided GPRA with an estimate of $2.716 million for Heritage retention costs and seismic upgrading and have been included in the analysis of development under the proposed new zoning. 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 a loss in supported land value under the proposed compared to the supported value under the OTD-1 zone. This is due to the relatively high cost of hotel construction and the moderate nightly rates that the hotel can likely achieve. The cost for heritage and seismic upgrading that has been included in the analysis of the proposed new zone at 4.37 FSR does have an impact, but there would still be a loss in land value even without these costs. As such, GPRA does not recommend a CAC be sought from the rezoning of this property and finds that the additional density may not entirely cover the costs anticipated for the heritage retention and seismic upgrading, as well as provision of the SRoW and laneway improvements.

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 1306-1330 Broad Street. I am available to discuss this further at your convenience.

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