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Land Economists – Development Strategists

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Re: Northern Junk Buildings Land Lift and Amenity Contribution Analysis

G.P. Rollo & Associates (GPRA) was retained by the City of Victoria to prepare a land lift and amenity contribution analysis of the proposed rezoning of the Northern Junk Buildings development site (the Site) from the current Inner Harbour Heritage District (IHH) zone to a new zone proposed by Reliance Properties (the proponent) that would allow for development up to 3.4 FSR for 47 residential dwelling units to be designated as rental in perpetuity (comprising roughly 3,623 square metres of GBA) and ground floor commercial totaling roughly 873 square metres of GBA.

The purpose of the analysis is to estimate the land lift and amenity contribution on the site from an increase in density from 1.0 FSR on IHH zoned land which would allow for 345 square metres of residential strata on top of 873 square metres of commercial space in the refurbished heritage building to a proposed density of 3.4 FSR mixed use development 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 also considers the value of the harbour pathway being constructed by Reliance as part of this project and an internal alley, secured under a statutory right of way.

The analysis consists of preparation of residual land value analyses which determine the maximum value that a developer could afford to pay for the Site under current zoning (which assumes a maximum FSR of 1.0 and required improvements to the Northern Junk Heritage Buildings) and under the zoning required for the proposed development. GPRA assumes development occurs under current market conditions and does not attempt to reflect potential changes in the market. GPRA used standard developer proformas for each case to model the economics of typical development as proposed/allowed under current and new zoning.

The 'Lift' is then calculated as the difference between residual land values under current base density and under the proposed new zoning.

METHODOLOGY & ASSUMPTIONS

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 profit needs to be included in order to leave the land value as the variable to solve for. For projects with minimal strata a profit to project cost metric is not appropriate, as it would be

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difficult to support any land value and achieve a profit on cost with commercial and residential rents at market rates. Instead, 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 property in the base density scenario using a target IRR of 6.25%, reflective of current capitalization rates for commercial retail in the City (the 6.25% IRR is set at 1.25% points above the cap rate for commercial at 5.00%). For the rezoned density analysis GPRA has assumed a target IRR of 5.71% which represents a achieving 1.5% higher than the blended cap rates for commercial at 5.00% and 4.00% for residential rental (based on proportion of gross building area). The residual values are the maximum supported land value a developer could pay for the Site (under the densities tested) while achieving an acceptable return for their project.

The residual land values determined from these analyses are then compared to establish a 'lift' in value that arises from the change in zoning. This lift in value is the total potential monies that are available for amenities or other public works not considered as part of the 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.

GPRA determined strata revenues used in the analyses from price estimates of newly developed apartments in the general vicinity of the Site from an independent survey of the market. Heritage building upgrades and other hard project costs were taken from estimates prepared by Altus Group for Reliance Properties and are deemed reliable. Other costs not provided and confirmation of costs provided were derived from market sources, 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.

Revenues and operating cost assumptions for the residential rental and commercial components of the project were determined from a review of current lease rates and terms for available space in the downtown of Victoria in proximity to the water.

The cost to construct the waterfront walkway (referred to as David Foster Way) proposed by Reliance Properties has been included in the analysis as it is considered an amenity and should be given consideration. Other items included in the analysis for which estimated costs have been provided include a statutory right of way. Furthermore, environmental remediation costs have not been included in the proforma analysis nor have any heritage rehabilitation incentives.

All information provided by Reliance Properties has been checked and deemed reliable upon review by GPRA.

CONCLUSIONS & RECOMMENDATIONS

It is GPRA's conclusion that there is no lift in supported land value from rezoning the Site based on the analyses, and as such no amenity contribution beyond which has been offered in-kind as part of the project should be requested. This lack of lift is due to the estimated cost of the proposed public waterfront walkway and other proposed public amenities to be included with the project (see table below).

IN-KIND CONTRIBUTIONS	
David Foster Way	$480,000
Alley – SRW Improvements	$220,000
Historic Restoration	$1,850,000
Soft Costs @ 25%	$462,500
TOTAL	$3,012,500

Heritage costs also create a drag on the economic performance of the project and will likely require the proponent to seek whatever grants for heritage are available and may require other assistance such as tax abatement. There is also the factor that the residential area in the base density scenario, while small, would command a premium as strata condos, whereas the residential area in the rezoned analysis is proposed to be designated as rental in perpetuity which will contribute less on a per square foot basis toward a land residual.

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 the Northern Junk Buildings Site. I am available to discuss this further at your convenience.

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