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VIA EMAIL

22 June 2021

Charlotte Wain
Senior Planner – Urban Design
City of Victoria
1 Centennial Square
Victoria BC
V8W 1P6

Dear Charlotte:

Re: Summary of CAC Analysis for the Harris Green Village Rezoning

The City of Victoria's Inclusionary Housing and Community Amenity Policy requires strata residential rezonings in the Urban Core to provide cash amenity contributions and/or inclusionary affordable housing units.

However, the Policy identifies some types of rezonings (atypical rezonings) where the amenity contribution and/or inclusionary housing is determined based on an economic analysis. For these types of rezonings, the target for the contribution is 75% of the increase in land value created by the rezoning. Atypical rezonings include applications where an OCP amendment is required or where the rezoning involves a site greater than half a block (as well as other situations).

Starlight Developments has proposed to rezone two separate but nearby parcels of property in the Urban Core (900 Block Yates and 1045 Yates) to allow about 1,600 purpose-built market rental units and 118,000 square feet of commercial space. Because this application requires an OCP amendment and is greater than half a block, it is considered an atypical rezoning. So, an economic analysis is required to determine if the rezoning creates an increase in land value that can be used to support amenity contributions and/or inclusionary affordable rental units[1].

The City commissioned Coriolis Consulting Corp. to complete the economic analysis to determine if the rezoning application creates an increase in land value that can be used to fund amenity contributions and/or affordable housing units.

As part of the analysis, we estimated:

- The land value under existing zoning (generally a mix of high density strata residential plus commercial). This takes into account the setbacks and built form requirements of the Downtown Core Area Plan.
- The land at the base density permitted in the OCP (assuming strata residential with a $5 per square foot cash contribution for bonus density between existing zoning and the base OCP).

[1] Section 3 of the Inclusionary Housing and Community Amenity Policy indicates that 100% purpose built rental projects are exempt from the Policy. However, the Policy applies to this rezoning because it is larger than half a block and requires an OCP amendment.

- The land value supported by the proposed rental and commercial rezoning concept.

Based on these estimates, we determined whether or not there will be an increase in land value created by the proposed rezoning and the implications for the project to provide amenity contributions and/or affordable rental units. This letter summarizes our findings.

Subject Site

The proposed project includes six existing legal lots spread across two different parcels. All of the lots are designated Core Residential in the OCP, which allows for a base density of 3.0 FSR residential floorspace and a density bonus up to 5.5 FSR of residential floorspace in return for affordable housing. The two parcels are:

1. 1045 Yates Street is a single legal lot currently improved with a car dealership. The lot is 68,230 square feet large. Part of the lot is zoned S-1 (Limited Service District), whereas most of the lot is zoned R-48 (Harris Green District) which allows high density residential development.
2. 900 Block Yates Street is 154,689 square feet and is composed of 5 legal lots:
   - 911 Yates Street is currently improved with a neighbourhood shopping centre. The lot size is 101,973 square feet. The entire lot is zoned R-5 (Central Area District) which allows mid-density residential development.
   - 903 Yates Street is currently improved with a grocery store. The lot size is 21,775 square feet. The entire lot is zoned R-9 (Central Area District) which allows for high density residential development.
   - 910 View Street is currently improved with a low rise commercial building. The lot size is 25,541 square feet. The lot is zoned partially S-1 (Limited Service District) and partially R-48 (Harris Green District) which allows high density residential development.
   - 1209 Quadra Street is currently improved with a low rise commercial building. The lot size is 1,800 square feet. The entire lot is zoned S-1 (Limited Service District)
   - 1205 Quadra Street is currently improved with low rise commercial space. The lot size is 3,600 square feet. The entire lot is zoned S-1 (Limited Service District).

Concepts Analyzed

For each of the two parcels, we analyzed three different development concepts:

- Scenario 1 - Existing Zoning. This scenario includes a total of about 739,000 square feet of strata residential and commercial floorspace.
- Scenario 2 - Base OCP of 3.0 FSR. This scenario includes a total of about 641,000 square feet of strata residential and commercial floorspace. The City targets a $5 per square foot amenity contribution on the increase in allowable density from existing zoning to base OCP. We assume this applies to all existing lots at the subject site that are currently zoned below 3.0 FSR. Therefore, Scenario 2 assumes that the applicant would provide a $532,000 cash amenity contribution.
- Scenario 3 - Proposed Market Rental Development. This scenario includes a total of about 1,283,000 square feet of market rental residential and commercial floorspace as proposed in the March 2021 Revised Rezoning Application.

Exhibit 1 summarizes the total estimated gross floorspace achievable at the overall property under each of the three scenarios. These statistics were vetted by City staff.

Exhibit 1: Development Statistics for Scenarios Analyzed

All figures in square feet (rounded)	Scenario 1: Existing Zoning	Scenario 2: Base OCP Density of 3.0 FSR	Scenario 3: Proposed Rezoning
Gross Strata Residential Floorspace	658,000	641,000	0
Gross Market Rental Floorspace	0	0	1,165,000
Commercial Floorspace[2]	82,000	0	118,000
Total Estimated Floorspace	739,000	641,000	1,283,000

Approach to Analysis

The City's approach for a negotiated amenity contribution is to allocate 75% of the increased land value created by the rezoning toward CACs or inclusionary housing. Therefore, we compared the estimated value of the property assuming rezoning as proposed with the estimated land value of the property under existing zoning and at the base density permitted in the OCP[3].

To estimate the land value supported under existing zoning, the base OCP and the rezoning scenario, we used the following approach:

1. Analyzed the likely financial performance of the three scenarios using a proforma/land residual analysis as follows:
   - Estimated the value of each new building upon completion (spread over time).
   - Deducted all estimated project costs (demolition, servicing, land development costs and building construction costs) excluding any costs associated with amenities such as the public plaza and/or affordable housing[4].
   - Deducted a profit margin[5]:
     - 12% of total costs for constructing new rental buildings.
     - 15% of total costs for constructing new strata buildings.
   - Calculated the land residual annually over time (value less costs less profit = land residual).
   - Calculated the present value (discounted cash flow) of the annual land residual estimates to determine the upfront land value supported by each scenario. The present value calculation accounts for the interest costs (or opportunity costs on equity) on negative cash flows over the course of the development.

     This present value represents the estimated land value that a developer could afford to pay for the land, proceed with the project and earn the target profit margin on total project costs (including the estimated land value) upon completion of the project.

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[2] The proposed rezoning includes about 5,000 square feet of privately owned daycare space in its commercial floorspace total.

[3] It is possible that the land value under existing zoning and at the base OCP density is less than the value of the properties under their current use as income producing investment properties. However, the City's policy focuses on increased land value, not the increased value from existing market value. So, our analysis does not consider the value of the subject site under existing use.

[4] The exception is that the costs for Scenario 2 (OCP base density) deduct the fixed rate CAC cost estimate that the City negotiates for rezonings up to the base OCP density ($5 psf of increased permitted floorspace beyond existing zoning). No in-kind or cash amenity contributions were included in Scenario 3 (proposed rezoning).

[5] For highrise strata residential, the typical minimum profit target in Victoria is 15% of total project costs. There is limited evidence of the profit target required for new rental projects, but the indicators we have reviewed suggests a profit of less than 15% of total costs is being achieved by rental developers in Victoria. We have used 12% for this analysis, but different developers may target a higher or lower profit margin.

As a check, we the compared the results of our land residual analysis with any available information about comparable development site sales and listings to ensure the land residual results are consistent with actual development site transactions.

2. Identified the implications of the analysis on the ability for the proposal to support amenities or affordable housing due to an increase in the land value from the proposed rezoning.

Findings

Our detailed financial analysis includes confidential financial information that was shared with us by the applicant, so it cannot be included in this report. This section summarizes the key findings from our analysis.

The estimated land value supported by each of the three scenarios is as follows (all figures rounded).

Exhibit 2: Preliminary Land Value Estimates by Scenario

Estimated Supportable Land Value	
Scenario 1 (Existing Zoning)	$54 Million
Scenario 2 (OCP Base Density of 3.0 FSR)	$40 Million
Scenario 3 (Proposed Development)	$12 Million

The estimated change in land due to the rezoning proposal is as follows (all figures rounded).

Exhibit 3: Preliminary Estimated Change in Land Value Due to Proposed Rezoning

Estimated Supportable Land Value	
Estimated Land Value Under Existing Zoning	$54 Million
Estimated Land Value Supported by Proposed Rental Development	$12 Million
Change in Land Value	negative $42 Million

The land value supported by the proposed development is significantly less than the land value of the property under existing zoning. Therefore, the proposed rezoning does not create an increase in land value that can be used to fund amenities and/or affordable housing.

There are a few reasons for this:

1. The overall property has a high existing achievable density (about 3.5 FSR) under current zoning. For example, the properties zoned R-48 can achieve densities as high as 6.5 FSR. This is higher than the base density supported under the OCP (3.0 FSR).
2. The value of a completed rental building per square foot is significantly lower than a comparable strata building (despite similar costs to construct). We would expect a new highrise strata building at the site to achieve an average sales price of about $850 per square foot. However, the estimated value of the rental units upon completion is about $700 per square foot (about $150 per square foot lower).
3. The proposed rental project requires concrete construction. Concrete rental projects typically support a low land value due to:
   - The comparatively low completed unit value per square foot in comparison to strata apartments.
   - The increased construction costs in comparison to wood frame rental construction.

I am happy to discuss any questions or comments that you might have about our analysis.

Yours truly,

CORIOLIS CONSULTING CORP.

Blair Erb

Blair Erb