Mulholland Parker
Land Economists Ltd.

December 30, 2022

Manasvini Thiagarajan, Planner
Sustainable Planning & Community Development
Development Services Division
City of Victoria

Re: 1039 & 1043 Meares Street Land Lift Analysis

Mulholland Parker Land Economists Ltd. (MPLE) has been retained to prepare a land lift and amenity contribution analysis for the proposed rezoning of 1039 & 1043 Meares Street Victoria (the Site) from the current R3-1 Zone to the new zone proposed by Jawl Residential (the Developer).

The purpose of the analysis is to estimate the land lift and amenity contribution on the site from an increase in density from 1.2:1 FSR on the Site which would allow for development of a multi-family residential building (identified as the 'base density' under the current Density Bonus Policy) to a proposed density of 2.5:1 FSR with a mix of multi-family apartment dwellings and a live/work unit in a new six-storey residential building on the combined Site. The Developer has proposed reduced parking on the Site for 22 stalls that will be provided at grade and are proposing to provide a substantial bike room with capacity for 74 long term bike parking stalls. The Developer has indicated they will be making all units in the development market strata and intends to make a cash contribution for the CAC determined through this exercise.

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 and the maximum value a developer could pay for the site at the base density under current market conditions. GPRA has been asked to assess the value of the Site with the following potential uses:

1) Residential strata;
2) Live/work at grade uses;

GPRA used standard developer proformas for each case to model the economics of typical development as proposed/allowed under each zoning. The 'Lift' is then calculated as the difference in residual land values between the base and rezoned densities.

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METHODOLOGY & ASSUMPTIONS

The Site is roughly 1,352 square metres in area and can be developed under the current zoning with strata buildings up to a maximum of 1.2 FSR. The proposed new development would allow for a 2.5 FSR strata building with 757 square metres of live/work at grade, and 49 residential strata apartment units above grade.

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) for the strata component of the project. 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 value at the base density 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 concrete construction within roughly 5 km of the Site, with a focus on projects that were deemed comparable to that which has been proposed for the Site.

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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 has estimated the base value for the site using proforma analysis for a 1.2 FAR development of a strata condo building. GPRA prepared a separate proforma for the Site entirely as full market strata for the rezoned scenario.

When comparing the supported land value for all market strata to the base value, the estimated land lift we arrive at is $157,400, 75% of which would be a CAC of $118,000. The relatively small amount of lift is largely based on current market conditions under which the analysis was completed. Construction costs are extremely high, even in wood frame, and interest rates are also higher than they have been in over a decade. Sales prices are also high, but the economics of development are such that given today's market conditions the project is economically marginal, both at the base density and at the proposed density.

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 21039 & 1043 Meares Street Victoria. I am available to discuss this further at your convenience.

Yours truly,

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