ATTACHMENT C

Family Sized Housing

Feasibility Study

January 25, 2024

Parcel

THIRD SPACE PLANNING

PREPARED FOR:

The Corporation of the City of Victoria

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This document is available in alternative formats upon request.

Cover Image: D'Arcy Jones Architects, Ema Peter Photography

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Acknowledgements

Project Consulting Team

The project consulting team responsible for completing this study included a range of industry-leading professionals offering expertise spanning the full breadth of land economics, land use planning and municipal strategy / policy implementation. Parcel Economics Inc. ("Parcel") has served as the project lead for this study, with additional project support provided by Third Space Planning.

Parcel

Project Lead &
Land Economics

THIRD SPACE PLANNING

Land Use Planning &
Housing Policy

City of Victoria Project Team

Our study process involved extensive collaboration with staff from the City of Victoria. Consisting of a core working group from the City's
Community Planning Department, these additional personnel provided input, advice and direction throughout the entire study process.

Other Participants

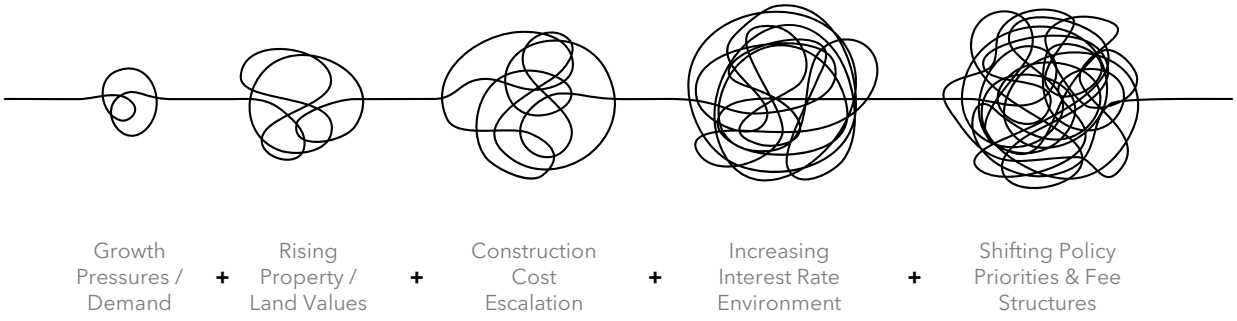
Our detailed research program and "ground-testing" of study recommendations also involved engaging with a range of stakeholders, including external industry participants active in the development of new market and non-market housing in Victoria. This involved soliciting feedback form a diverse group of for-profit developers, non-profit housing organizations and other individuals familiar with the delivery / management of new-construction ownership and rental residential uses.

Executive Summary

Background

Context

- In response to a "perfect storm" of community-specific and broader macroeconomic challenges, the City of Victoria continues to grapple with the delivery of family sized housing lagging demand, largely as a **function of poor market performance and financial feasibility**.



- This dynamic has resulted in new residential developments typically focusing on **smaller high-density apartments** and more **expensive lower-density buildings**. Other new construction, ground-oriented housing—the building typology most associated with family housing—is found in neighbouring communities.

Purpose

- In response to the challenges outlined above, Parcel Economics Inc. ("Parcel")—in cooperation with project partners Third Space Planning—has been retained by the City of Victoria to support their investigation into the feasibility of **introducing potential new family sized housing regulations**.

- Our role for this study has been to provide additional research, analysis and strategic insight on the proposed new policy framework from a **market and economic perspective**, as well as in the context of the preferred implementation of such a new policy framework (including required incentives).

Scope

- We have undertaken a detailed research program as part of this study process, comprising a number of distinct components, including:
  - review of **local market dynamics** and development conditions;
  - information gathered as part of **stakeholder interviews**;
  - consideration of **similar policy frameworks** in peer municipalities;
  - detailed **financial feasibility testing** of identified development concepts and proposed regulations; and,
  - related sensitivity analyses to **identify required incentives** in support of family sized housing delivery.

Study Parameters

- To evaluate the potential impacts to financial feasibility of a new family sized housing regulation, we have identified a range of distinct development contexts that appropriately reflect natural market-led variations across the following key variables:
  - **Location** (i.e., Ground-Oriented, Intensification and Core development areas);
  - **Typology** (i.e., Townhouses and Low-Rise / Mid-Rise / High-Rise apartments); and,
  - **Tenure** (i.e., Ownership / Rental).

Figure ES-1

Summary of Development Scenarios Identified for Financial Feasibility Analysis

	BASE CASE	LOW	MID	HIGH
Height	1-3 storeys	4-6 storeys	10-12 storeys	20+ storeys
Density (FSR)	**1.0**	**2.5**	**4.0**	**5.5**
GROUND-ORIENTED (A)	**A1** Townhouse	-	-	-
INTENSIFICATION (B)	-	**B2** Low-Rise	**B3** Mid-Rise	**B4** High-Rise
CORE (C)	-	-	**C3** Mid-Rise	**C4** High-Rise

Source: Parcel

Key Findings

Policy Context

- Three common approaches to advancing family-friendly housing include: (1) **bedroom composition requirements**; (2) **design guidelines**; and (3) **child-friendly city strategies**.
- Targeted **incentives** to increase the viability of family sized units are relatively uncommon (at least to date and potentially as a function of previous, more favourable market conditions when policies were first being established).
- **Exceptions and exclusions** tend to be targeted at specific subsegments of the market (e.g., specialized populations and/or housing types).

Market Context

- There is a higher proportion of younger adults (people in their 20s and 30s) in Victoria, as well as high growth in **family-forming age cohorts** and seniors**.**

- **Below-average incomes** relative to other Capital Region municipalities will inevitably affect the ability of local households to afford family sized units.
- Victoria exhibits a **higher—and faster growing—proportion of renter households**, which are typically concentrated in multi-family apartment settings.
- The prevailing development pattern in Victoria—both in the context of existing and proposed supply—is **relatively high-density urban housing**.
- Victoria has the highest average rent for 3+ bedroom units in the region, which are also increasing at a faster rate than other smaller units locally. This could further **compound affordability challenges for family households** in the community.

Financial Feasibility Context

Baseline Feasibility

- All baseline scenarios show **potential to produce a profit** at today's land values with a positive revenue-to-cost relationship overall. The more important question, however, is whether the amount of potential profit is reasonable based on the amount of risk associated with real estate development and investor expectations.
- Upon consideration of other common investment return metrics (e.g., IRR, EMx, CoC, as described in more detail herein): (i) **Townhouse** formats exhibit strong baseline financial feasibility conditions; (ii) so too do **Low-Rise Apartments** in Intensification areas; and (iii) **Mid-Rise and High-Rise Apartments** are challenged in many areas, although demonstrating improved viability in the Core. These all relate to ownership (strata)-based development projects.
- Across all typologies and locations considered, **rental developments are challenged to achieve project feasibility** as a baseline condition. Higher returns are available via "safer" and/or "easier" alternative investments, such as 10-year government bonds or real estate-focused ETFs.

Impact of Family Sized Unit Regulation

- The introduction of family-sized housing regulations **deteriorates financial feasibility**, representing an inherent risk of any policy initiative of this nature.
- While it appears **possible for several of the scenarios to accommodate 10% of units as three-bedrooms**, 15% is unlikely—or entirely infeasible—in all but the Ground-Oriented Townhouse condition, or in uniquely "strong" market areas.

Figure ES-2

Impact of Family Sized Unit Requirement on Financial Feasibility (Strata Only)

		Baseline (5% 3-Beds)	10% 3-Beds	15% 3-Beds
A1	Ground-Oriented – Townhouses	●	●	●
B2.1	Intensification – Low-Rise *(Weak Market Area)*	●	●	●
B2.2	Intensification – Low-Rise *(Average Market Area)*	●	●	●
B2.3	Intensification – Low-Rise *(Strong Market Area)*	●	●	●
B3	Intensification – Mid-Rise	●	●	●
B4	Intensification – High-Rise	●	●	●
C3	Core – Mid-Rise	●	●	●
C4	Core – High-Rise	●	●	●

● Infeasible ● Unlikely ● Possible

Source: Parcel. Market strength assumptions based on revenue assumptions for wood frame strata apartments described in Urban Systems Memorandum DRAFT Report on Residual Land Valuations for Case Study Sites in Victoria (September 22, 2023). Weak market area = $860 per square foot, average market area = $910 per square foot, strong market area = $960 per square foot.

Conclusions

Key Takeaways

- There is an **established need** for family-sized housing in the community.
- The results of our financial feasibility analysis largely **validate current patterns of development**, which are unlikely to deliver up to 10% (or more) of family-sized units naturally.
- There are no escaping the risks associated with this dynamic and there is no "silver bullet" solution available. Instead, **multiple different approaches**—or tools—will be required to "unravel" the current situation to encourage family sized housing delivery.
- A "layering" of available incentives is appropriate if targeting 10% or more family sized units, including a combination of: (i) **parking reductions** and (ii) **density allowances** (or simply "up-zoning").

Recommendations

- If the City decides to move forward with a family sized unit regulation—despite its negative effects on financial feasibility—the **key will be to remove as many barriers as possible**.
- To this end, the following directions should be considered:
  - **Focus on Three-Bedroom Units**
  - **No Requirement for Four-Bedroom Units**
  - Set the Family Sized Unit **Baseline at 10%** for **Strata** and no more than **5% for Rental** (if any)
  - **Pre-zone** for Additional Density
  - **Reduce Parking** (Cautiously)
  - Go with BC Housing **Unit Size Minimums**
  - Encourage Building Amenities (e.g., **Storage**)
  - Encourage Concentration with **Ground Floor Access**

See **Section 6.0** for details of Key Takeaways & Recommendations.

1.0
Introduction

1.1 Background

Context

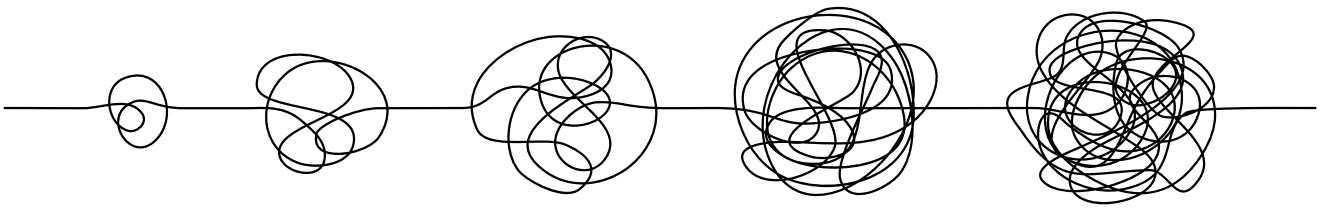
As communities of all sizes across Canada continue to grapple with foundational changes in the land use planning sector, enabling access to a **more diverse housing supply** has become one of the most pressing challenges facing municipalities.

Among the specific symptoms of this trend, communities like Victoria continue to struggle with limited uptake and development interest in the delivery of family sized housing supply.

Despite the delivery of record numbers of new residential units more broadly, the creation of family sized housing supply continues to lag demand, as new residential developments typically focus on **smaller high-density apartments** and **more expensive lower-density housing**. These challenges—which have been driven at least in part by significant hard and soft building cost escalation, interest rate increases, as well as rising land values—have become so acute that employers and governments alike are now acknowledging that reduced housing choice is materially influencing liveability and economic competitiveness.

Figure 1.1

The "Perfect Storm" of Factors Influencing Housing Development Trends



Source: Parcel. For illustration purposes only – a more comprehensive range of variables has been identified herein.

Purpose

Based on these market conditions, the City of Victoria is now exploring innovative approaches to advance their mandate of establishing a more diverse housing stock for residents, including **families with children**, **multi-generational living**, and **other shared living arrangements**. In particular, a key recommendation of the City's latest Housing Strategy has been to consider new Family Housing Policy / bylaws requiring a minimum percentage of 2 to 3+ bedroom units in new developments. The 2023-2026 Strategic Plan also includes diversifying housing types as a strategic priority.

To assist with the exploration of this topic from a market / economic perspective, this study evaluates the viability of such a policy direction based on a financial feasibility analysis of prototypical family housing formats across different neighbourhood contexts in Victoria and provides regulatory recommendations to maximize the provision of family sized housing in Victoria.

In light of current housing challenges, this study evaluates and develops recommendations relating to the key market, policy, and regulatory solutions capable of maximizing the provision of family sized housing units in Victoria.

Why Family Sized Housing?

While the benefits of providing an appropriate supply of housing across all income levels, locations and unit types are well recognized, it is also important to acknowledge that there are a range of discernable benefits specific to family sized housing. Many of these benefits are also common across both public and private sector perspectives, including the following, to name a few:

- Allowing for the creation—and/or maintenance—of communities that are accommodating to growing families and/or multi-generational households;
- Improving housing "choice" and diversity, which benefits residences at all stages of life, income levels and unique household needs;
- Fostering opportunities for "aging in place", particularly among the notable seniors—or "baby-boom"—cohort; and,
- Accommodating the evolving needs of households in the wake of the COVID-19 pandemic (e.g., spaces for dedicated home offices, etc.).

Scope

A key element of this study has been to deliver a data-driven and detailed research program and supporting financial analysis capable of "demystifying" recent development patterns in the community.

Our team has taken an iterative approach to the assignment, focused on: (i) establishing an initial baseline understanding of the key economic drivers and underlying market conditions associated with developing family-sized housing; and, (ii) further analytical testing and refinement to arrive at relevant policy and implementation-based recommendations for the City:

Our supporting research program has served as a critical baseline in answering the initial question of "why are things the way they are?" before developing more creative solutions in response to the current realities of the market and underlying needs of the development community to achieve project viability. As outlined herein, this has involved a variety of initial background research and supporting analysis to inform the specific factors—or "pinch points"—that are most significantly influencing the feasibility of new family sized housing development in Victoria. This includes—but is not necessarily limited to:

- review of **local market dynamics** and development conditions;
- information gathered as part of **stakeholder interviews**;
- consideration of **similar policy frameworks** in peer municipalities;
- detailed **financial feasibility testing** of identified development concepts and proposed regulations; and,
- related sensitivity analyses to **identify required incentives** in support of family sized housing delivery.

Similarly, in an effort to generate consensus among all parties involved, we have endeavoured to highlight the unique perspectives of both public and private sector interests through this initial background research. This has been done to identify potential areas of commonality—as well as disagreement—as it relates to the delivery of family sized housing forms and, more broadly, residential uses that are able to satisfy the needs of a growing and increasingly diverse community. In our opinion, this study represents an ideal opportunity to bring together "both sides of the story" and identify the preferred roles and responsibilities of all participants to achieve the identified housing objectives.

1.2 Study Parameters

It is important to clearly articulate at the outset of this reporting the core objectives—and preferred outcomes—of the City of Victoria in undertaking this work. The following provides a high-level overview as to some of the basic parameters of our study, including clarity as to some of the nuances relating to the specific **locations / geographies**, **housing definitions**, and **building typologies** considered as part of our supporting research program.

Geography (Study Areas)

This study considers the entirety of the City of Victoria and relies upon various predefined Neighbourhood Zones[1] as the main geographic units for our analysis.

These neighbourhood delineations align with census tract boundaries and are consistent with neighbourhood boundaries used by the City. Where relevant, this study also uses Victoria Census Metropolitan Area (CMA) and the Province of British Columbia as benchmark geographies to contextualize findings in Victoria.

Figure 1.2

Study Area (including CMHC Neighbourhood Zones Boundaries)

List of Neighbourhoods:

- Burnside
- Downtown
- Fairfield North
- Fairfield South
- Fairfield-Ross Bay
- Fernwood
- Gonzales
- James Bay North
- James Bay South
- Oaklands
- Jubilee
- Quadra / Hillside
- Rockland
- Vic West

Source: Parcel, based on CMHC Neighbourhood boundaries

[1] As defined by Canada Mortgage and Housing Corporation (CMHC).

Family Sized Housing Defined

For the purposes of this study, we have adopted the City of Victoria definition of family sized units as being any unit with two (2) or more bedrooms.

As explored in more detail herein, however, perceptions around what constitutes a "family sized" unit indeed varies among local stakeholders, including with respect to characteristics relating to location, size, function, housing form / typology, among other relevant factors.

Housing Affordability Defined

Though not an explicit component of this work, our study has also considered the affordability of housing—and specifically family sized units—in the context of the local Victoria market. These considerations will be based on the City of Victoria definition of affordable housing:

> *Housing where the price does not exceed **30% of the gross annual household income** for very-low income to moderate income households.*

The City of Victoria Housing Strategy (Phase Two: 2019-2022) also calculates affordable rents by unit size, based on this definition of affordability:

	Bachelor	1-Bedroom	2-Bedroom	3-Bedroom
Very Low Income	$375	$425	$575	$700
Low Income	$625	$775	$1,050	$1,150
Median Income	$1,125	$1,250	$1,400	$1,750

Source: Parcel, based on City of Victoria Housing Strategy Phase Two: 2019-2022

1.3 Development Prototypes

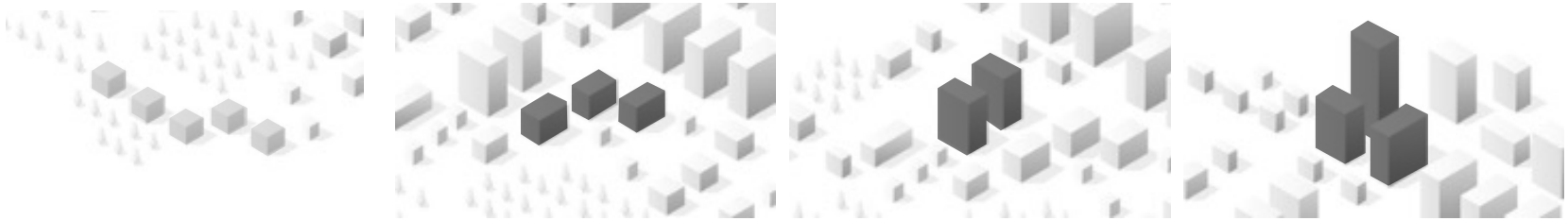
To appropriately reflect natural market-led variations in residential "product type" across different locational contexts, a predefined subset of housing typologies has been identified for consideration as part of this study.

Density (Scale & Typology)

As summarized below, this includes a primary focus on (3) distinct apartment-based—or "multi-family"—housing typologies (generally involving "low", "mid" and "high" density housing development formats). A reference—or "base case"—typology has also been identified to reflect more traditional ground-oriented housing formats, which often serves as a typical "default" for family sized housing. This base case can also be relied upon to contextualize the results of our analysis and test against expected results.

Figure 1.3

Key Housing Typologies Considered



	BASE CASE	LOW	MID	HIGH
Height (Max)	1-3 storeys	4-6 storeys	10-12 storeys	20+ storeys
Density (FSR)	**1.0**	**2.5**	**4.0**	**5.5**
Typologies	Townhouses Plexes	Plexes Low-Rise	Mid-Rise	High-Rise

Source: Parcel

Type (Location)

Additionally, selected sub-categories have also been identified—as denoted by colour below—to reflect obvious groupings commensurate with common development contexts resulting as a function of location and the nature of current and/or proposed built forms in different parts of the community. For Victoria, this has focused on three distinct subsegments of the development density spectrum, as follows:

- **Ground-Oriented** (A) – characteristic of traditional, ground-related housing that represents the lowest density envisioned across Victoria.
- **Intensification** (B) – characteristic of a broader "catch-all" of various other forms of more moderate infill / intensification style of development ranging up to approximately 12 storeys in height.
- **Core** (C) – characteristic of the highest density developments envisioned in the municipality, naturally focused in the central downtown area(s).

Figure 1.4

Development Densities & Types by Location

Multi-Unit Residential Permitted

Urban Place Designation	Max. Height	Density (FSR)	
Traditional Residential	3 storeys	1.1	**GROUND-ORIENTED** (A)
Small Urban Village	3 to 5 storeys	1.5 to 2	
Mixed Residential	3 to 5 storeys	1.6	
Housing Opportunity	4 to 6 storeys	1.2 to 2	**INTENSIFICATION** (B)
Urban Residential	6 storeys	1.2 to 2	
Large Urban Village	6 storeys	1.5 to 2.5	
Town Centre	10 to 12 storeys	2 to 3	
Core Historic	5 storeys	3	
Core Employment	8 to 14 storeys	3 to 5	**CORE** (C)
Core Residential	20 storeys	Varies	
Core Business	24 storeys	3 (residential)	

Source: Parcel, based on all Urban Place Designations identified by the City of Victoria capable of supporting multi-unit residential development as an as-of-right permission.

Figure 1.5 further illustrates the three primary location-based categories identified for our analysis, including a more explicit articulation of geographic coverage across the municipality.

Figure 1.5

Key Development Locations Considered

GROUND-ORIENTED (A)	**INTENSIFICATION** (B)	**CORE** (C)
		
Traditional Residential	Small Urban Village Mixed Residential Housing Opportunity Urban Residential Large Urban Village Town Centre	Core Historic Core Employment Core Residential Core Business

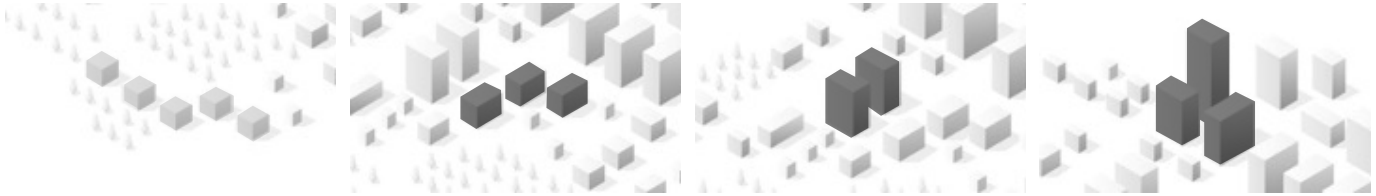
Summary of Development Scenarios for Testing

Bringing together the two foregoing variables (typology and location), we have identified a total of six (6) specific development scenarios for financial testing as part of our more detailed baseline feasibility analysis:

- Ground-Oriented Townhouse (**A1**)
- Intensification Low-Rise (**B2**) / Mid-Rise (**B3**) / High-Rise (**B4**)
- Core Mid-Rise (**C3**) / High-Rise (**C4**)

Figure 1.6

Summary of Development Scenarios Identified for Financial Feasibility Analysis



	BASE CASE	LOW	MID	HIGH
Height	1-3 storeys	4-6 storeys	10-12 storeys	20+ storeys
Density (FSR)	**1.0**	**2.5**	**4.0**	**5.5**
GROUND-ORIENTED (A)	**A1** Townhouse	-	-	-
INTENSIFICATION (B)	-	**B2** Low-Rise	**B3** Mid-Rise	**B4** High-Rise
CORE (C)	-	-	**C3** Mid-Rise	**C4** High-Rise

Source: Parcel. All scenarios identified include both rental and ownership tenures.

1.4 Assumptions & Limitations

When considering the type of high-level financial feasibility modelling that has been undertaken for this study—which is not specific to any one site and/or landowner(s)—it is important to identify the key assumptions and limitations inherent to this more conceptual approach. Furthermore, consistent with other financial analyses focused on policy-level observations, we note that the modelling presented herein **should not be taken as a conclusive nor definitive representation of financial feasibility, or lack thereof, for individual properties**. Rather, it is intended to provide a more general and preliminary understanding as to the relative feasibility of conceptual developments and prototypical building designs, as well as to provide a more general indication as to the key drivers of financial performance when developing new residential uses in Victoria, especially in the context of developing family-sized units.

A detailed overview of the key assumptions that must be understood as limitations to the analysis undertaken as part of this assignment has been provided in Appendix B.

In the event that material changes occur that could influence the assumptions identified, the analysis, research findings and recommendations contained in this report should be reviewed or updated, accordingly.

See the **Appendix** for overview of key assumptions and limitations.

2.0
Market Context

Key Findings

- Growth in relatively dense built environments—including **Downtown** and **Vic West**—account for approximately half of all population increases in the City over the last decade.
- There is a higher proportion of younger adults (people in their 20s and 30s) in Victoria, as well as high growth in **family-forming age cohorts** and seniors**.**
- **Below-average incomes** relative to other Capital Region municipalities will inevitably affect the ability of local households to afford family sized units.
- Victoria exhibits a **higher—and faster growing—proportion of renter households**, which are typically concentrated in multi-family apartment settings.
- The prevailing development pattern in Victoria—both in the context of existing and proposed supply—is **relatively high-density urban housing**.
- Victoria has the highest average rent for 3+ bedroom units in the region, which are also increasing at a faster rate than other smaller units locally. This could further **compound affordability challenges for family households** in the community.

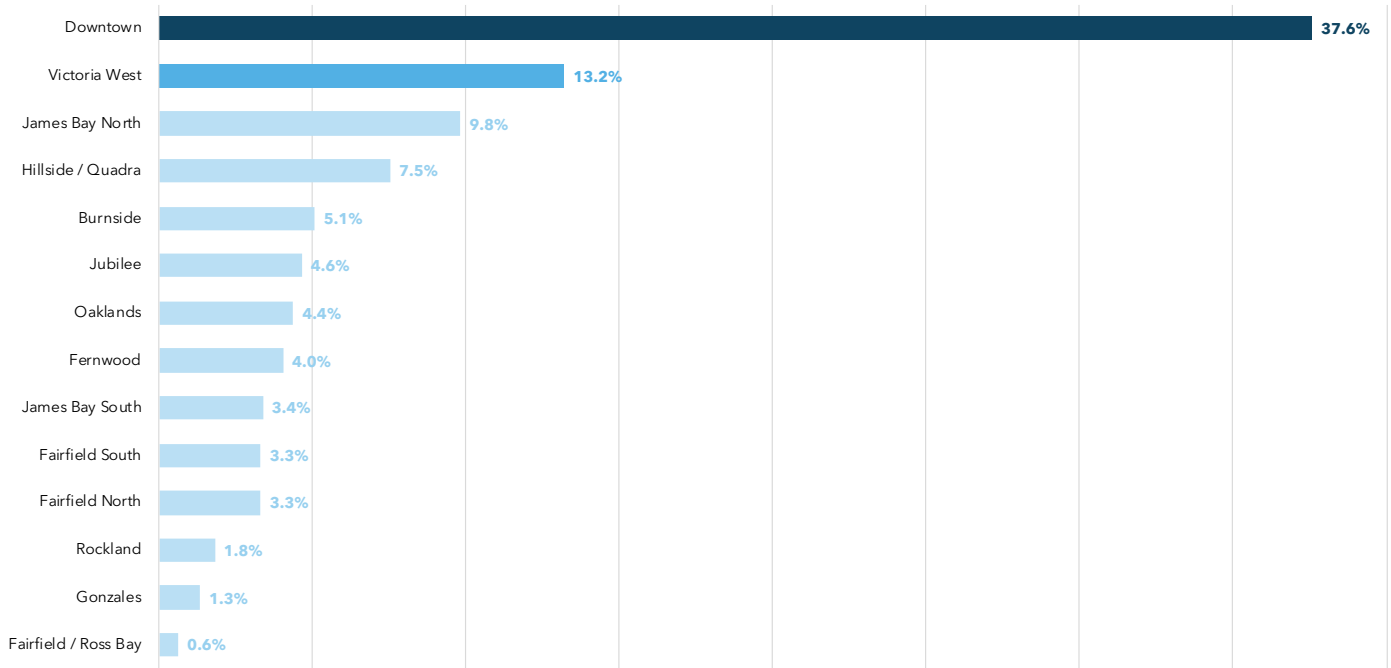
2.1 Demographic Profile

Population

- We estimate the population of Victoria to be approximately **95,000 residents** (as of 2022), adjusting for undercount.
- The city grew by approximately **12,000 residents** between 2011 and 2021 or **1.5% annually**, less than both the CMA (+1.8%) and British Columbia (+1.6%).
- More than 50% of this growth has been concentrated in the **Downtown** (38%) and **Victoria West** (13%) neighbourhoods.

Figure 2.1

Percentage Total Population Growth by Neighbourhood (2011 to 2021)



Source: Parcel, Statistics Canada Census 2011 and 2021

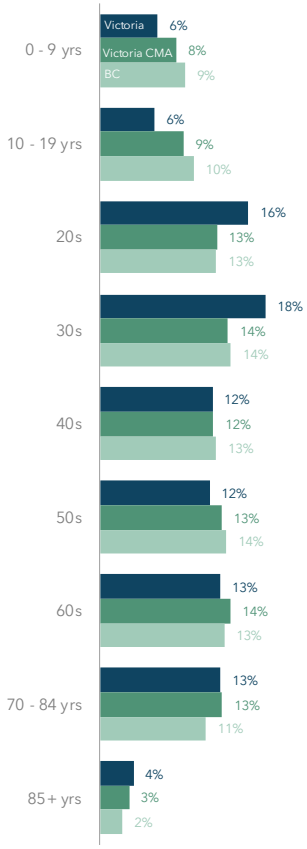
Age

- Victoria has a **lower share of youth** and **higher share of young adults** than the region and province.
- There has also been **growth in family-forming age cohorts** between 2011 and 2021.

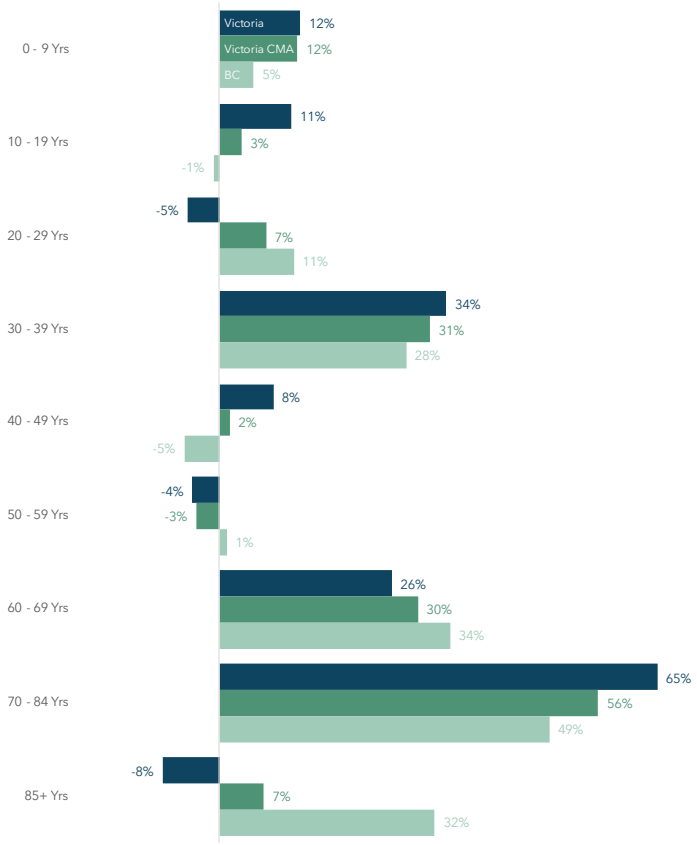
Figure 2.2

Population by Age Cohort

Population by Cohort (2021)



Population Change by Cohort (2011 – 2021)



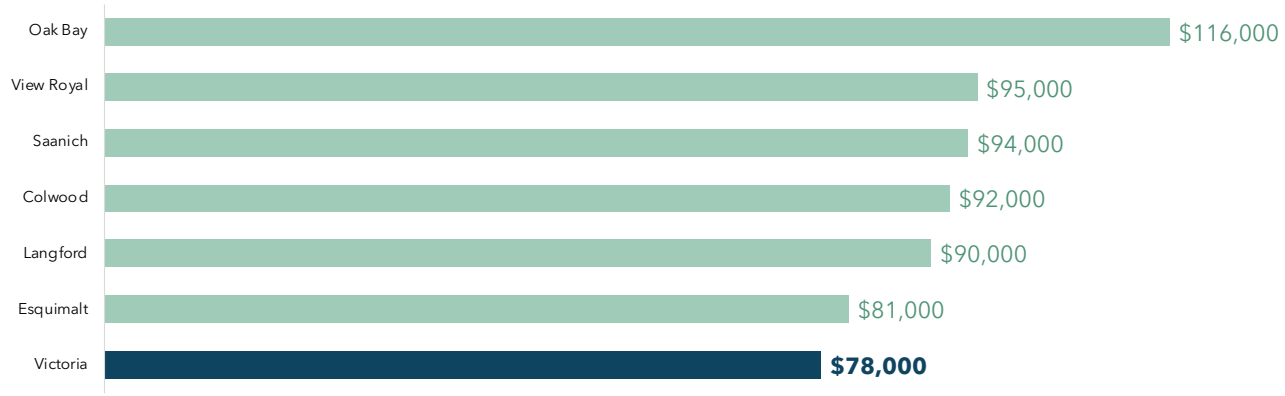
Source: Parcel, Statistics Canada 2011 and 2021 Census

Income

- Victoria has the **lowest median household income** for census families[2] in the region ($78,000), with implications for what rent/prices a family will be able to afford.
- Based on the combination of this income profile and local real estate pricing in Victoria, conditions are such that families may have to look elsewhere in the region (or further) to find housing in their price range.

Figure 2.3

Median Household Income of Capital Region Municipalities (2021)



Source: Parcel, Statistics Canada 2021 Census

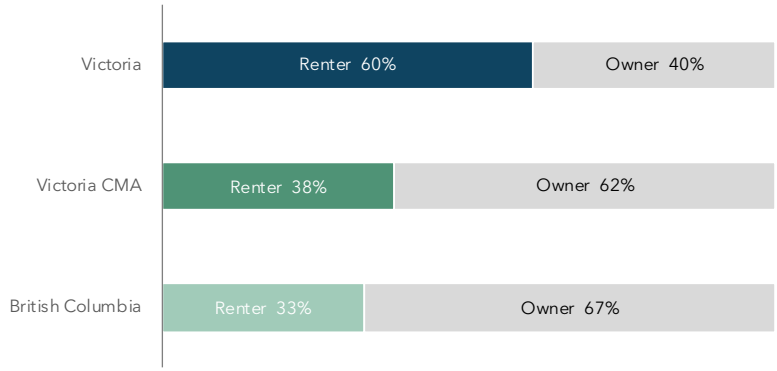
Tenure

- Victoria has a **high proportion of renter households** (60%) compared to the CMA (38%) and province (33%).
- Annual growth in number of renter households (+1.7%) has **outpaced** ownership households (+1.1%).
- Renter households are concentrated in neighbourhoods with **higher-density housing**.

[2] Census families include couples with and without children, one-parent households, family households with additional persons, and multi-family households.

Figure 2.4

Housing Tenure (2021)

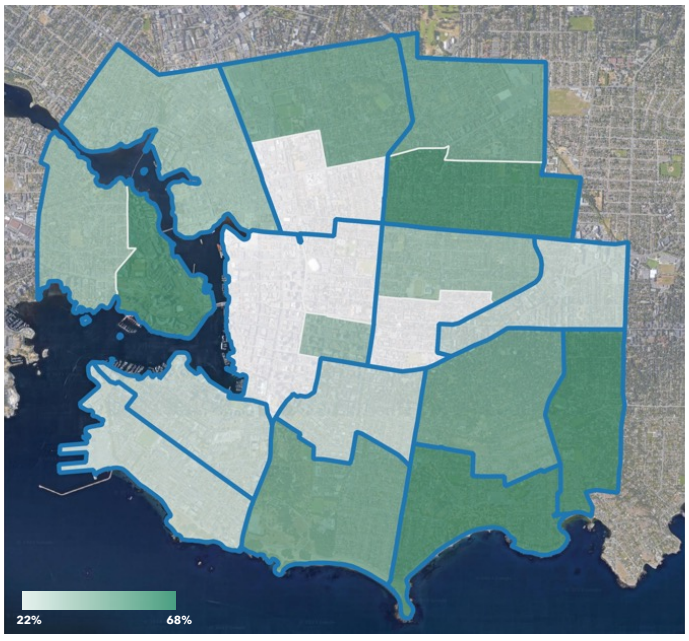


Source: Parcel, Statistics Canada 2021 Census

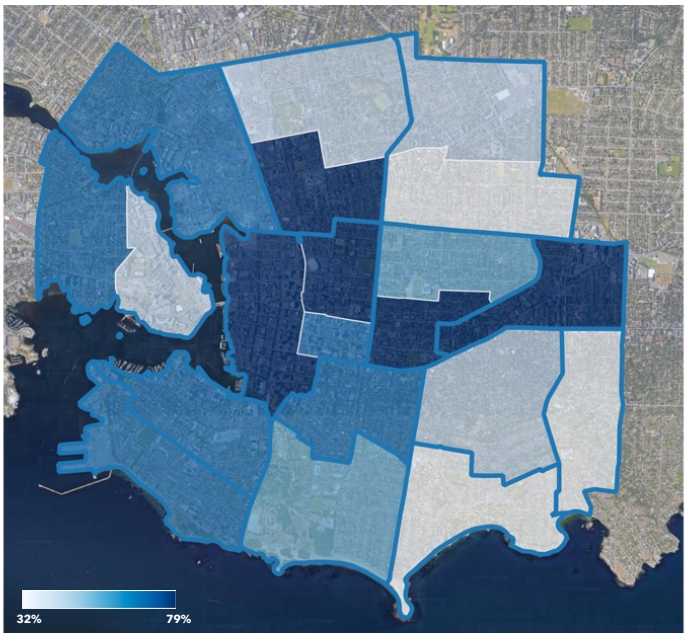
Figure 2.5

Percentage Owner & Renter Households by Census Tract (2021)

Owner Households



Renter Households



Source: Parcel, Statistics Canada 2021 Census. Areas denoted by blue outline represent CMHC Neighbourhood Zone.

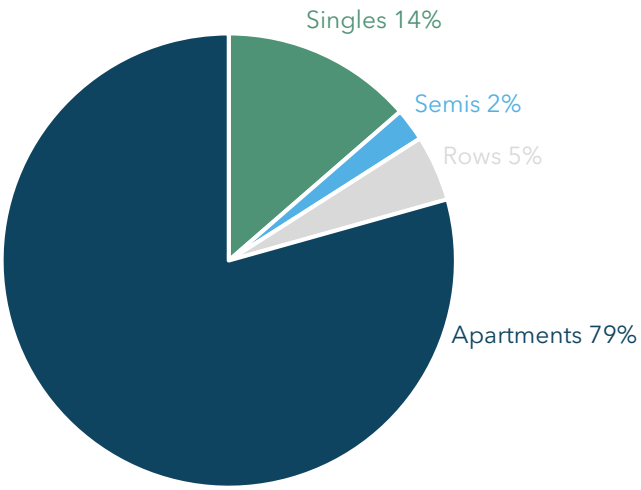
2.2 Housing Profile

Current Housing Context: Existing Stock & Patterns

- **Apartments** (including both purpose-built rental and condominiums) are the predominant housing typology in the city, representing **79% of all housing units**.
- It appears the share of apartments may rise with apartments constituting **92% of all housing completions** since 2013.
- Perhaps unsurprisingly given its relative share of total population growth, more than half of all new housing completions from 2010 to 2022 have been in the **Downtown**.

Figure 2.6

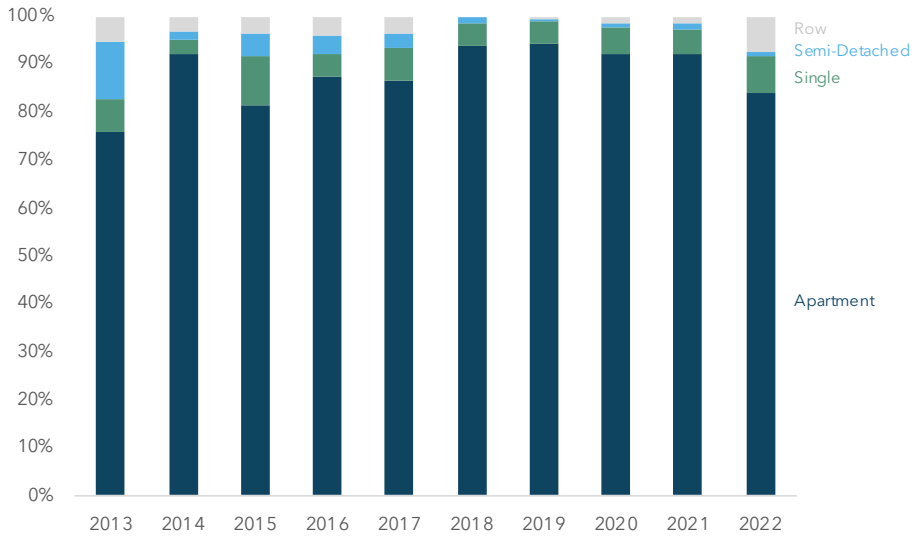
Existing Housing Stock (2021)



Source: Parcel, Statistics Canada 2021 Census

Figure 2.7

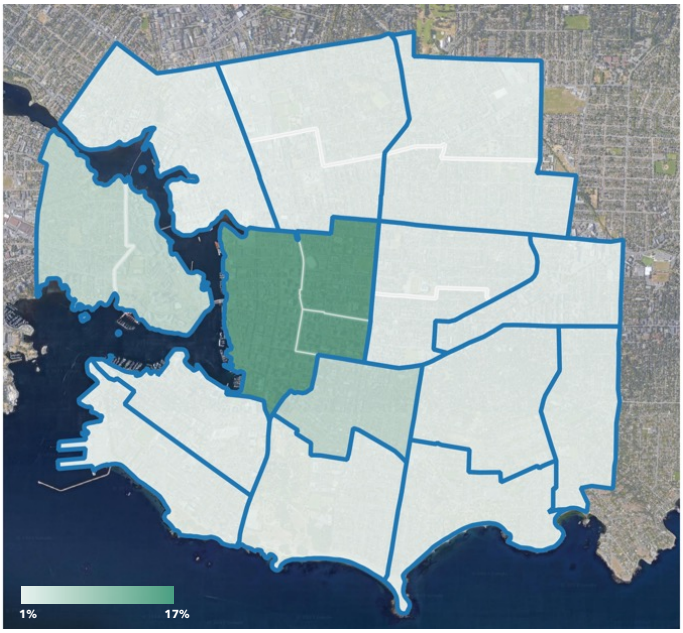
Housing Completions by Typology (2013 to 2022)



Source: Parcel, based on CMHC Starts and Completions Survey

Figure 2.8

Percentage of Total Housing Completions by Census Tract (2010 to 2022)



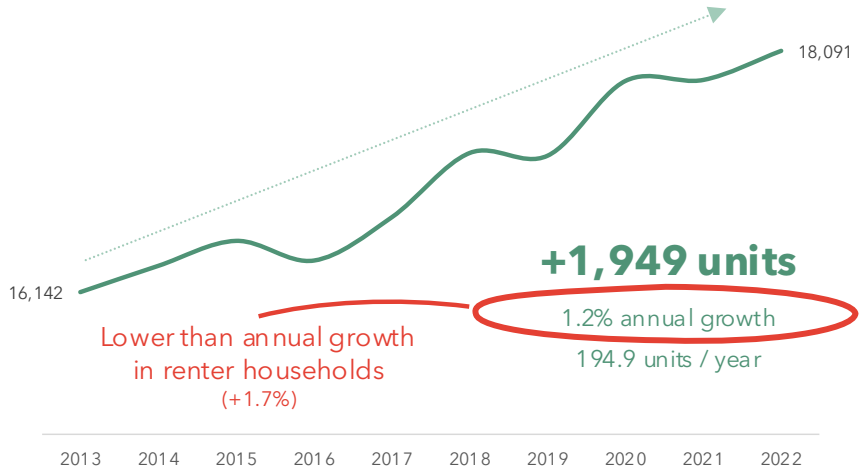
Source: Parcel, based on CMHC Starts and Completions Survey

Primary Rental Universe[3]

- There are a total of 4,907 family sized units in the primary rental universe, representing approximately **one quarter (27%) of all primary rental units**. However, of these family sized units, the majority (95%) are two-bedrooms units.
- The total number of primary rental units have **increased by approximately 200 units per year** since 2013, however the distribution of unit sizes has remained relatively unchanged since 2013. Family sized units again constituted 27% of these new units.
- Rents have increased the greatest amount for **3+ bedroom units**, likely due to conditions involving increased demand and limited supply.
- Victoria has the **highest average rent for 3+ bedroom units** in the region. Coupled with the median income information presented earlier, this suggests **significant affordability challenges** for family households in Victoria.

Figure 2.9

Change in Primary Rental Universe Units (2013 to 2022)

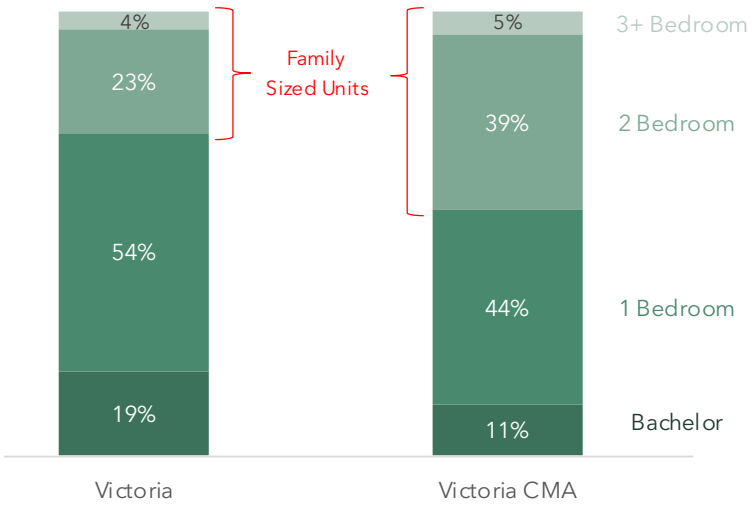


Source: Parcel, based on CMHC Rental Market Survey

[3] The Primary Rental Universe consists of units that were built with the intention of being used as rental units. These units are often referred to as "purpose-built rental" units ("primary rental" and "purpose-built rental" can be used interchangeably). In contrast, the Secondary Rental Universe consists of units that were built for purchase and are now being rented by their owners.

Figure 2.10

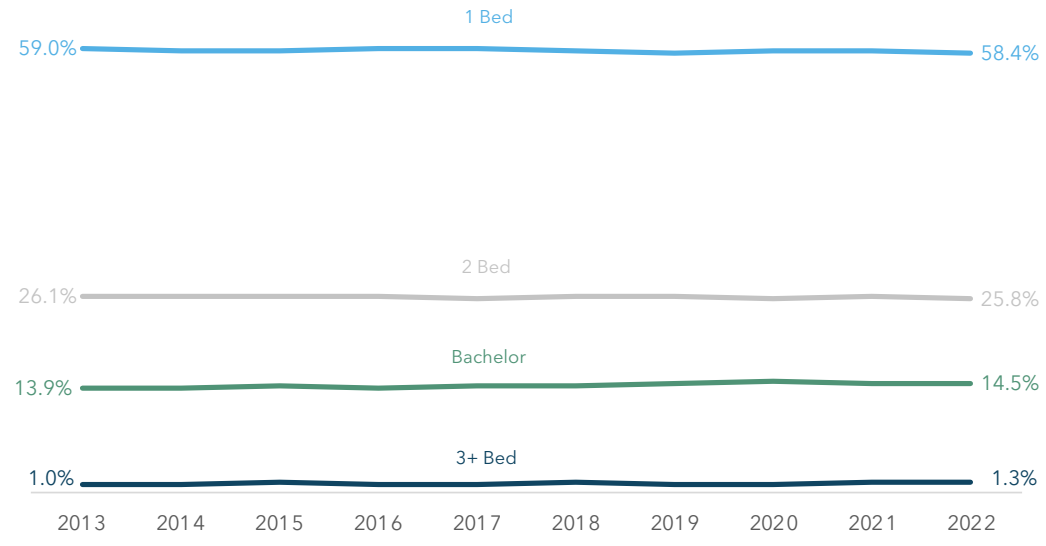
Share of New Primary Rental Units (2013 to 2022)



Source: Parcel, based on CMHC Rental Market Survey

Figure 2.11

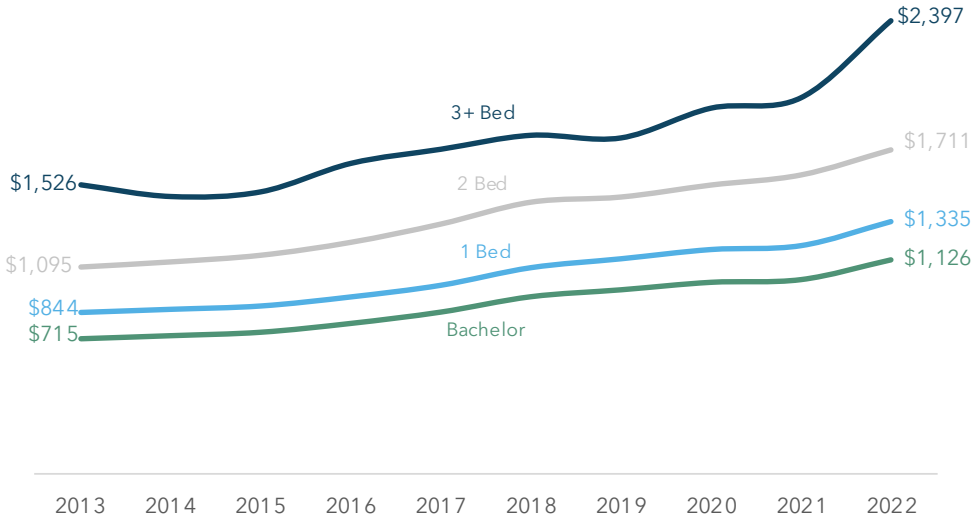
Unit Share of Primary Rental Universe (2013 to 2022)



Source: Parcel, based on CMHC Rental Market Survey

Figure 2.12

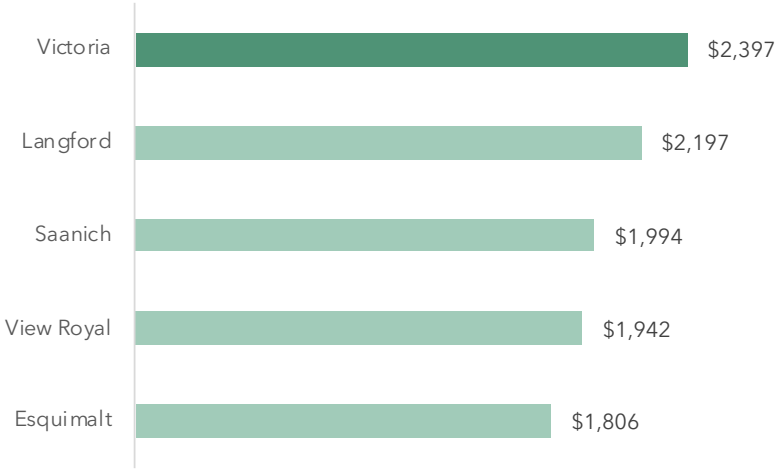
Average Rent by Unit Size (2013 to 2022)



Source: Parcel, based on CMHC Rental Market Survey

Figure 2.13

3+ Bedroom Unit Average Rent (2022)



Note: Data suppressed for Oak Bay and Colwood
Source: Parcel, based on CMHC Rental Market Survey

Current Asking Rents & Prices

- Based on 21 rental listings, average rents for two- and three-bedroom units are $2,735 and $3,700, respectively, **more than $1,000 above rents reported by CMHC**[4]. Of these listings, only two were three-bedroom units.

- Based on 84 ownership listings, the average asking price for a home is $1.067 million. **Prices decrease as housing typologies become denser**. For example, detached houses are the most expensive at $1.46 million and units in multi-unit buildings are the least expensive at $1.03 million. Average asking prices for all typologies are over $1 million.

Figure 2.14

Victoria Average Asking Rents for Family Sized Units Compared to CMHC

	Average Asking Rent (2023)	**Average CMHC Rent** (2022)
Two-Bedroom Units	$2,735	$1,711
Three-Bedroom Units	$3,700	$2,397
Total	$2,819	n/a

Source: Parcel, based on rentals.ca listings (accessed July 10, 2023) and CMHC Rental Market Survey, both specific to the City of Victoria.

Figure 2.15

Average Ownership Asking Prices (July 2023)

	Detached	**Semi**	**Townhouse**	**Duplex**	**Multi-Unit**	**ALL**
Average Price	$1,462,900	$1,174,000	$1,138,338	$1,053,500	$1,030,644	$1,067,522

Source: Parcel, based on realtor.ca listings (accessed July 10, 2023)

[4] Average rents reported by CMHC include rent-controlled units and are therefore typically lower than asking rents (i.e., rents for currently available units) that reflect current market conditions. CMHC reported rents also exclude secondary rental units.

Future Housing Context: Pipeline Supply & Trends

Supply

- There are approximately 4,300 number of units in the development pipeline (i.e., projects proposed or approved between 2017 and 2023).
- Approximately 1,640 units (38%) are family sized units. Of these, 1,240 are two-bedroom units and 404 are three-bedroom units, representing 29% and 9% of the total pipeline, respectively.

Figure 2.16

Number and Type of Units in Development Pipeline

	# of Units	% of Total Units
Studio	750 units	17%
1 Bed	1,910 units	44%
2 Bed	1,240 units	29%
3+ Bed	400 units	9%
Total	**4,300 units**	**100%**

Source: Parcel, based on City of Victoria data.

Geography

- **Downtown** (45%) and **Burnside** (26%) are the two neighbourhoods with the greatest amount of recently proposed/approved development.

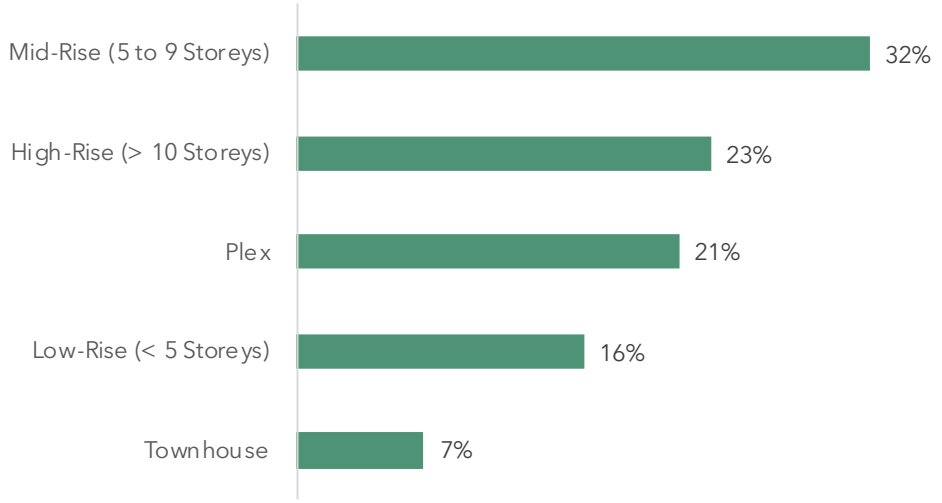
Typology

- Approximately **71%** of recently proposed/approved developments are **apartment typologies**. Mid-rise typologies make up the single greatest typology at 32%, followed by high-rises at 23% and plexes (duplex, triplexes, etc.) at 21%.

- Three quarters (75%) of **townhouse units** qualify as family sized with approximately half (49%) being three-bedroom units or larger. Of the **multi-unit typologies**, low-rise apartments have the greatest percentage of family sized units (46%), however most of these are two-bedroom units. High-rise apartments have the greatest percentage of three-bedroom units as part of the unit mix (13%).
- Just under three quarters (73%) of recently proposed/approved three-bedroom units are in high-rise developments.

Figure 2.17

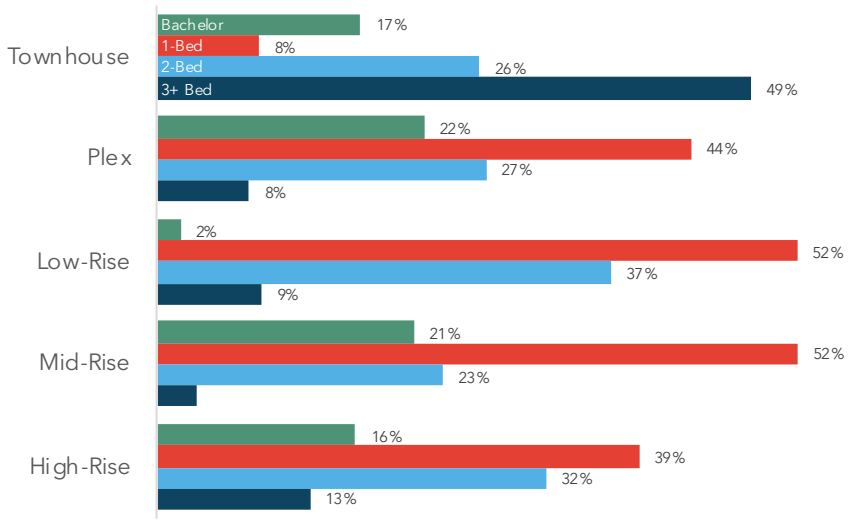
Building Typology of Recently Proposed/Approved Developments



Source: Parcel, based on City of Victoria data.

Figure 2.18

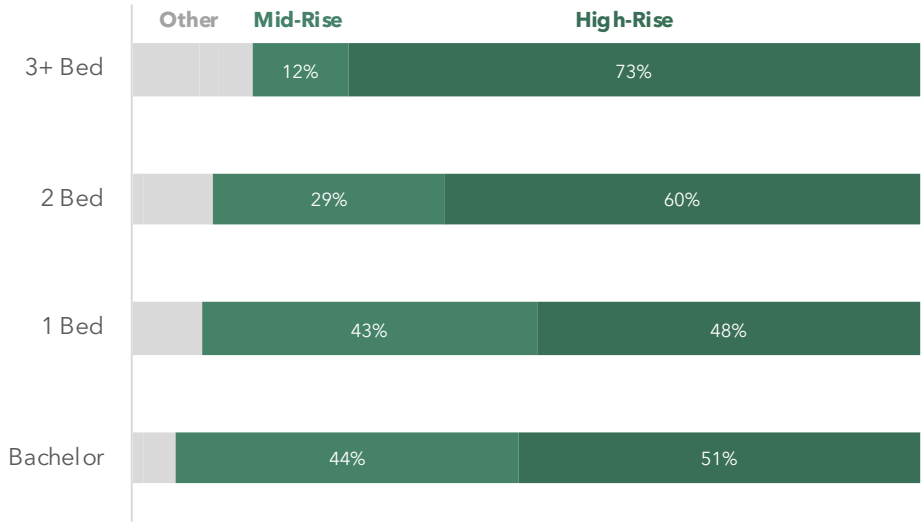
Unit Mix by Typology in Recently Proposed/Approved Developments



Source: Parcel, based on City of Victoria data.

Figure 2.19

Percentage of Recently Proposed/Approved Units by Typology



Source: Parcel, based on City of Victoria data.

Tenure

- Approximately a **70:30 split between rental and strata units** in recently proposed/approved developments.
- Recent rental projects have slightly more family sized units (39%) than recent strata projects (36%), however, overall, the unit mix by tenure is roughly 60:40 non-family sized to family sized units for both tenures.

Figure 2.20

Unit Mix as Percentage of Total Units for Recent / Proposed Developments

	Rental	Strata	Total
Studio	14%	4%	17%
1 Bed	30%	15%	44%
2 Bed	20%	9%	29%
3+ Bed	7%	2%	9%
Total	**71%**	**29%**	**100%**

Source: Parcel, based on City of Victoria data for recently proposed and approved developments.

2.3 Families & Family Sized Units

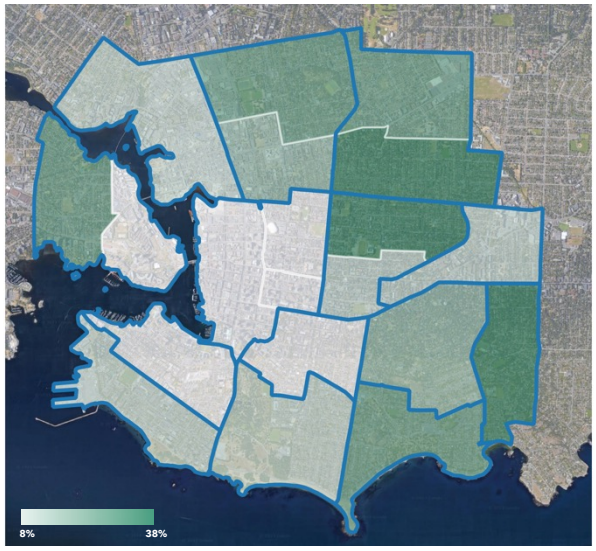
- Families in Victoria tend to reside in outer neighbourhoods where, perhaps unsurprisingly, much of the housing stock meets the definition of "family sized" (i.e., two or more bedrooms). However, existing housing stock and development patterns in these areas suggest this family housing is lower density housing (i.e., not multi-unit, as is the focus of this study).
- Looking at purpose-built rental units (i.e., typically multi-unit developments), **Jubilee,** south **Fernwood,** and **James Bay South** have the most family sized units. These areas have a lower share of family households suggesting most families do not live in purpose-built rental units.

Figure 2.21

Family Households and Family Sized Units by Census Tract (2021)

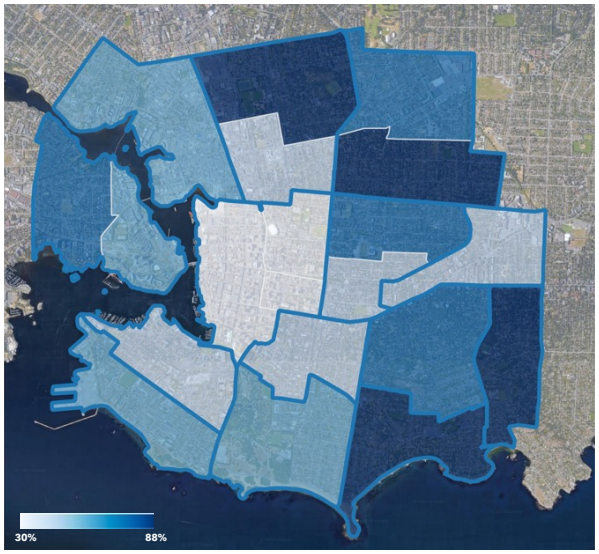
Family Households

-



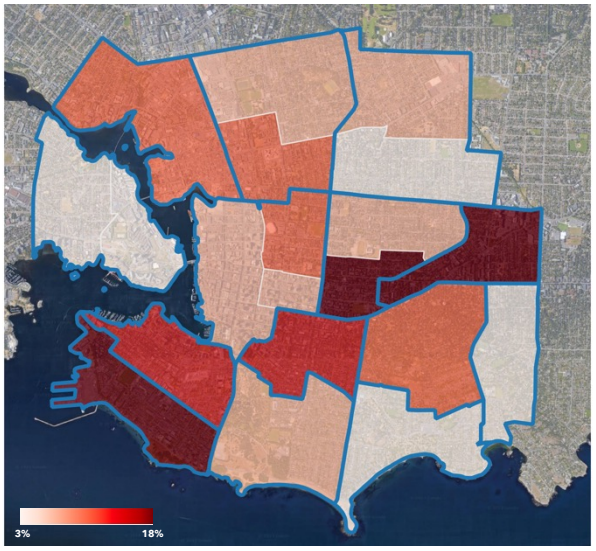
Family Sized Units

(Ownership + Rental)



Family Sized Units

(Purpose-Built Rental Only)



Source: Parcel, based on Statistics Canada 2021 Census

3.0

Best Practices Review

Key Findings

- Three common approaches to advancing family-friendly housing include: (1) **bedroom composition requirements**; (2) **design guidelines**; and (3) **Child-Friendly Cities**.
- Targeted **incentives** to increase the viability of family sized units are relatively uncommon.
- **Exceptions and exclusions** tend to be targeted at specific subsegments of the market (e.g., specialized populations and/or housing types).

Specific **areas of innovation identified** from a review of family housing policies in peer municipalities include:

- Redefining Family Sized Housing as 3+ Bedrooms
- Incorporation of 4-Bed Mandates
- Requiring Higher Percentages Paired with Concrete Incentives
- Incentives in Place of Design Guidelines

3.1 Family Housing Policies

A total of **17 local government family-housing and child-friendly city plans** have been reviewed by City staff and project consultants, in addition to leading academic research[5]. All the reviewed policies have been created within the past ten years, indicating this is a new and emerging issue for local governments.

Three common high-level approaches to advancing family-friendly housing were identified, including: bedroom composition requirements, design guidelines and "child-friendly" cities.

Approach #1: Bedroom Composition Requirements

Requirements for new developments to include a certain percentage of two-bedroom and 3+ bedroom units. Some local governments have chosen to vary the required percentage depending on tenure type (strata or rental), or location, and some provide several options for compliance (e.g., a choice between different types of calculations).

Examples: *Vancouver[6], Richmond, Port Coquitlam, White Rock, San Francisco.*

Approach #2: Design Guidelines

Guidelines that address key issues and best practices of site, building and unit design related to residential livability for families with children. These guidelines range from short and simple (e.g., New Westminster specifies minimum sizes and basic design guidance for bedrooms) to comprehensive (e.g., Toronto's "Growing Up" Design Guidelines or Vancouver's "High Density Housing for Families with Children Guidelines").

Examples: *Edmonton[7], Portland, New Westminster, North Vancouver, Vancouver[8], Toronto*

[5] Reviewed jurisdictions included: Vancouver, North Vancouver, New Westminster, Kelowna, Nanaimo, Port Coquitlam, Richmond, White Rock, Port Moody, San Francisco, and London (UK), Edmonton, Hamilton, Toronto, Emeryville, Portland, and Seattle. Only 11 of the jurisdictions have bedroom composition mandates (the focus of this document).

[6] Lower density (below 6 stories) buildings are only subject to bedroom composition requirements.

[7] Public open space and facility access guidelines, including some guidelines on accessible kitchens and bedrooms.

[8] Only applicable to buildings with at least 75 units per hectare.

Approach #3: Child-Friendly Cities

A child-friendly city is a holistic approach that looks to and beyond housing to identify how cities and the built environment can support children and attract families. For example, child-friendly city strategies may seek to advance independent mobility for children, sufficient park and recreation/play space, childcare, etc.

Examples: *Toronto, London, San Francisco, Edmonton*

3.2 Bedroom Composition Requirements[9]

The balance of this section focuses on current practices and considerations related to "family sized" housing including both bedroom composition mandates and any paired[10] minimum bedroom/unit sizes.

Summary Percentages

Figure 3.1 summarizes the mandated bedroom composition percentages in reviewed jurisdictions[11], including thresholds at which the mandates is triggered and where jurisdictions pair a bedroom composition mandate with a minimum unit or bedroom size to achieve a more specific mandate for family sized housing.

[9] Terminology note: some local governments use the term "minimum dwelling unit mix" or "unit mix" as a synonym for a bedroom composition.
[10] I.e., minimum bedroom/unit sizes that are paired with/accompany bedroom composition mandates.
[11] Implemented either through OCP policy or Zoning; or in the case of Nanaimo, proposed. The decision to use either e.g., OCP policy, or Zoning, is individual to each local government and comes with the standard pros/cons of both, which are not unique to the bedroom composition issue. As such, the table omits this information from the columns to aid with readability.

Figure 3.1

Summary of Percentage Bedroom Composition Requirements in Peer Jurisdictions

Jurisdiction	Strata			Rental			Applicability	Min. Unit Size[1]
	2-Bed	3-Bed	Total 2+	2-Bed	3-Bed	Total 2+		
Vancouver	25%	10%	35%	–	–	25%	All rezoning	Unit sizes[2]
New Westminster	–	10%	30%	–	5%	25%	10+ units	Bedroom sizes[3]
Richmond [4]	–	–	–	–	–	40%	All market rental	–
White Rock	–	10%	35%	–	10%	35%	20+ units	–
Port Coquitlam	–	5%	25%	–	5%	25%	All multi-unit	–
North Vancouver	–	10%	–	–	10%	–	All multi-unit	–
Kelowna[5]	–	10%	–	–	10%	–	All multi-unit	–
Nanaimo[6]	–	10%	30%	–	10%	30%	-	-
Port Moody	20%	10%	30%	20%	5%	25%	20+ units	Unit sizes[7]
Toronto	15%	10%	25%	15%	10%	25%	All multi-unit	Unit and element sizes[8]
San Francisco[9]	0-25%	10-30%	30-40%	0-25%	10-30%	30-40%	All new residential	See footnote[10]
Average[11]	**20%**	**9%**	**30%**	**18%**	**8%**	**29%**	–	–

[1] Specifically in conjunction with family-friendly housing policies. The scope of this review did not include a scan of design guidelines for specific zones or typologies.
[2] High Density Housing for Families with Children Guidelines include qualitative considerations for minimum unit sizes (e.g., 'should be large enough to have X, Y, Z')
[3] Policy provides a mixture of qualitative and quantitative guidelines for bedroom size in family friendly units.
[4] As outlined in the City of Richmond Market Rental Housing Policy.
[5] See Policy 4.12.2 of the OCP, which "encourages" all multi-unit developments to include at least 10% three-bedrooms. A conversation with Kelowna staff would be required to clarify the extent to which encouragement has been translated into practical mandate.
[6] Policy is not yet approved but included here due its proximity/relation to Victoria.
[7] Family-Friendly Unit policy requests BC Housing General Design Guidelines and Construction Standards be met, which includes "Net Unit Area" requirements in Section 5.2, broken down by bedroom composition and typology.
[8] Growing Up Guidelines provide minimum unit sizes as well as qualitative and quantitative minimum sizes for every major element within a unit (including bedrooms, bathrooms, etc.)
[9] Provides two tiers (a higher tier for certain neighbourhoods/areas, and a lower tier everywhere else; the higher tier has three compliance options)
[10] Not readily apparent within time allotted to review.
[11] Excluding San Francisco due its widely variable requirements/options.

Summary Observations

Typical Bedroom Counts	In all cases, "family sized/friendly" housing is defined as a mixture of 2-bedroom and 3+ bedroom units. None of the reviewed local governments used a definition that *starts with* three-bedrooms, and none were found that specifically included a 4+ bedroom unit requirement in their mandate(s).
Local Influence & Skew	Virtually all the reviewed/identified jurisdictions were in BC; as such, elements like the "2+ bedroom" threshold for defining family sized housing may be locally self-propagating. Indeed, staff at the City of Hamilton noted the 2+ bedroom definition is specific to BC and not consistent with their conception of family sized housing.
Proportion of 3+ Bed Units	In all cases, the required percentage of 3+ bedroom units is relatively small (5 or 10%)[12].
Variation by Tenure	Four out of eleven local governments vary the mandate by tenure (different percentages for strata versus rental).
Variation by Location	One local government was found to vary the mandate by location (San Francisco requires higher percentages in specified areas).
Non-Family Unit Flexibility	One local government was found to provide a variety of calculation options (San Francisco; e.g., if a building contains more 3+ bedroom units, it can contain fewer two-bedroom units).

[12] San Francisco provides an option to provide 30% 3+ bedroom units, but there are alternative options that a developer can choose (including a more "standard" 10% minimum).

Minimum 2-Bed Flexibility	Four out of eleven local governments provide a specific percentage for two-bedroom units for strata and/or rental (ensuring a minimum number of these units are built), while the remainder simply specify a minimum total number of 2+ bedroom units (thereby allowing flexibility to, for example, build fewer two-bedroom units and more 3+ bedroom units)[13].

Incentives

Targeted incentives to increase the viability of family sized units were relatively uncommon amongst the reviewed jurisdictions.

Only two examples were identified:

Port Coquitlam

Reduces the required parking spaces for three-bedroom units to 1.5.

Nanaimo

Currently proposing two types of incentives for family sized units:

- A density bonus for multi-unit developments that (a) are within 400 metres of a public school and (b) where the family-friendly units are ground-oriented (in the lower floors of a multi-story building). This would have the effect of incentivizing both the location of new multi-unit developments as well as incentivizing family-friendly building design in lieu of formal design guidelines.

[13] These four local governments may nonetheless provide such flexibility not captured by the document scan.

- The City already has a parking reduction for two- and three-bedroom units in its parking bylaw but is proposing variances for further parking reductions for projects that exceed 10% three-bedroom units and where the development involves underground parking.

Exclusions

Exceptions/exclusions to mandates are targeted at unique subsegments of the market.

Specific types of exceptions/exclusions identified include:

- Areas where **special plans** exist for specific housing types/mixes (e.g., areas with an official development plan);
- **Seniors housing**;
- **Student housing**; and,
- **Supportive housing**.

Areas for Innovation

As a relatively new area of policy[14], bedroom composition mandates can be thought of as having gone through a "first wave" characterized by early adopters like Vancouver, New Westminster, North Vancouver

There is now opportunity to learn from these initial policies and explore opportunities for new approaches/innovations.

Based on the findings of the jurisdictional review[15], here are four areas of potential innovation:

[14] At least amongst reviewed jurisdictions. There may be international examples that have been in place for longer, but none were discovered by the current review.

[15] Consistent with insights from concurrent project activities e.g., interviews with stakeholders and planners from other jurisdictions.

Innovation #1: Re-defining "Family Sized" Housing as 3+ Bedrooms

The 2+ bedroom definition currently dominates in BC, but elsewhere in Canada (e.g., Hamilton[16]) 3+ bedrooms is seen as the minimum threshold. This redefinition is warranted (a) by the actual needs of families, who consistently report wanting three or more bedrooms, and (b) if it was determined that the market would provide sufficient two-bedroom units "naturally" (i.e., without firm mandates).

Innovation #2: Incorporation of + Bedroom Mandates

Many families and households need/strongly desire four or more bedrooms and it is not clear that other policies (e.g., Missing Middle development) will be capable of fully meeting this demand in Victoria going forward. However, 4+ bedroom mandates were not revealed by the present review; as such, they would be an innovation.

Innovation #3: Higher Percentages Paired with Concrete Incentives

None of the eleven jurisdictions with bedroom composition mandates required more than 10% three-bedroom units in new developments. However, the total need for 3+ bedroom units in Victoria is greater than 10% of new builds and missing middle development (a key source of 3+ bedroom units) is currently severely underperforming relative to targets. As such, there is a rationale to attempt to get more 3+ bedroom units in larger multi-unit developments. Understanding that adopting a higher 3+ unit percentage mandate may test the feasibility of new developments, this could be paired with additional incentives (e.g., density bonusing, parking reductions, etc.).

Innovation #4: Incentives in Place of Design Guidelines

Nanaimo is currently proposing bonus density for multi-unit developments that are within 400 metres of a school and place the larger family-friendly units on the ground floor(s). This is an example of an incentive being used in place of/in advance of family-friendly design guidelines, alongside bedroom composition mandates.

[16] Hamilton is currently developing their policy, as such they are not included in e.g., the Bedroom Composition mandate table.

4.0

Research Interview Feedback

4.1 Overview

As part of a joint effort by Parcel and Third Space Planning, our team conducted a series of research interviews with four key stakeholder groups as part of this study. The purpose of this engagement was to solicit more direct, on-the-ground feedback regarding the delivery of family sized housing in Victoria (and elsewhere in the Capital / Lower Mainland Regions), highlighting nuances across multiple distinct vantage points:

- The **community group perspective**, as represented by local organizations involved in non-profit housing and familiar with the needs of families seeking housing across all income levels in Victoria;
- The **developer perspective**, as represented via discussions with members of the local real estate development community with active projects in Victoria and/or the Capital Region;
- The **public sector perspective**, as represented via discussions with municipal staff (land use planners) at peer jurisdictions with existing family unit policies in their respective municipalities; and,
- The **design perspective**, as represented by local architects and related professionals involved in the development of new housing projects in Victoria / area municipalities.

Key Parameters

- Parcel Economics Inc. ("Parcel") and Third Space Planning ("Third Space") conducted a total of **fifteen (15) interviews**.
- Interviews were conducted in **June and July 2023**.
- Parcel and Third Space provided each interviewee with a **primer document** detailing the nature of the study, as well as some preliminary discussion questions. Primer documents were tailored to the stakeholder group being interviewed.

4.2 Emerging Themes

The following details the key themes that emerged from our research, highlighting important differences and areas of commonality across all stakeholder perspectives.

Theme #1: Defining "Family Sized" Units

- Most interviewees agreed with the City's family sized unit definition of two or more bedrooms, though some noted that units with three or more bedrooms are "truly supportive" of families. One interviewee felt family sized units should be three bedrooms at minimum. Another interviewee felt that family sized units in multi-unit buildings should be capped at three bedrooms as 4+-bedroom units are likely unviable in this typology.
- General agreement that "family sized" housing realistically begins at three bedrooms. However, there is also a need for two-bedroom units (e.g., smaller families, single-parent or one-child households, roommate households) and there is an anxiety (e.g., in Vancouver and Nanaimo) that two-bedroom units will not be built if they are left out of mandates.
- Having multiple rooms within a unit was seen as more important than a larger unit with fewer rooms. Three or more bedrooms units were seen as offering greater flexibility with the third bedroom able to act as flex space, storage space, play/study rooms, etc., if not being used as a sleeping quarters. However, one interviewee noted that having extra width throughout a unit is helpful for stroller and, in the case of aging parents, mobility device storage.
- Single-detached and townhouses are seen as inherently family friendly, though increasing out of reach for many families in Victoria from a price perspective. Several stakeholders noted that families are particularly amenable to townhouses.
- Many interviewees felt family friendly units can exist in multi-unit buildings, while others felt mid- and high-rise development is inherently *not* family friendly. One interviewee noted there is an unwanted anonymity in high-rise living that is not conducive to raising children.

Theme #2: Policy Considerations

- There is curiosity amongst municipalities for the impact of a simpler family sized mandate that focuses exclusively on three bedrooms, primarily to see if numbers of two-bedroom units decline or are still built.
- Opinions are mixed regarding specifying minimum bedroom and unit sizes for different bedroom compositions. Nanaimo elected not to specify bedroom/unit sizes to simplify the process. Vancouver, by contrast, intends to adopt the BC Housing standards in its eventual update.
- None of the surveyed municipalities have considered four-bedroom units as part of their bedroom composition mandates, but there is general agreement that it is needed and worthwhile to explore. There is the perception that the inclusion of four-bedroom units in multi-unit developments is best approached by way of (a) "courting" specialized developers who want to do this via incentives and outreach (e.g. a specialized Calgary developer building 4+ bedroom units for multi-generational Filipino households), and/or (b) non-market housing (public and non-profit on public land), and not by way of a percentage mandate, given design difficulty and high rental/purchase costs.
- Current mandates for three-bedroom units in surveyed municipalities generally do not exceed 10% and there is hesitancy about the feasibility of going to a higher percentage (e.g., 15%) to help catch up to unit targets. However, there is some speculation that developers might prefer a single 15% mandate for three-bedroom units instead of a more complicated combined mandate that includes in two-bedroom units. Feasibility of course increases if paired with additional incentives.
- The only cited example of an incentive targeting higher percentages of three-bedroom units (higher than the mandate) is Nanaimo's proposal to invite parking variances for projects that do so, but this is a somewhat vague incentive necessitated by current political context.
- There is consensus that while the "family" framing is politically compelling, more than just families need larger homes, and that new multi-family developments need to be comfortable/livable for everyone (e.g., with generous storage and amenity spaces). This is why Vancouver, for example, has reframed its policy in terms of "apartment living/livability."
- Per the above, a possible re-framing of Victoria's long-term approach could be:
  - A larger home mandate (bedroom composition mandate);
  - Additional design guidelines/policy for "apartment livability," with some aspects specifically targeting families (e.g., location of larger units on lower floors), and others targeting increased apartment livability for everyone;

- A family-friendly city strategy that rolls the above, and more, into a holistic intersectional policy document.

Theme #3: Design Considerations / Implications

- Overall, though there are some design specifics, family sized / larger units do not pose insurmountable design challenges.
- Stacking (i.e., occupying the same location on the floor plan across multiple storeys) is important for servicing efficiency; building eccentricities create huge costs.
- Larger units become more challenging from a module perspective (i.e., uniform and repeating unit sizes/layouts across a floor plan) as there is leftover "dead" space that requires a function. Sleeping spaces also require an exterior window.
- Corner units can easily become three-bedroom units.
- Size/dimension/design of many multi-unit buildings are driven by parking requirements, specifically drive lane and stall dimensions for underground parking. Car-free developments allow architects to optimize building configuration based on lot size and setback requirements.
- Ideally, family units should be ground oriented (i.e., at grade or on the first floor), though flexibility was expressed on this topic. One architect noted larger units are easier to design on top floors, but that this is not the best location for families.
- Other important considerations for family units include in-unit laundry, generous storage space, an additional half bathroom, soundproofing/noise mitigation, good ventilation, and durability of materials. It was noted that inclusion of these design elements will incur additional costs.
- There were mixed opinions on the importance of common amenity spaces (e.g., onsite play areas, communal kitchen, etc.).
- General agreement that it makes sense to delay consideration/creation of comprehensive family-friendly design guidelines until later because it is a complex and difficult topic (e.g., finding the "right" amount of prescriptiveness).
- However, certain key elements of design might be worth attaching to the bedroom composition mandate right away, for example, ground floor/parking-adjacent storage, locating larger units on the lower floor(s), and minimum unit sizes (e.g., adopting the BC Housing minimum for three-bedrooms). There is an

advantage to including these as firmer regulatory requirements attached to the unit mix mandate as opposed to policy design guidelines to increase certainty and simplify processes.

- One way to encourage key elements of family-friendly design without developing specific guidelines or zoning requirements would be to incentivize it. For example, Nanaimo incentivizes locating larger units on the lower floors by giving these projects additional points in its bonus density scheme.

Theme #4: Geography

- Family sized units should be located throughout the city to meet a city-wide need as well as the desire of families to be around other families no matter which neighbourhood they live in.
- Interviewees felt family units are most viable / attractive in walkable, transit-oriented neighbourhoods with amenities such as schools, parks, and health and social support services. Where such amenities do not exist, it is important to create them to draw families into these neighbourhoods.
- Neighbouring municipalities (Langford, Colwood) have had success with family sized units because of their family-friendly amenities (e.g., parks, libraries, etc.) and the presence of other families. Proximity to health and social services is also important.

Theme #5: Perceptions of Family Sized Housing

- There has been a cultural shift towards higher density living as young families are priced out of homeownership, however recent and historic uptake of family units has primarily been in low-rise developments and townhouses.
- Preference for lower-density typologies may be due to the premium placed on space and a clearer definition of ownership / control of the space.
- Many families are embracing car-free / car-light living, which may have implications for location preferences and parking demand.

Theme #6: Incentives

- Interviewees were adamant that any regulations mandating the number of family sized units must be supported by a commensurate suite of incentives.

- Specific incentives mentioned included DCC waivers, property tax waivers / exemptions (seen by many interviewees as preferable to DCC waivers), additional density permissions, exempting third bedrooms from floor space ratio (FSR) calculations, and a faster approvals process to reduce borrowing costs.
- Interviewees also noted incentives should apply to both market and affordable family sized units.
- General support for the idea of incentivizing a higher number of 3+ bedroom units, and even four-bedroom units with more density and parking reductions, acknowledging there needs to be enough parking for families the policy is trying to support.
- General support for the idea, with one exception where the interviewee preferred incentives in place of mandates (e.g., a discount on DCCs or CACs, or bonus density) and/or advocating for changes to the building code to make it easier to build three bedrooms[17] (e.g., allowing single point of access versus two).

Theme #7: Parking

- Providing parking increases development costs and affects the ability of a building to accommodate larger units.
- The number of Victoria residents without cars is increasing, however many families will still want / need cars. Some interviews felt there should be a minimum of one (1) dedicated parking space per family unit.
- Poor public transit drives preferences for cars resulting in high demand for parking in developments.
- Bike infrastructure that makes families feel safe may reduce the demand for cars / parking. Increased biking uptake among Victoria residents is also driving the need for larger bike parking areas in in multi-unit developments.
- One interviewee noted they are seeing larger units as part of car-free developments happening organically because building structures are no longer bound by underground parking dimensions.

[17] See secondegress.ca and niskanencenter.org/hot-to-build-more-family-sized-apartments/

4.3 Challenges & Opportunities

Interviewees were specifically asked about challenges and opportunities associated with providing family sized units in Victoria.

Challenges

- Victoria has expensive land and development costs compared to other municipalities in the Capital Region.
- Difficult to find land with multi-family uses as-of-right resulting in increased costs associated with rezoning.
- Larger units command smaller rents and prices per square foot than one- and two-bedroom units and are therefore not as economical to rent or sell. The inclusion of larger units at the expense of a greater number of smaller units may make smaller developments (infill, missing middle) unviable.
- Developers also note slower uptake on larger units.
- Rising interest rates are making development projects more challenging, pushing developers to optimize sites such that family amenities are not always possible.
- Funding via BC Housing is provided on a "per door" basis thereby incentivizing a greater number of smaller units and smaller grants as a percentage of cost for larger bedroom units.
- Downtown Victoria lacks family-friendly amenities.
- Victoria is geographically small, therefore different typologies at similar price points are in close proximity.
- The City places too much importance on Community Association Land Use Committee (CALUC) feedback which makes multi-family development more challenging.
- Parking requirements affect unit mix; parking is expensive to build.
- Two aspects of building code are seen as key barriers to including more large units in multi-unit developments:

- The two points of access requirements for three- to 4+ storey buildings, with the two stairways using corner space and making it difficult to lay out a higher number of 3+ bedroom units.
- The inability to add an additional half story to six-storey wood buildings to accommodate co-located indoor/outdoor amenity space on the rooftop. Six storeys are increasingly required to make multi-unit developments feasible (e.g., particularly in Vancouver)

Opportunities

- **Pre-zone neighbourhoods for multi-family developments as-of-right**.
- Consider a provision similar to the Inclusionary Housing Policy **that allows developers to provide cash-in-lieu of family sized units** if their development is below a certain size while still collecting funds for family sized units elsewhere in the city.
- Developing new **family-friendly amenities** will draw families into multi-unit developments (e.g., community centres, schools, green spaces)
- **Additional staff to review development applications** may help to speed up the approvals process. Some interviewees also suggested using artificial intelligence programs to screen development applications.
- Explore **partnerships between public, private, and non-profit sectors to procure family sized units**. The recently completed Dalmatian project at 1025 Johnson Street was cited as example of effective collaboration to achieve city-building priorities, in this case, affordable housing units, including seven (7) three-bedroom units.

4.4 Other Feedback

- Family sized units should be **considered on a case-by-case basis**, not mandated. It is important to build flexibility into policy to avoid unintended consequences.
- Upcoming changes to BC Building Code regarding seismic and accessibility requirements will **increase the cost of development** while subsequently reducing potential revenues. However, larger accessible units make units more livable regardless of ability.
- Policy **coordination with other Capital Region municipalities** is important to avoid conflicting policies / regulations that make replicability and scalability of family sized units difficult.

- There is an understanding that new larger units in multi-unit buildings are **unlikely to be affordable** for many households, however they will be *more affordable* than lower-density alternatives (i.e., single-detached, townhouses).

5.0

Financial Feasibility Analysis

Key Findings

The financial feasibility of six development scenarios has been tested, including the ability to accommodate 10% and 15% three-bedroom units. This analysis has been undertaken for both tenures (ownership and rental) and across the three key subject geographies (Ground-Oriented, Intensification and Core).

- **Townhouses** exhibit strong financial feasibility potential, while also delivering predominantly three-bedroom units.
- **Low-Rise Strata Apartments** across the Intensification geography also have strong baseline financial feasibility potential and can accommodate 10% three-bedroom units with little to no incentives required, even in the weaker market areas.
- **Mid-Rise Strata Apartments** are challenged in the Intensification areas but have better potential in the Core. Even 10% three-bedroom units requires both parking reductions and significant density increases in the Intensification area, while Core buildings require less incentives to reach the same proportion.
- **High-Rise Strata Apartments** are challenged in the Intensification areas but have better potential in the Core. Even 10% three-bedroom units requires both parking reductions and significant density increases in the Intensification area, while buildings in the Core require less incentivization to reach the same benchmark.

5.1 Financial Feasibility Basics

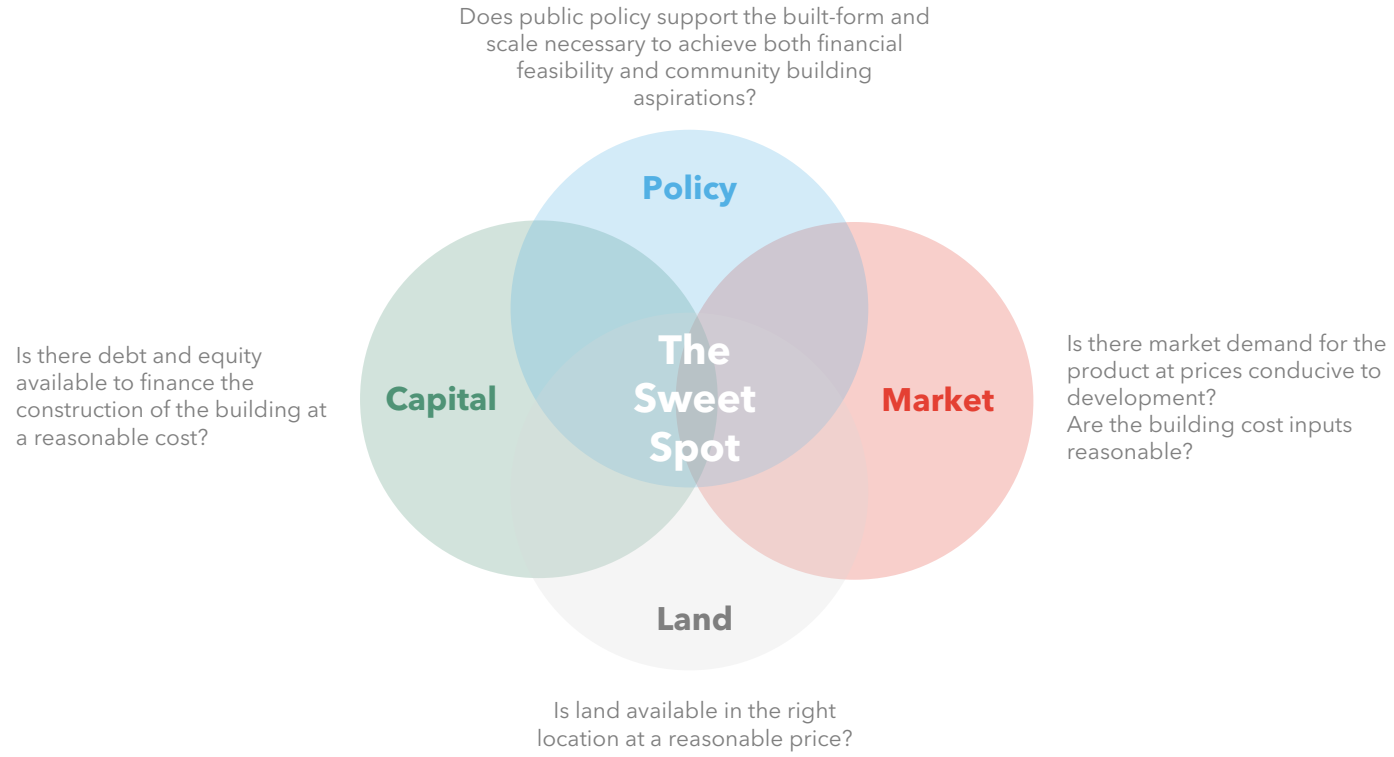
Key Determinants

The development of new real estate—whether market or non-market (affordable)—can be extremely complex given that its success is dependent on a multitude of factors spanning countless industries and professional disciplines. Similarly, development can be heavily influenced by both broader macroeconomic conditions and more site-specific factors, all of which are key determinants in the ultimate viability of a given project.

For simplicity, we often synthesize this to the identification of four key elements that can have some of the most significant impacts on financial feasibility: **Policy**, **Market**, **Land** and **Capital**. The successful integration of all these factors is required to set the groundwork for viability.

Figure 5.1

The "Sweet Spot" for Successful Development Projects



Source: Parcel

General Structure

We have prepared **Discounted Cash Flow (DCF)** analyses for each of the housing prototypes identified in Figure 1.6. There are several reasons we chose to use DCFs rather than a more simplified and static "back-of-the-envelope" type modelling that only focuses on the Residual Land Value (RLV), including:

- A DCF considers the timing of development cash flows, recognizing that projects typically occur over many years;
- It captures the time value of money, given that "a dollar in your hand today is worth more than a dollar tomorrow"; and,
- It offers the opportunity prepare a more detailed evaluation of the potential profitability of purpose-built rental apartments, specifically their cashflow-generating potential during operations (i.e., post-development).

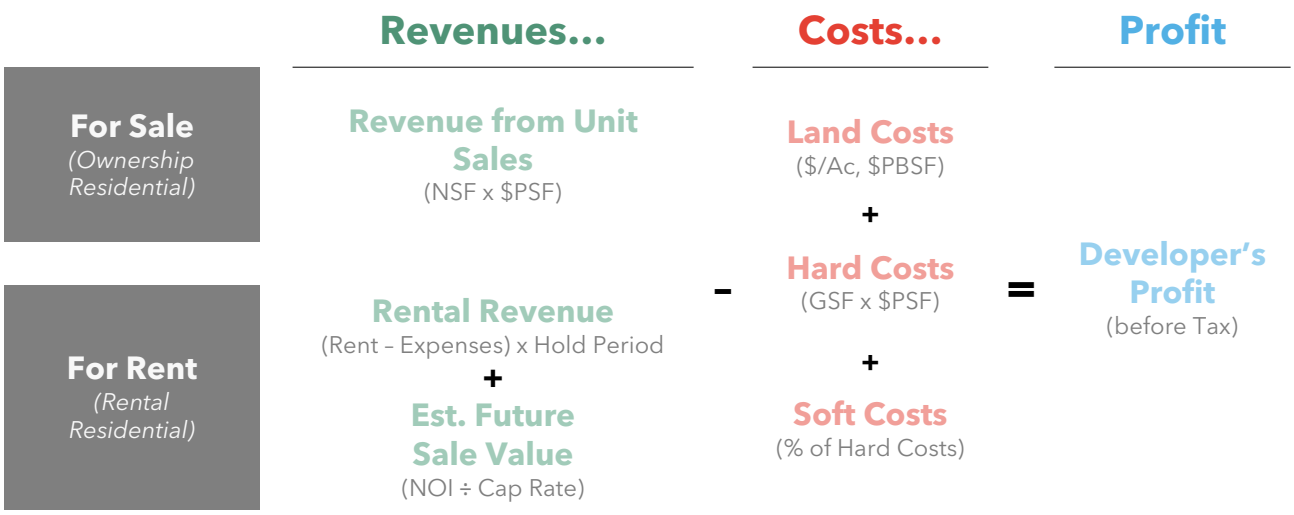
Notwithstanding the foregoing differences, it is helpful to keep in mind that the overall structure of any financial feasibility modelling is effectively the same.

Both simple and very detailed development pro forma analyses can always be simplified to their core elements: revenues, costs, and profits.

Revenue, cost, and profit assumptions can also vary by tenure (i.e., ownership vs. rental housing). The key difference being that most ownership residential developments are focused on relatively **short-term investment horizons** consisting of predominantly one-time cost / revenue streams, whereas purpose-built rental housing requires a much different **investment "lens" that can span many years** (i.e., including operation of the new asset upon its completion and market entry).

Figure 5.2

Basic Structure of Financial Feasibility



Source: Parcel

Common Return Metrics

Not all developers are alike and there is no single return metric that signifies a financially viable project.

Each participant in a development project looks at a unique subset of variables and return metrics under different conditions based on their own requirements and/or expectations. Common measurement tools include:

- **Net Profit / (Loss)**

  The total amount of money made (or lost) over the course of a project.

- **Internal Rate of Return (IRR)**

  The expected compound annual return (%) over the course of the project.

- **Equity Multiplier (EMx)**

  The number of times a project's original equity investment is returned to investors.

- **Cash-on-Cash Return (CoC)**

The cash flow after financing (%) generated by the equity invested to date. It does not consider the value of the building or any appreciation of value over time.

- **Timing**

  Opportunistic investors look for quick returns (e.g., condo apartments) while long-term investors value consistent returns over a longer period (e.g., rental apartments).

- **Measurements of Risk (Lenders)**:

  Loan to Value, Debt Service Coverage Ratio, Debt Yield, etc.

Use Cases

Pro forma analyses are important to all facets of urban development, with wide-ranging private *and* public sector applications.

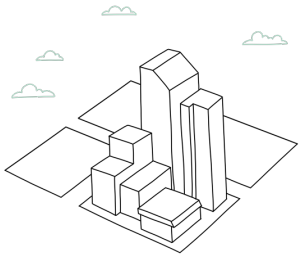
Financial feasibility modelling is—at its core—a tool for evaluating potential future outcomes. Whether motivated purely by profit or driven by other city-building objectives and social purpose, this type of analysis can be applied to any number of different "use cases" to maximize opportunities to achieve preferred outcomes.

Broadly speaking, development pro forma analyses can be relied upon at various stages of the real estate development life cycle, including during the early stages of concept development (**Pre-Development**); throughout the entitlements and government approvals process (**Approvals & Funding**); as well as to inform the creation of sound land use policies that are mindful of the current—and anticipated future—conditions within a given market (**Policy Development**).

Figure 5.3

Pro Forma Use Cases

PRE - DEVELOPMENT



- Validate financial feasibility (pre- and post- land acquisition)
- Early-stage development scoping and concept testing

APPROVALS & FUNDING

- Optimize development program (project "right-sizing", determine ideal land use mix, etc.)
- Optimize delivery of social benefits (affordable housing, community amenities, etc.)

POLICY DEVELOPMENT

- Inform land use policy direction / special projects (OP Reviews, SP's, other municipal strategies, etc.)
- Prioritization of preferred municipal / city-building outcomes (**municipal fees, parkland dedication, retail at grade, affordable housing, urban design, etc.**)

Source: Parcel

For this study, pro forma analysis, and financial feasibility in general, is utilized primarily as a tool for comparison rather than profit maximization.

Furthermore, the analysis presented in this study has not been relied upon as an exact predictor of actual profits, nor profit maximization more broadly**. It is more intended to help the City identify the effect a family-unit requirement could have on future development**, in the context of its objective to ensure any such policy does not negatively affect overall development in the city. We acknowledge that some typologies and scenarios which may appear unprofitable in the following section could very well be profitable under the right circumstances and conditions, which deviate from our broad baseline assumptions.

5.2 Baseline Financial Feasibility

First things first: what is the situation in Victoria today?

Conducting a baseline analysis based on today's market conditions and policy context has allowed us to establish an important starting point to evaluate financial feasibility of a family sized unit requirement. It has also helped us to compare the feasibility of a variety of unique development conditions that vary by **Typology**, **Location** and **Tenure**. Through a testing of 11 different baseline analyses, we have been able to gain a more nuanced understanding as to why certain typologies or tenures are—or are not—being built in Victoria today, in addition to identifying several key themes.

Additionally, by leveraging these baseline results as a tool for comparison, we can better predict the likelihood of a family sized unit requirement deterring investment in a particular typology, tenure or geography based on its effect on the financial feasibility compared to the baseline scenario.

These baseline feasibility analyses are based on a typical unit mix similar to those in recent development applications (i.e., 10% Studios, 60% 1-Bed, 25% 2-Bed and 5% 3-Bed). They **do not** consider a family size unit requirement, for which potential impacts have been modelled and discussed later in this report.

See **Section 5.3** for Family Sized Housing Regulation Impacts.

Part 1: Basic Profitability

When measuring investment returns and overall project viability, it is helpful to first focus on the simplest of return metrics: does the scenario offer the potential to make a **profit**?

Based on the results of our financial feasibility testing, **all baseline scenarios show potential to produce a profit at today's land values, including the rental scenarios**. The question then turns to whether the amount of potential profit is reasonable based on the amount of risk associated with real estate development and investor expectations. This is where the return metrics described in Section 5.1 can provide additional clarity into the "quality" or reasonableness of the profit.

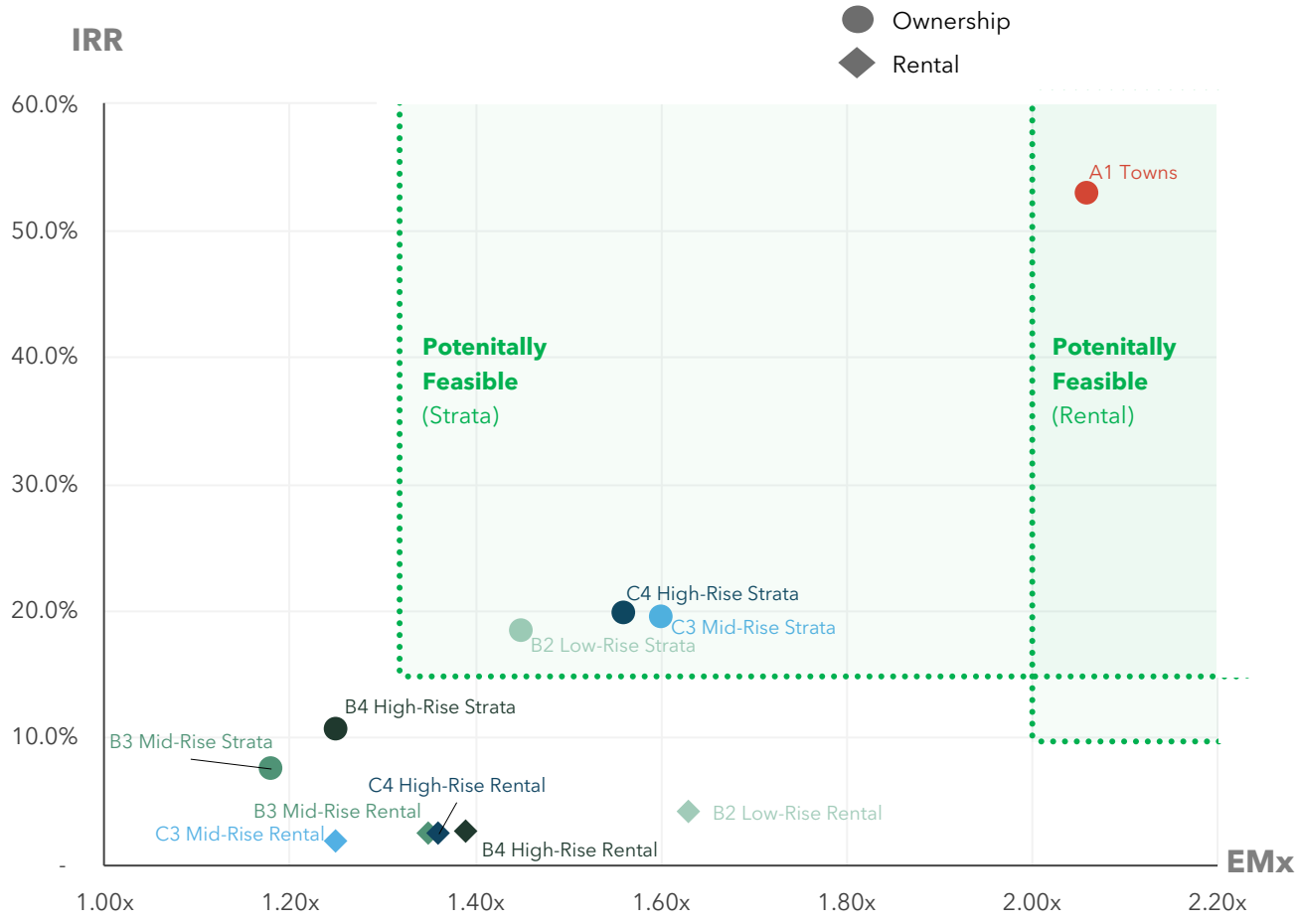
Part 2: Layering Return Metrics

IRR & EMx

Figure 5.4 confirms that rental scenarios generate a lower Internal Rate of Return (**IRR**) and Equity Multiplier (**EMx**), particularly given their longer timeframe. The clear "winners" of housing development in Victoria begin to emerge here via the typologies with the potential to generate greater than 15% IRR *and* achieve a reasonable EMx for their tenure – in some cases over a much shorter period (e.g., "quick wins" like Townhouses). This exact dynamic has been evidenced through recent development patterns in Victoria.

Figure 5.4

Potential IRR & EMx of Baseline Scenarios



Source: Parcel. Rental tenures assume a 10-year hold period.

Cash-on-Cash (CoC)

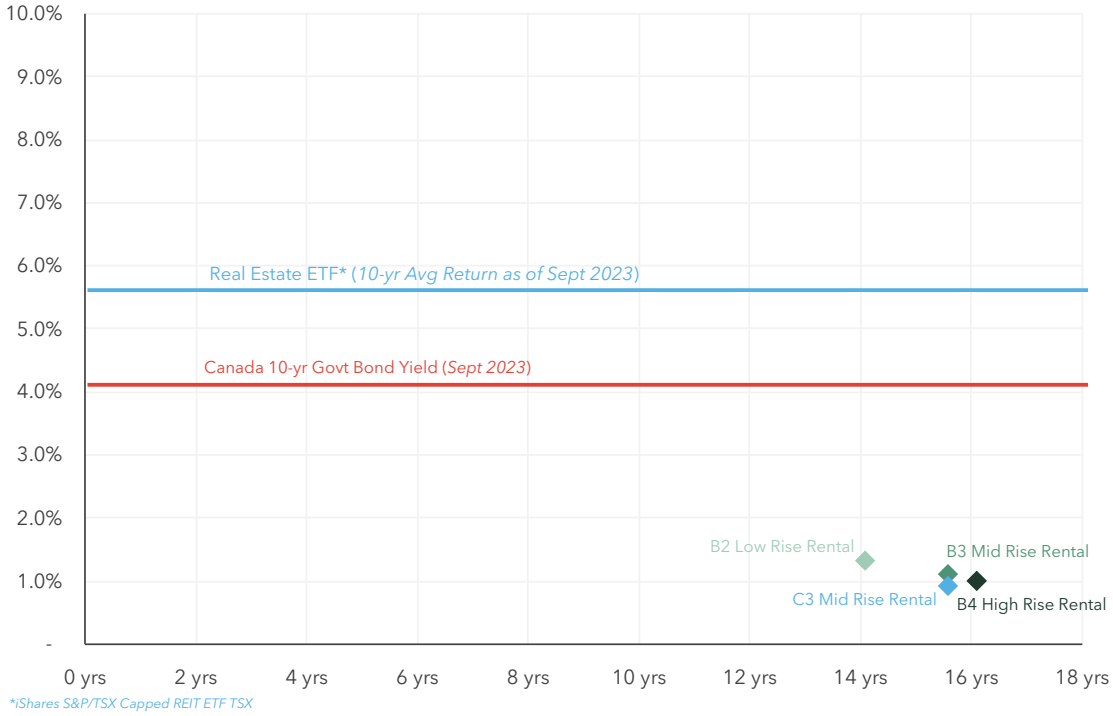
It is important to recognize that return expectations for rental housing can differ greatly, particularly between a "merchant builder" who sells the building upon lease up and stabilization and a builder executing a "build-to-hold" strategy. Profit expectations of a merchant builder will typically be more in line with a strata developer; however, the build-to-hold developer is looking to generate strong cash flow over a longer period and is more patient in their profit expectations.

Both IRR and EMx can be heavily influenced by the reversion value at the end of the hold period (i.e., how much the owner is expecting to sell the building for in the future). Because it is difficult to predict the future—especially one or more decades out—many build-to-hold rental apartment developers will focus on the Cash-on-Cash (**CoC**) return that a property can generate each year in the more immediate future. This effectively isolates for the immediate value of cash flows from the building rather than any appreciation of value over time.

Figure 5.5 illustrates that, based on CoC alone, **a rental developer is unlikely to overlook poor IRR or EMx metrics in any of the rental scenarios identified for this study**. In all cases, a "safer" and/or "easier" investment in 10-year government bonds or a real estate-focused ETF will generate more cash in this regard, without the risk and effort required to construct and manage a building.

Figure 5.5

Potential Average Cash-on-Cash Returns of Baseline Rental Scenarios



No scenario is expected to yield as much as a real estate focused ETF has returned over the last 10 years.

All rental scenarios generated lower CoC returns than possible from a 10-year government bond.

Source: Parcel

See **Appendix** for details of Baseline Financial Feasibility Assumptions.

Interpretating the Results

Which return metric is the most important?

No single return metric in isolation defines whether a building typology is feasible and will be constructed. Different developers will have **different goals and different risk tolerances**.

For example, a low-rise rental apartment building which does not match the CoC return of a 10-year government bond may still go ahead if the developer has faith that the value of the building will appreciate substantially into the future, providing additional profit when the building is sold at reversion. Total profit would then exceed the cumulative yield of the bond substantially, as would the apartment's potential IRR, which considers the profit from the sale of the building that happens well into the future. Relying on the future sale of the apartment adds more risk, especially if it accounts for the bulk of the returns over the course of the investment and is likely better compared to the real estate focused ETF.

We compute potential profit, IRR, EMx and CoC for each scenario to function as a baseline. Changes to these metrics allow us to measure the effect of a family-size unit requirement, as well as predict whether these changes are substantial enough to dissuade development.

What are the typical "goal posts" for feasibility?

Through this analysis, we focused on the ability of development projects to reach the following "goal posts"—or "hurdle rates"—as determined to be reasonable minimum measures of financial performance that suggest some promise of feasibility:

- At least **15% IRR** (depending on development on timeline);
- At least **1.3 – 1.8 EMx** (depending on development timeline and tenure);
- A **CoC return that surpasses the 10-year bond yield**, in the case of rental scenarios.

Part 3: Summary

Figure 5.6 summarizes the results of our baseline analyses, assigning a likelihood of each typology and tenure being considered viable—or financially feasible—by prospective developers.

For the purposes of this summary, we have considered a combination of the key return metrics identified above to then assign likelihood of feasibility based on the following categories: "**infeasible**", "**unlikely**", or "**possible**". We note that even those categorized as showing some promise of feasibility are not necessarily a sure bet and can easily find their financial feasibility eroded by a multitude of factors, including overpaying for land, higher than expected construction costs and/or construction cost growth, weaker than expected purchaser demand, or a combination of any / all of these variables.

Figure 5.6

Summary of Baseline Financial Feasibility (All Typologies, Locations & Tenures)

		Ownership	Rental
A1	Ground-Oriented – Townhouse	●	-
B2	Intensification – Low-Rise	●	◆
B3	Intensification – Mid-Rise	●	◆
B4	Intensification – High-Rise	●	◆
C3	Core – Mid-Rise	●	◆
C4	Core – High-Rise	●	◆

● Infeasible ● Unlikely ● Possible

Source: Parcel

5.3 Impact of Family Size Requirements

Having established the baseline financial feasibility for each development prototype, the impacts of introducing a family size unit requirement can be explored.

As previously mentioned, the City defines "family sized" as any units with two or more bedrooms. However, given existing and proposed family sized units in the city are predominantly two-bedroom units, the focus of this evaluation has been on the impact to financial feasibility of **increasing the number three-bedroom units**, which are less likely to be delivered naturally based on prevailing market conditions.

To test this policy change, we have adjusted the assumed unit mix for each development concept to achieve pre-defined targets of **10% and 15% three-bedroom units**. While most variables and assumptions have otherwise been held constant, this change has required the following corresponding adjustments relative to our baseline analysis:

- A commensurate reduction in the number of other unit types (i.e., non-"family sized" units);
- A reduction in the total number of units in each development prototype (given that total building floor areas—and thus FSRs—were intended to be left uncharged, thereby requiring a reduction in total units);
- An extension to the assumed sales period across all typologies to recognize that three-bedroom units take longer to be purchased;
- Given the poor financial feasibility established in our baseline analysis for rental tenures (across all typologies tested at 5% three-bedroom units), **we have not undertaken any further evaluation of increasing the proportion of three-bedroom rental units**, which is likely to worsen feasibility; and,
- Recognizing that low-rise strata buildings can be accommodated on a wider variety of sites than other typologies—and the fact that the Intensification area is both geographically significant and relatively diverse in terms of the variety of market conditions prevailing—we have considered additional sub-scenarios relating to the Intensification Low-Rise concept based on "market strength"[18] (i.e., expected revenues on a per square foot basis), herein articulated for weak (B2.1), average (B2.2), and strong (B2.3) markets.

[18] Market strength assumptions based on revenue assumptions for wood frame strata apartments described in Urban Systems Memorandum DRAFT Report on Residual Land Valuations for Case Study Sites in Victoria (September 22, 2023). Weak market area = $860 per square foot, average market area = $910 per square foot, strong market area = $960 per square foot.

Impact on Baseline Financial Feasibility

Figure 5.7 summarizes the results of increasing the three-bedroom component of each typology, under assumed ownership tenures. As shown, while it appears possible for most of the scenarios to accommodate 10% of units as three-bedrooms, 15% is unlikely—or entirely infeasible—in all but the **Ground-Oriented Townhouse** condition and **Intensification Low-Rise Strong Market Area**.

Figure 5.7

Impact of Family Sized Unit Requirement on Baseline Financial Feasibility (Strata Only)

		Baseline (5% 3-Beds)	10% 3-Beds	15% 3-Beds
A1	Ground-Oriented – Townhouse	Possible	Possible	Possible
B2.1	Intensification – Low-Rise *(Weak Market Area)*	Unlikely	Infeasible	Infeasible
B2.2	Intensification – Low-Rise *(Average Market Area)*	Possible	Possible	Unlikely
B2.3	Intensification – Low-Rise *(Strong Market Area)*	Possible	Possible	Possible
B3	Intensification – Mid-Rise	Unlikely	Infeasible	Infeasible
B4	Intensification – High-Rise	Unlikely	Infeasible	Infeasible
C3	Core – Mid-Rise	Possible	Possible	Unlikely
C4	Core – High-Rise	Possible	Possible	Unlikely

● Infeasible ● Unlikely ● Possible

Source: Parcel

Sensitivity Analyses (Incentive Requirements)

It is common for municipalities to work together with the development community to provide subsidies or incentives that help offset the potential higher costs or lower revenues associated with new policy requirements.

Sensitivity: What combination of incentives would be required to achieve a target of 10% three-bedroom units more broadly across other development typologies and geographies?

Figure 5.8 considered subsidies or savings which would help each ownership achieve financial feasibility with 10% three-bedroom units. These incentives were applied sequentially, as follows:

- First, we applied a further **reduction in parking** from 0.5 to 0.3 resident parking spaces per unit.
- Secondly, we also explored the provision of **additional density in combination with reduced parking**, where needed. This was evaluated under two potential delivery methods:
  - By allowing for additional density on a site-by-site basis, thereby involving the continued collection of CACs based on the resulting land value uplift; or,
  - Pre-zoning—or "up-zoning"—the lands to allow for higher densities as-of-right, thereby eliminating CACs.

Note About "Up-Zoning"

It is important to note that **pre-zoning is likely to increase land values** as sellers consider the increased density—and thus revenue generating potential—of their properties.

For example, based on a high-level residual land value analysis, we estimate that the C4 - Core High-Rise Strata scenario could experience a land value increase of between 25% and 75% as a result of up zoning the lands to 5.5 FSR as-of-right. This land value increase is likely to be less pronounced in areas and typologies in which the density is closer to the current as-of-right values.

Figure 5.8

Required Incentives for 10% 3-Beds

		Parking Reduction (@ 0.3 spaces / unit)	+	Additional Density Considered (CACs included)	OR	Additional Density Pre-Zoned (CACs excluded)
A1	Ground-Oriented – Townhouses	Not Required	+	Not Required	or	Not Required
B2.1	Intensification – Low-Rise *(Weak Market Area)*	**Yes**	+	**2.5**	or	**2.5**
B2.2	Intensification – Low-Rise *(Average Market Area)*	Not Required	+	**2.5**	or	Not Required
B2.3	Intensification – Low-Rise *(Strong Market Area)*	Not Required	+	**2.5**	or	Not Required
B3	Intensification – Mid-Rise	**Yes**	+	**5.25** (+1.25 FSR)	or	**4.0**
B4	Intensification – High-Rise	**Yes**	+	**6.75** (+1.25 FSR)	or	**5.5**
C3	Core – Mid-Rise	Not Required	+	**4.0**	or	Not Required
C4	Core – High-Rise	Not Required	+	**5.5**	or	Not Required

Source: Parcel. Additional density expressed on the basis of FSR required and is considered above baseline density of 2.5 FSR for Low-Rise, 4.0 FSR for Mid-Rise and 5.5 FSR for High-Rise typologies, as detailed in Figure 1.6. Any bonuses identified represent minimum increase in density required.

Sensitivity: What combination of incentives would be required to achieve a target of 15% three-bedroom units more broadly across other development typologies and geographies?

Unsurprisingly, additional incentives would be required to accommodate 15% three-bedrooms across most scenarios. As detailed in Figure 5.9, the density "bump" required starts to become more significant relative to current permissions. In the case of the Low-Rise typology in the weaker market areas, additional density alone is not sufficient, and the lands will have to be obtained well below market values (e.g., surplus municipally owned lands).

Figure 5.9

Required Incentives (15% Three-Beds)

		Parking Reduction (@ 0.3 spaces / unit)	**+**	**Additional Density Considered** (CACs included)	**OR**	**Additional Density Pre-Zoned** (CACs excluded)
A1	Ground-Oriented – Townhouses	Not Required	+	Not Required	or	Not Required
B2.1	Intensification – Low-Rise *(Weak Market Area)*	**Yes**		***Incentives are Insufficient*** *(Cheaper Land Required)*		
B2.2	Intensification – Low-Rise *(Average Market Area)*	**Yes**	+	**2.5**	or	Not Required
B2.3	Intensification – Low-Rise *(Strong Market Area)*	Not Required	+	**2.5**	or	Not Required
B3	Intensification – Mid-Rise	**Yes**	+	**6.0** (+2.0 FSR)	or	**4.5** (+0.5 FSR)
B4	Intensification – High-Rise	**Yes**	+	**7.75** (+2.25 FSR)	or	**5.75** (+0.25 FSR)
C3	Core – Mid-Rise	**Yes**	+	**4.15** (+0.15 FSR)	or	Not Required
C4	Core – High-Rise	**Yes**	+	**5.5**	or	Not Required

Source: Parcel. Additional density expressed on the basis of FSR required and is considered above baseline density of 2.5 FSR for Low-Rise, 4.0 FSR for Mid-Rise and 5.5 FSR for High-Rise typologies, as detailed in Figure 1.6. Any bonuses identified represent to minimum increase in density required.

Disclaimer: Potential Increases to DCC Rates

Any future cost increases beyond those considered in our analyses (see our assumptions in the Appendix) will further impact each typology and tenure's ability to accommodate a greater proportion of three-bedroom units.

More specifically, we understand the City is actively undertaking a DCC review in parallel to this study. **If the outcome of this review results in higher DCC rates, the takeaways and key assumptions of this study should be reviewed and updated, accordingly.**

Note: Changing Legislative Framework for Amenity Contributions

The recently passed *Bill 46: Housing Statutes (Development Finance) Amendment Act, 2023* has created a new Amenity Cost Charge ("ACC") to replace the existing Community Amenity Contribution (CAC). Whereas CACs were **negotiated** between municipalities and developers during rezoning, **ACCs will be known upfront**. These changes are intended provide greater certainty and clarity regarding development costs, with positive outcomes for housing supply and affordability.

Like CACs, ACCs apply to facilities/features that provide social, cultural, heritage, recreational, or environmental benefits to a community, including community centres, athletics facilities, libraries, daycare, and public squares. The legislation also grants municipalities permission to reduce or waive ACCs for not-for-profit and/or for-profit affordable rental housing.

6.0
Conclusions

6.1 Key Takeaways

1 Established Need

The City of Victoria exhibits several underlying characteristics that highlight the need for improved delivery and access to family sized housing (e.g., high growth in family-forming age cohorts and rental households, above average rents for three-bedroom units, etc.).

2 Validation of Patterns

Notwithstanding the foregoing, there are notable and real barriers to entry for housing projects with family sized units. This is especially true for purpose-built rental developments and a range of apartment-based typologies; many of which are less feasible than other identified "winners" / comparable investment opportunities. Our baseline financial analysis largely validates recent development patterns that favour of one of two extremes: ground-oriented housing forms (e.g., townhouses) and high-rise apartments in central locations.

3 Risk vs. Return

Based on the recent successes of other developer-preferred housing typologies—and evidence of challenges relating to consumer preferences around family sized apartments (expensive and slow to sell), there is no escaping the risks associated with this type of policy initiative. Private sector participants will naturally seek to repeat successful formulas, even where opportunities for comparable returns may be available (i.e., as a function of uncertainty and unknowns that represent a material risk to investors).

4 No "Silver Bullet" Solution

Similar to the way in which the current housing crisis continues to be a function of many different macro and micro-economic factors, so too will the solution to these problems require multiple different approaches—or tools—to "unravel" the current situation and encourage preferred housing forms like family sized units.

5 Layering of Incentives

In response to the factors above, a need for "stacking" or "layering" multiple incentives has been identified, especially if targeting 10% to 15% of total units as three-bedroom:

- **Parking Reduction** – One of the most frequently cited, "go-to" incentives to encourage the development of preferred housing typologies is the reduction of parking, which offers significant cost savings. The City should seek to allow further reductions to parking standards, at least to the full extent the market will bear (e.g., 0.3 spaces per residential unit / subject to consumer preferences).
- **Density Allowances** – Increasing density where a positive revenue / cost relationships already exist can be extremely helpful in "nudging" projects in favour to achieve other city-building objectives like family sized housing delivery. The City should seek to either: (i) "up-zone" from current permissions; or (ii) provide opportunities for the provision of additional densities on a case-by-case basis.

6 Areas of Opportunity

The greatest opportunities for expanding family sized housing lie in Townhouses, which represent clear "winners" strictly from the perspective of financial feasibility, as well as strata/ownership-based Low-Rise Apartments and centrally located Mid-Rise / High-Rise Apartments. A balanced approach to supporting a diversity of family sized housing options across different geographic locations and built form typologies will be an important goal for the City, albeit challenging.

6.2 Recommendations

A

Three-Bedroom Focus

Consider a "single mandate" focused on three bedrooms, instead of prescribing a "dual mandate" for both two and three bedrooms.

- Three bedrooms and above were identified as the clear missing piece in apartment-style, multi-unit developments.
- Most stakeholders did not see two-bedroom units as being "family-sized".
- The market is already "naturally" providing a reasonable complement of two-bedroom units in both rental and strata projects.
- There is benefit to streamlining and keeping "the math" simple / straight-forward for the development community in developing their own pro formas.
- If a more single mandate results in new developments with very few two-bedroom units, the City can change or update the policy framework at a later date (i.e., start simple, then layer on more nuance, as necessary).

B

Four-Bedroom Exemption

Do not mandate a specific percentage for four-bedroom units.

- This represents even more of a "stretch" for financial feasibility on several fronts (e.g., added costs, slow to sell, relationship with other housing options).
- The City can seek out developers interested in this more unique unit format vs. mandating a fixed percentage in all buildings.

C

10% Baseline (Strata) / No More Than 5% Baseline (Rental)

Begin with the "standard" 10% three-bedroom requirement for strata but encourage and create opportunities for the delivery of up to 15% three-bedrooms with additional incentives. Consider a smaller requirement for rental given more challenging baseline feasibility.

- Acknowledging the need for family sized housing and relatively slow pace of uptake on Missing Middle formats, without compromising project viability.
- Will require extra incentivizes with additional density and/or parking reductions to achieve higher benchmark, which represents a key inflection point on feasibility.

D

Pre-zoning ("Up-zone")

Advance pre-zoning efforts to a feasible density depending on percentage of three-bedrooms required (also accounting for the existing Inclusionary Housing policy).

- Preferred over offering a separate or dedicated "tier"/stream of bonus density because it will be optional (by definition). There is a need to more *definitively* achieve the delivery of these types of units to be effective.
- Pre-zoning is simpler.

E

Parking Reductions

Provide opportunities for further parking reductions but be mindful of consumer preferences and household requirements.

- Reduction in parking can be effective in lowering development costs (and supporting alternative modes of transportation), but we consistently heard that families have a higher need of parking.
- If parking reductions are used as an incentive to enable family sized units in the context of total development on a site, then there may a need for mechanisms to guarantee parking stalls for the family-sized/larger units.

F

Design Considerations

(Unit Size)

Go with BC housing minimum unit sizes.

- Simplicity in policy is preferred, but we also want to achieve the goal of "liveable" family sized/larger units.
- The City might want to consider attaching the BC Housing minimum unit size for three-bedrooms to the mandate, which would also proactively address near-certain inquiries from key stakeholders.
- Go with an overall unit size vs. a fixed bedroom size to maintain flexibility.

G

Building Amenities

(Storage)

Encourage the delivery of extra square footage and/or cubic volume to facilitate storage space needs for families.

- Storage—among other building amenities—was identified as a common theme in our research interviews.
- It might not happen absent some form of encouragement or additional supports by the municipality.

H

Ground Floor Access

Encourage three-bedroom units to be concentrated on the lower floors.

- Concentration of units was a common theme in our research, including facilitating social interaction and other shared experiences.
- There may only be a perception of greater accessibility to the ground floor, whereas some households may be indifferent (e.g., involving an elevator ride regardless of length). This condition does not warrant a stronger requirement or mandate vs. encouragement.
- Maintain flexibility for penthouse units (or similar) on other levels.

Appendix:

Baseline Financial Feasibility Assumptions

Assumptions & Limitations

Identification of Development Concepts

- The **prototypical development concepts** established for testing as part of our assessment have been developed in direct collaboration with staff from the City of Victoria. They are not intended to be indicative of any specific property nor landholdings within the municipality, but rather are characteristic of the types of development that could ultimately prevail on typical properties within the community.

- The preliminary development concepts established for each typology are **hypothetical only**, based on a combination of: (i) the general nature, scale and density of development being contemplated across the City historically; (ii) recent market-based precedents; and, (iii) the type of new buildings that are best situated to advance broader city-building and housing-specific objectives. Although as-of-right permissions have been considered, in some instances the typologies push the boundaries on some elements (e.g., densities permitted), which may require the City to update its Official Community Plan and/or Zoning by-law, or the future developer to apply for an amendment.

- Recognizing that each property and landowner will have different perspectives and requirements as it relates to financial feasibility in the "real world", we have attempted to capture the full range of possible outcomes within the City of Victoria through related sensitivity analyses, which adjust selected input assumptions (including to reflect nuances across different pre-defined policy areas and geographies within the City). The development concepts established for the study have served as a **critical baseline** to this portion of our analysis.

Financial Feasibility Approach

- Notwithstanding the preliminary and conceptual nature of the development concepts considered in this study—as well as the relatively limited statistical detail available at this early stage of the planning process—we have adopted a relatively detailed **discounted cash flow approach** to assess the financial feasibility of development in Victoria. This is generally a more advanced type of financial feasibility testing than is typically employed for other policy-level exercises and/or equivalent early-stage, conceptual development scoping. Although we felt this more detailed approach was necessary for accurate results, it has its inherent strengths and weaknesses.

- Our analysis is limited to evaluating the feasibility of the development concepts being constructed in isolation, including articulation of distinct policy areas identified within the City. As such, **no site-specific**

municipal infrastructure costs to be borne by developers have been incorporated into our analysis. These costs could represent an additional construction cost when advancing actual development on a given site, which we have assumed will be determined based on supplementary technical engineering work, site and block planning, as well as additional discussions with City of Victoria staff as part of more site-specific applications.

- The financial analyses included in this report have been undertaken as more of **theoretical exercise only** and do not necessarily constitute advice to proceed with the specific development concepts identified. Rather, our financial analyses are intended to help determine whether the concepts—and related incentives and/or policy mechanisms—appear to be promising at first glance and are therefore worthy of further investigation. A more detailed and comprehensive development pro forma analysis will ultimately be required by the owners/operators of individual properties across the City to consider the actual costing, phasing and refinement of any new site-specific development plans before proceeding with such an endeavour (including determination of the optimal building typology and/or affordable housing delivery).

- Similarly, the findings presented as part of our analysis do not account for the **unique financial expectations, strategic positioning and/or development capacities** of current or future owners of real property in the community. As such, although each project may demonstrate a positive or negative preliminary finding as it relates to financial viability, it does not necessarily assert that such a finding—nor the related assumptions incorporated into the analysis—will ultimately be consistent with the perspectives or parallel analyses of each individual landowner across the City. Ultimately, it is those organizations who will establish internal financial thresholds, development parameters and conditions which implicate the scope and scale of any new developments proposed moving forward.

Approach: Discounted Cash Flow Analysis

Historically, most policy-based financial analyses prepared on behalf of public sector organizations like the City of Victoria are structured around a more simplified **BOTE** approach. Although Parcel regularly relies upon this approach in the right context, these financial assessments generally are not equivalent to the more detailed and traditional pro forma financial analyses that are typical of most individual real estate development projects (i.e., as prepared by private sector participants, such as developers, property managers and other real estate investors). Namely, BOTE assessments are often simplified to the identification of a reasonable "break-even" point that could yield a reasonable return on investment to the owners of a given development site while also maintaining (or enhancing) the value of their existing real estate assets.

Based on the more extensive and nuanced scope of this study, however, we felt that it was necessary to complete a more rigorous **DCF** analysis. As previously described, this type of analysis is capable of more appropriately capturing: (a) the time-value of money; (b) the full timeline of development projects; (c) the nuances of operating rental buildings over many years; as well as, (d) a more comprehensive subset of common risk/return metrics.

Overall, although the analysis presented in this report has continued to be relied upon as more of a comparative tool than an explicit predictor of investment returns (i.e., all the same as a more simplified RLV), the DCF approach has allowed us to prepare a more defensible and flexible analysis that responds to the unique objectives of this study.

Other Assumptions

- The various other statistical inputs relied upon in our analysis are considered sufficiently accurate for the purposes of this conceptual analysis. These statistical sources—including available municipal information, datasets and previous reporting, as well as third-party industry data—have ultimately informed a number of the key underlying assumptions and inputs utilized in our analysis.
- It is assumed that a reasonable degree of economic stability will prevail in the Province of British Columbia, and specifically in the context of the City of Victoria market, over the course of the development planning horizon identified in this study.
- It is important to recognize that the lingering effects of the COVID-19 pandemic will continue to result in a significant amount of uncertainty as it relates to current and potential future market conditions. At the time of reporting, there is not a complete understanding of the potential longer-term implications of the pandemic on economic conditions nor real estate development patterns across the City of Victoria and beyond.
- References to the Canadian dollar in this report generally reflect its 2023 value, including the range of supporting statistical inputs and research that have informed our baseline financial assumptions. Additional adjustments have also been made to reflect growth in costs / revenues for future periods, where applicable.

Statistical Assumptions

Figure A.1

Baseline Financial Feasibility Assumptions

	Ground-Oriented		Intensification		Core	
	A1 - Towns	B2 - Low-Rise	B3 - Mid-Rise	B4 - High-Rise	C3 - Mid-Rise	C4 - High-Rise
Development Timeline						
Entitlement & Design	12 mth(s)	18 mth(s)	24 mth(s)	24 mth(s)	24 mth(s)	24 mth(s)
Sales	6 mth(s)	8 mth(s)	12 mth(s)	12 mth(s)	12 mth(s)	12 mth(s)
Construction	12 mth(s)	24 mth(s)	30 mth(s)	36 mth(s)	30 mth(s)	36 mth(s)
Residential Lease Up		6 mth(s)	8 mth(s)	12 mth(s)	8 mth(s)	12 mth(s)
Non-Residential Lease Up	-	-	12 mth(s)	12 mth(s)	12 mth(s)	12 mth(s)
Stabilized Operations	-	-	120 mth(s)	120 mth(s)	120 mth(s)	120 mth(s)
Site Stats						
Site Area						
Square Feet	4,844 sf	16,953 sf	16,953 sf	16,953 sf	17,922 sf	17,922 sf
Square Metres	450 sm	1,575 sm	1,575 sm	1,575 sm	1,665 sm	1,665 sm
Acres	0.11 ac	0.39 ac	0.39 ac	0.39 ac	0.41 ac	0.41 ac
	Resi	Resi	Non-Res	Non-Res	Non-Res	Non-Res
Existing Buildings Demolished	2,500 sf	5,000 sf	10,000 sf	10,000 sf	15,000 sf	15,000 sf
Land Acquisition						
$	$950,000	$3,500,000	$3,500,000	$3,500,000	$4,100,000	$4,100,000
$PBSF	$194 PSF	$82 PSF	$56 PSF	$41 PSF	$62 PSF	$45 PSF
$/AC	$8.5 M/ac	$9.0 M/ac	$9.0 M/ac	$9.0 M/ac	$10.0 M/ac	$10.0 M/ac
$/Unit	$237,500	$68,627	$44,872	$30,435	$49,398	$33,607
Building Stats						
Residential Floor Area						
Gross Construction Area	5,158 sf	44,929 sf	65,742 sf	90,526 sf	69,398 sf	95,666 sf
Gross Floor Area	4,900 sf	42,683 sf	62,455 sf	86,000 sf	65,928 sf	90,882 sf
Net Floor Area	4,900 sf	35,000 sf	52,150 sf	73,100 sf	55,050 sf	77,250 sf
Non-Residential Floor Area						
Gross Floor Area	**-**	**-**	**5,000 sf**	**7,500 sf**	**5,000 sf**	**7,500 sf**
Net Floor Area	-	-	4,750 sf	7,125 sf	4,750 sf	7,125 sf
Height	2 storeys	4 storeys	10 storeys	20 storeys	10 storeys	20 storeys
FSR	1.0x	2.5x	4.0x	5.5x	4.0x	5.5x
Building Lot Coverage	51%	63%	40%	28%	40%	27%
Units	**4 units**	**51 units**	**78 units**	**115 units**	**83 units**	**122 units**
Studio	-	5 units	*7 units*	*11 units*	*8 units*	12 units
1 Bed	-	31 units	*46 units*	*70 units*	*50 units*	75 units
2 Beds	-	13 units	*21 units*	*29 units*	*21 units*	30 units
3 Beds +	4 units	2 units	*4 units*	*5 units*	*4 units*	5 units
Affordable Ownership			***5.0 units***	***6.0 units***	***2.0 units***	***6.0 units***

	Ground-Oriented		Intensification		Core	
	A1 - Towns	B2 - Low-Rise	B3 - Mid-Rise	B4 - High-Rise	C3 - Mid-Rise	C4 - High-Rise
Affordable Rental Units	**-**	**-**	**10 units**	**15 units**	**10 units**	**15 units**
Avg Unit Size	**1,225 sf**	**686 sf**	**669 sf**	**636 sf**	**663 sf**	**633 sf**
Parking						
Resident	1.00 / unit	0.50 / unit	0.50 / unit	0.50 / unit	0.50 / unit	0.50 / unit
Non-Resident	-	0.10 / unit	0.10 / unit	0.10 / unit	0.10 / unit	0.10 / unit
Commercial	-	1.0/50 sm	1.0/50 sm	1.0/50 sm	1.0/80 sm	1.0/80 sm
Surface	-	6.0 space(s)	18.0 space(s)	26.0 space(s)	15.0 space(s)	22.0 space(s)
Above Grade	-	-	-	-	-	-
Below Grade	4.0 space(s)	26.0 space(s)	39.0 space(s)	58.0 space(s)	42.0 space(s)	61.0 space(s)
Revenues						
Avg Unit $	**$950,000**	**$615,000**	**$623,000**	**$617,000**	**$643,000**	**$639,000**
Avg $ PSF	*$775 PSF*	*$895 PSF*	*$930 PSF*	*$970 PSF*	*$970 PSF*	*$1,010 PSF*
Market $ Parking Space	-	-	$40,000	$40,000	$80,000	$80,000
Market $ Locker	-	-	-	-	-	-
Avg Annual Growth	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**
Affordable Unit	$ 284,000	$ 284,000	$ 284,000	$ 284,000	$ 284,000	$ 284,000
Avg Annual Growth	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Market Rent $ Unit	**-**	**$2,300 / mth**	**$2,325 / mth**	**$2,300 / mth**	**$2,300 / mth**	**$2,300 / mth**
Market Rent $ PSF	-	*$3.35 PSF*	*$3.50 PSF*	*$3.60 PSF*	*$3.45 PSF*	*$3.65 PSF*
Market Rent $ Parking Space	-	-	$150 / mth	$150 / mth	$150 / mth	$150 / mth
Affordable Rent $ Unit	**-**	**-**	**$1,300 / mth**	**$1,300 / mth**	**$1,300 / mth**	**$1,300 / mth**
Affordable Rent $ PSF	-	-	*$1.95 PSF*	*$2.05 PSF*	*$1.95 PSF*	*$2.05 PSF*
Apartment Cap Rate		3.75%	4.0%	4.0%	4.0%	4.0%
Market Operating Expenses		35.0%	35.0%	35.0%	35.0%	35.0%
Affordable Operating Expenses		45.0%	45.0%	45.0%	45.0%	45.0%
Rent Growth (Pre-Lease Up)	-	5.0%	5.0%	5.0%	5.0%	5.0%
Rent Growth (Operations)	-	2.75%	2.75%	2.75%	2.75%	2.75%
Retail Rent $ PSF (Net)	-	-	$25.00 PSF	$25.00 PSF	$25.00 PSF	$25.00 PSF
Retail Rent Growth	-	-	1.5%	1.5%	1.5%	1.5%
Vacancy	-	-	5.0%	5.0%	5.0%	5.0%
Cap Rates	-	-	5.5%	5.5%	5.5%	5.5%

	Ground-Oriented	Intensification			Core	
	A1 - Towns	B2 - Low-Rise	B3 - Mid-Rise	B4 - High-Rise	C3 - Mid-Rise	C4 - High-Rise
Hard Costs						
Above Grade Hard Costs	$235 PSF	$300 PSF	$345 PSF	$365 PSF	$345 PSF	$365 PSF
Parking Costs						
Surface	$5,000/space					
Above Grade	$56,000/space					
Below Grade	$70,000/space					
Avg Annual Growth	6.5%	7.0%				
Demolition	$8.00 / sf existing					
Site Prep + Remediation	$10.00 / sf existing					
Servicing Connection	$1,000/unit					
Landscaping	$1,000/unit					
Soft Costs						
Planning Applications	None	Rezoning	Rezoning	Rezoning	Rezoning	Rezoning
Building Permit, Development Charges, Property Taxes	Current City Rates as of September 2023					
Community Amenity Contributions	None	$263,308	$1,200,000	$1,590,000	$567,000	$1,510,000
Architecture & Engineering	5.0% of Hard Costs					
Legal	2.0% of Hard Costs					
Sales & Marketing	2.0% of Hard Costs					
Construction Management	2.0% of Hard Costs					
Development Fee	2.0% of Total Costs					
All Other Consultants	2.0% of Hard Costs					
Contingency	5.0% of Total Costs					
Financing (Land)						
Loan-to-Value	-					
Rate	-					
Financing (Construction)						
Loan-to-Cost	75% Ownership / 50% Rental					
Rate	6.25%					
Loan Fees	1.0% of Loan					
Financing (Permanent Debt)						
Rate	4.25%					

Source: Parcel

Parcel

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