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Land Economists – Development Strategists

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1 Centennial Square
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Re: 1303 Fairfield Road Land Lift Analysis

G.P. Rollo & Associates (GPRA) has been retained by the City of Victoria to complete an Economic Analysis for the rezoning of 1303 Fairfield Road (hereafter referred to as 'the Site') in order to determine an estimate of the value to Unity Urban Properties (the Developer) from an increase in density from 1.5 FSR mixed use commercial and residential building (identified as the 'base density' under the current Official Community Plan) to a proposed density of 1.84 FSR mixed commercial, residential rental project on the Site. The Developer is proposing to provide roughly 2,500 square feet at grade to be used as a new home for the Fairfield United Church (to be rented at 20% below market rates), along with approximately 1,400 square feet for a CRU at grade, with 16 market rental units comprising roughly 11,350 square feet of rentable area on the second to fourth floor to be secured in perpetuity by covenant on title. Parking is to be provided in a single level underground with 16 stalls proposed to be shared by residents, the CRU, and the church.

The analysis consisted of preparation of residual land value analyses which determines the maximum value that a developer could afford to pay for the site if developed under current policies as well as the land value supported by the proposed change in density. GPRA used standard developer proformas for each case to model the economics of typical development as proposed/allowed under the new zoning. The 'Lift' is then calculated as the difference in residual land values under both current policies and the proposed new zoning.

METHODOLOGY & ASSUMPTIONS

Base Case:
The Site is 10,698 square feet in area and can be developed under current policies, with rezoning, at a density up to 1.5 FSR with a mix of ground floor commercial amounting to 1,381 square feet and 14,667 square feet in gross floor area of residential above (net saleable area of 12,026 square feet), in 14 strata units. Parking at the base density would be proposed to be commensurate with that which is proposed in the rezoning application (parking at a 1:1 ratio to residential units).

Proposed Development:
Under the proposed new zoning the building would have a density of 1.84 FSR with the approximate floor areas for each use as described above (roughly 2,500 sq.ft. church space, 1,400 sq.ft. CRU, and 11,350 sq.ft. residential rental secured by a covenant on title).

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The analyses are created using a standard developer proforma wherein estimates of revenues and costs are inputs and the remaining variable is the desired output. In typical proformas this output is usually profit, following a revenues minus costs equals profit formula.

For a residual land valuation, however, an assumption on developer's return needs to be included in order to leave the land value as the variable to solve for. For the analyses GPRA has determined the residual value for the mixed residential strata and commercial based on the developer achieving an acceptable profit of 12% on total project costs (calculated as a representative portion of overall project costs for the proposed development). The residual values are the maximum supported land value a developer could pay for the site (under the density and conditions tested) while achieving an acceptable return for their project.

It is often the case that a developer cannot achieve a profit on the sale of a project entirely used for rental or commercial immediately after completion and instead takes a long term perspective looking at value as an ongoing income stream with a potential disposition at some point in the future. As such, for the residual value of the components for market rentals and commercial retail uses GPRA has instead looked at the developer achieving an acceptable return on their investment measured as an Internal Rate of Return (IRR) and the maximum supported land value that would allow a developer to achieve a target IRR.

The residual land values determined from this analysis of the property developed as proposed under the rezoned density of 1.84 FSR is then compared to the residual land value of the Site if developed under current policies at 1.5 FSR to establish a 'lift' in value that arises from the change in density. This lift in value is the total potential monies that are available for public amenities or other public works not considered as part of the analysis. GPRA have made allowances for streetscape and public realm improvements that would typically be incurred through development in both sets of analysis. Any additional improvements that would be required only from the proposed rezoning and not from development under current policies would impact the lift and would need to be identified, priced, and included in a revised analysis.

Typically there is some sharing of the lift value between the Municipality/District and the developer, but the percentage shared varies by community and by project. It is GPRA's understanding that in compliance with current policy, the City has determined that they will seek 75% of the lift for amenities.

GPRA determined strata revenues used in the analyses from a review of recent sales and offerings for sale of recently developed apartments of wood frame and of concrete construction within roughly 10 km of the Site, with a focus on projects that were deemed comparable to that which has been proposed for the Site. Market rental rates were derived from a similar search within 10 km of the Site. Commercial rents were derived from a scan of rental rates in a similar area. Project costs were derived from sources deemed reliable, including information readily available from quantity surveyors on average hard construction costs in the City. Development or soft costs have been drawn from industry standards, and from the City's sources. All other assumptions have been derived from a review of the market and from other sources deemed reliable by GPRA.

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CONCLUSIONS & RECOMMENDATIONS

The base density of 1.5 FSR with underground parking based on the premise that a parking ratio similar to the ratio proposed for 1.84 FSR development scenario was established, GPRA identifies that there is no lift from rezoning to 1.84 FSR. The lack of lift is attributable to two factors:

1) The shift from strata in the base scenario to market rental for the residential floor area (with market rental supporting a lower value for land on a per square foot basis compared to strata), and;

2) The incorporation of a 2,500 square foot church space for the ongoing operation of the Fairfield United Church. This space has been assumed to generate below market income and thus creates a drag on the supported land value of the rezoned project.

Given the conclusion that there is no lift from the base density and the rezoned property as proposed, we recommend that the City does not seek an amenity contribution from this rezoning.

I trust that our work will be of use in the City's decision on the rezoning 1303 Fairfield Road. I am available to discuss this further at your convenience.

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