

Mayor and Council
City of Victoria
1 Centennial Square
Victoria BC

Re: 1201 Fort Street / 1050 Pentrelew Place Development Proposal

IT'S YOUR NEIGHBOURHOOD

Dear Mayor and Council and Mr. Alex Johnston, Senior Planner

In the December 14, 2017 COTW meeting Council wanted to know what was possible if the rezoning was not approved. The concern is that if this development proposal is not approved there is a fear that there may not be an **AFFORDABLE HOUSING** component in another proposal.

Well, let's be clear: the **AFFORDABLE HOUSING** component attached to this proposal is negligible. It would be laughable, were it not such a serious subject. At first glance, ten units of affordable housing somewhere else at some other time for 86 units here looks pretty good. It is a return of 12%. But, of course, the first question is, "Why do these affordable units have to be segregated from this area?" What about diversity of housing, people, and income levels? What about keeping Rockland as accessible as it already is with its high proportion of affordable housing units?

On closer examination it should become apparent that these units will never be built, simply because the offer contains a caveat in the form of a "penalty". It will always be **CAVEAT EMPTOR**. As explained by Mr. Tinney, this penalty of \$250,000 (or ten units) is only meant to offset the cost of ten other less expensive units to be built by this developer somewhere else at some other time. These units will not necessarily be 'affordable' at all. They will simply be lowered in price by \$25,000.00 each. Did you just see the 'affordability' aspect of these units disappear?

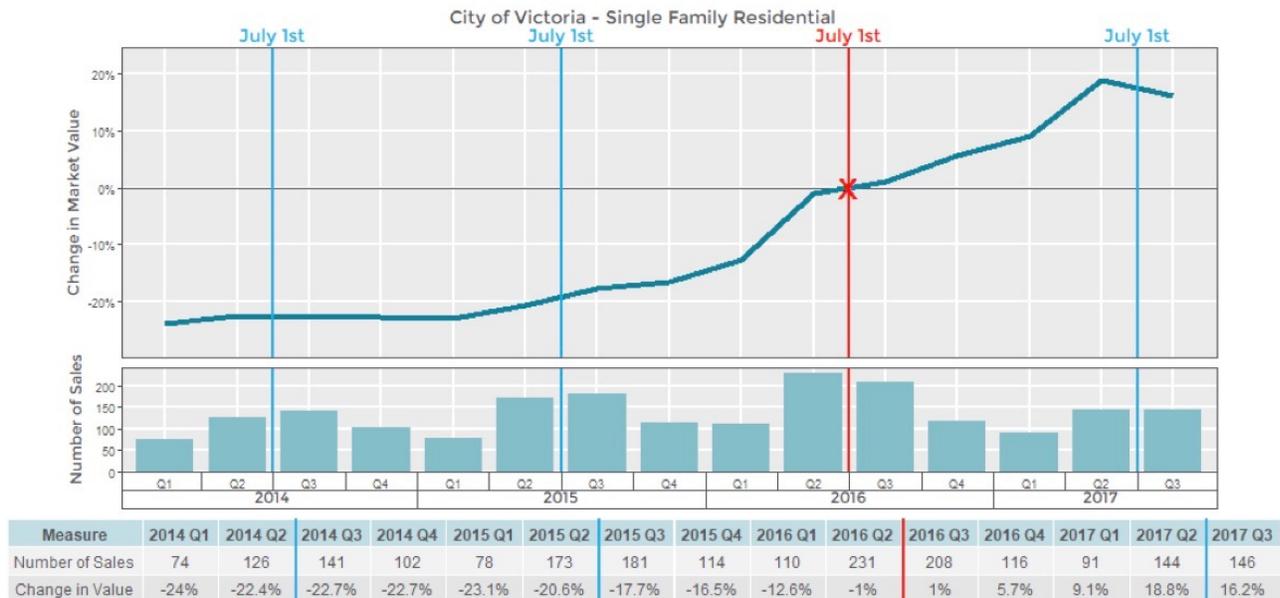
Today, this total 'penalty' (or should I say 'sweetener') would not buy one family-size unit in another condo development in Victoria, built now or in the future. The total penalty for not building ten 'affordable' units somewhere else at a later date is about half the price of one unit in the current proposal. That's half of one unit out of 83 units (or 0.6%). Looked at it from the cost side, the \$250,000 penalty is only a very small fraction of the cost of building those ten 'affordable' units. It would make more business sense to pay the penalty.

This offer becomes less palatable the more one looks at the numbers. My argument is that the numbers suggest something else than the words express. This so-called 'affordable housing' component is not about housing people affordably at all. The words are meant to hide what the numbers tell us. The numbers tell us that it is only about the money to be gained by lessening the cost of the promise to build ten 'affordable' units by opting to pay the 'penalty'. It is all about the money.

Further, one has to remember that this so-called "penalty" of \$250,000.00 was made one year ago when condos were priced 17% less than they are today. (See B.C. Assessment). If, as Mayor Helps predicts, Victoria will benefit from the greatest influx of new residents we have ever experienced (which is the underlying reason for **DENSITY**), then we can assume that prices for condos will continue to rise at a pace well above the inflation rate of 2%.

Despite Mayor Helps' best efforts to out-build this swell of buyers (not necessarily residents), the rapid rise in units on the market has succeeded in adding fuel to the fire of escalating prices. It appears to be, "Build them and the investors will come!" Land speculation is rampant in this

marketplace. If you live out of town and you are thinking of moving here when you retire, buy now, or you will not be able to buy here when you do retire.



July 1 marks the date BC Assessment estimates the market value of properties in B.C. by analyzing current sales in the local area, and evaluating factors such as a property's size, age, quality, condition, view and location. On the graph, July 1, 2016 is the reference point against which other quarters are compared. Note that the number of sales in the most recent quarters will increase as sales continue to be registered at the Land Titles and Survey Authority (LTSA).

Table information from B.C. Assessment graph.

Date and % Increase	Baseline %	Condo Price	\$25,000 as % of Price	Decrease in value of Penalty
July 2016 base line	100	\$500,000.00	5.00%	0
July 2017 20% increase (actual)	120	\$600,000.00	4.17%	-16.6 %
July 2018 10% increase (guess)	132	\$660,000.00	3.79%	-24.2%
July 2019 10% increase (guess)	145	\$725,000.00	3.45%	-31.0%

We can, then, remain confident, because of the great inflow of new residents foreseen by Mayor Helps, that in two years time, when the AFFORDABLE HOUSING penalty comes due, that the prices of newly-built condos will continue to rise in value at a rate well above inflation. So, according to BC Assessment, the price of a condo at \$500,000 in July 2016 has now increased to \$600,000. At the time the \$25,000 was negotiated, it represented 5% of a condo priced at \$500,000 and it diminishes in purchasing power as time marches on.

In two years time, if prices increase at a more modest 10% per year, the \$25,000 penalty will reduce the price of a similar condo by only 3.49% This is a 31% decrease in the value of the penalty compared to the baseline price of a condominium.

Now, if you were the developer would you build ten units that could sell for \$7.25 million, or would you pay the penalty of \$250,000.00? The penalty is an effective tax rate of 3.45% And, to make it easier to understand why a business person would pay the penalty, answer this question, "Do you think that this penalty is also a tax deductible expense?"

The value of money depreciates as time goes by as a result of a change in the general level of prices. The time value of money is a well-known feature of finance. I am confident that City Staff know this. The largest community amenity that City Staff was able to negotiate to award this \$76 million project to Abstract Developments amounts to a net benefit to the City's Affordable Housing Initiative of \$250,000.00 That is 0.325% of the income the developer will earn on this project.

Square Meters	Square Footage X 10.76	\$ per square feet	Value of Project	Penalty for Affordable Housing	% of Final Prices
10,219	109956	\$700.00	\$76,969,200.00	\$250,000.00	0.325

Of course, it is worse than this. By the time the project is started, and built, in about 2 years time, (possibly more) the actual average price per square foot will be higher than \$700.00 per square foot. This is the time value of money, again. The relationship of the \$250,000.00 penalty to the retail price will be even lower at that time. The effective cost rate of 0.325 % on the gross sales of the units in this building ensures that the developer will pay out in cash once the two years passes. How can we continue to build the increasing amount of infrastructure needed by our City on this pittance?

To wrap this all up, then, the amount of money in the penalty is a negligible amount compared to the price of ten affordable units built elsewhere and, in the future. We know that it diminishes in time, as the price of those affordable units rises over time. We also know that the penalty is a very small percentage of the earnings from the project when priced in today's dollars. This amount, then decreases even more as the general price of housing units climb over time.

But, wait. It gets even worse. In other jurisdictions of British Columbia, of our size or larger, they have actually figured out a way to ensure a fair deal when a developer wants to build more residential housing. It is based on the simple fact that an increase in population will demand more community amenities: affordable housing, community centers, pools, libraries, emergency services, transportation alternatives, etc. These two contributions to the increased capital costs of a larger population are called the **COMMUNITY AMENITY CONTRIBUTION** and the **DENSITY BONUS**.

While the details vary from municipality to municipality, the essence of the argument is based on the actual increase of residential floor space awarded to the developer. There are two calculations. When built to the zoning already in place there is a **COMMUNITY AMENITY CONTRIBUTION** payable. Secondly, when additional floor space is sought above the current zoning, there is a **DENSITY BONUS**. When applied to this proposal by the methods and rates of other municipalities in the Lower Mainland, the amounts would be in the range of \$500,000 and \$2,000,000.00 respectively. (The total of \$2,500,000.00 is an effective rate of 3.25% on the retail price of the housing built – about what a tourist spends on a hotel room. (Are tourists contributing more than developers to the long term and on-going viability of our City?) But, for some reason, when the City of Victoria calculates these two contributions on this development proposal the net amount is zero. Well, you can get much for zero. You certainly won't be building any affordable housing. What can you build for zero dollars? According to the Mayor, we should be glad the developer is offering \$250,000.00 as he doesn't have to offer anything at all? Is this what passes for good financial management at City Hall?

The City of Victoria insists on doing things their own way. If this proposal is approved we will earn \$250,000.00 on this project, while Burnaby or Port Moody, or any other city on the Lower Mainland would receive somewhere in the range of \$2.50 million. But, we'll take ten percent of what they will, because...we are **OPEN FOR BUSINESS!** What it takes other Cities one year to earn, would take us ten years. Actually, it would take us thirteen years, because we will wait another two years to take the money and will lose at least 30% in purchasing power.

Finally, there are two other community amenities that may give Council a powerful reason to vote for the proposal: a path to connect one street to another, saving most walkers less than one minute in time, and a few benches and a garbage can. The cash value of these amenities have not been calculated for the public to know, but they are certainly less than the cash penalty of \$250,000.00 payable, if the ten 'affordable' condo units are not built in two years. These other two amenities do not change in any appreciable way what the numbers tell us.

What are we to make of these community amenities, these reasons to accept this development proposal? Personally, I am not impressed with these community amenities on offer, either in isolation, or in comparison to the wealth gifted to the developer by the rezoning and the numerous variances, if accepted. And, I am shocked that the City does not have in place a mechanism to match the ability to generate a modest contribution towards community amenities gained by B.C.'s other cities in the Lower Mainland, all of whom operate under the same B.C. statutes.

My question is quite simply, **"IS THIS ALL THERE IS?"**

Well, we all know that this is all there is. This is the best the developer will do. This is all we get.

WE KNOW WHAT HE WANTS AND THIS IS ALL WE GET!

The developer is a successful businessman with many projects to his credit. He has experience with City Hall. He has spent many months with City Staff going over and over this proposal. He has been before Council three times. The first time, City Council sent the proposal back for revision because of its obvious flaws. The second time, the proposal was not accepted because the floor space actually increased. It was sent back for revision with the same four recommendations. (I must admit that I was extremely disappointed with these requests as I believed that they were too weak, asked too little and gave away too much.) The third time, the new proposal dealt with only two of the four requests. In a very short meeting of about 40 minutes the proposal was forwarded to the Public Hearing. This is what Council wanted. And, this is all the developer believes he needs to give in order to get what he wants, **TWO OUT OF FOUR.**

If you believe that the proposal is heavy on the wealth created by the rezoning, and light on the benefits to the community, you must conclude that the numbers when analyzed express something very different than a high regard for the concerns of City Council, and very little regard for the goal of affordable housing.

IS THERE ANY REASON TO APPROVE THIS DEVELOPMENT PROPOSAL?

Thank you,

Don Cal
1059 Pentrelew Place