
MEMORANDUM



DATE: 26 January 2017
TO: Alec Johnston, City of Victoria
FROM: Blair Erb, Coriolis Consulting Corp.
RE: Summary of Financial Analysis for 1201 Fort Street and 1050 Pentrelew Place

1.0 Introduction

A developer has submitted an application to amend the Official Community Plan (OCP) and rezone the adjacent properties at 1201 Fort Street and 1050 Pentrelew Place to allow the development a 93 unit multifamily residential project.

Under the City of Victoria's Density Bonus Policy, the value of the Community Amenity Contribution (CAC) from a rezoning that requires an OCP amendment is negotiated¹. The negotiated CAC value is based on the amenity needs created by the new development, but with the constraint that the CAC should not exceed about 75% of the estimated change in property value due to the rezoning. Therefore, as part of the approach to processing rezoning applications that involve an OCP amendment, the City evaluates the change in the property's value associated with the approval of the rezoning.

Coriolis Consulting Corp. was retained by the City of Victoria to analyze the financial performance of the proposed project and to estimate the change in property value associated with the proposed rezoning. This financial analysis will be used as input to the evaluation of voluntary amenity contributions by the applicant.

For our analysis, we were provided detailed information about the development proposal. Some of this information was available from the City and some was only available directly from the developer. The information provided by the developer is confidential. In addition, our analysis contains information that could be harmful to the developer's business interests. Therefore, we shared the details of our analysis with City staff, but documented our conclusions in summary form without disclosing the details of the analysis.

This memo summarizes the results of the analysis that we completed during December 2016.

2.0 Approach to Analysis

To estimate the change in property value associated with the rezoning, we:

1. Reviewed the rezoning application.
2. Reviewed cost information for the project provided by the applicant.
3. Examined recent sales prices of new strata apartment units and townhouse units in Victoria to help estimate the potential revenues that could be expected from the planned units at the site.

¹ Outside of the Core Area, most rezonings that do not require an OCP amendment are subject to a fixed rate target CAC equal to \$5 per square foot of bonus floorspace beyond the OCP maximum density or existing zoning, whichever is higher. For context, if the fixed rate was applied to this rezoning, we estimate that the total CAC value would be about \$61,000. This was calculated as follows: Rezoned floorspace of 111,370 sf less 99,170 sf of floorspace at base density (60,706 sf of R1-B land at 1.0 FSR + 24,040 sf of R3-AM-2 land at 1.6 FSR) = 12,200 sf of bonus floorspace x \$5 per square foot = \$61,000.

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4. Reviewed indicators of current construction costs to determine the likely development costs for the proposed project.
 5. Created a detailed financial proforma (land residual analysis) to estimate the financial performance of the proposed project and the supportable land value after rezoning.
 6. Estimated the value of the property under existing use and zoning, a combination of R1-B (single family) and R3-AM-2 (multifamily).
 7. By comparing the results of steps 5 and 6, estimated the change in property value associated with the rezoning and the implications for potential voluntary community amenity contributions by the developer.
 8. Summarized the results of the analysis.

3.0 Proposed Development Project

1201 Fort Street is currently improved with institutional uses while 1050 Pentrelew Place is improved with an older single family house (on a separate legal lot). The total combined site area is 84,746 square feet which is divided into two different existing zoning districts:

- Part of the overall combined site (24,040 square feet) is currently zoned R3-AM-2, a multifamily zoning district that allows a maximum density of 1.6 FSR (including bonuses for underground resident parking and open space) and a maximum height of 4 storeys.
- Part of the site (60,706 square feet) is currently zoned R1-B, which allows single family houses. This part of the site includes a portion of the existing institutional space as well as the existing single family house at 1050 Pentrelew Place.

The proposed rezoning is for 111,370 square feet of multifamily residential floorspace (93 units) in two apartment buildings (81 apartment units) plus a series of townhouse units (12 townhouse units). Most of the parking for the project will be located in an underground parking structure. The overall proposed density is about 1.38 FSR.

The project is planned to be constructed in phases with the underground parking and Apartment Building A (47 units) built in the first phase, followed by Apartment Building B (34 units) and the townhouse units.

4.0 Financial Analysis of Proposed Project

To estimate the land value supported by the proposed rezoning concept, we used a multifamily land residual approach that includes the following main steps:

- Estimate the revenues that could be generated by the completed proposed development project.
- Deduct the estimated total costs of the development project (excluding land), after allowing for all rezoning related costs.
- Deduct an industry standard developer's target profit margin.
- Calculate the remaining residual, which is the land value supported by the development concept.

We created a proforma to analyze the expected financial performance of the proposed project and to estimate the value of the land supported by the proposed rezoning. The assumptions for the analysis are based on our own independent review of revenues and costs at comparable projects with consideration of cost information provided by the applicant. The construction costs include an allowance to construct a publicly accessible pedestrian greenway through the subject site. We have included the cost for this item in our

analysis, but note that it could be considered an amenity. If so, the cost of the publicly accessible pedestrian greenway should be deducted from any amenity contribution provided by the applicant.

Based on our proforma analysis, we estimate that the land value supported by the proposed rezoning is about \$9.0 million (rounded) before any CAC (but including the cost of the on-site publicly accessible pedestrian greenway).

5.0 Estimated Value Under Existing Use and Zoning

The subject site is divided into two different existing zoning districts. To estimate the value of the site under the existing zoning, we used a different approach for the two different existing zoning districts:

- For the R3-AM-2 portion of the site, we used a multifamily land residual approach (as used in the rezoning analysis above), assuming a maximum permitted density of 1.6 FSR. This analysis assumes that all of the resident parking is located underground which is a requirement to achieve the full permitted 1.6 FSR.
- For the R1-B portion of the site, we estimated the value of the property assuming it is subdivided into a series of single family lots (meeting the minimum lot size requirements under existing zoning), less the costs associated with creating the subdivision (e.g., roads, services) and a land development profit margin. We then added on the market value of the existing single family property (1050 Pentrelew Place).

The combined value of our R1-B estimate and R3-AM-2 estimate creates the overall estimated value under existing zoning.

5.1 R3-AM-2 Land Value Estimate

We estimate that the market value of the R3-AM-2 portion of the site under existing zoning is about \$4.6 million (rounded).

5.2 R1-B Value Estimate

The applicant's land surveyor created a subdivision concept for the portion of the property currently zoned R1-B. The concept meets the minimum lot size requirements in the zoning district as well as the City's requirement for pan handle lot sizes.

This concept indicates that the site could be subdivided into seven R1-B lots² with an average lot size of about 6,490 square feet each. In addition, the existing house and lot at 1050 Pentrelew would still exist.

We estimate that the combined land value supported by the seven-lot subdivision plus the existing house (and lot) at 1050 Pentrelew Place is about \$4.9 million (rounded).

5.3 Overall Value Under Existing Zoning

Our estimate of the combined value of the R3-AM-2 site, the existing house at 1050 Pentrelew Place and the rest of the R1-B land is \$9.5 million (rounded as shown in Exhibit 2).

² This subdivision plan should be considered illustrative only. There are likely a number of different ways that the site could be subdivided, each with different lot sizes and lot configurations. This is just one option. However, for the purpose of this analysis, we have assumed that the site could be subdivided into seven lots with an average lot size of about 6,490 square feet each.

Exhibit 2 – Estimated Property Value Under Existing Zoning

	Estimated Value
R3-AM-2 Portion of Site	\$4,610,000
Seven Lot R-1B Subdivision	\$3,986,000
1050 Pentrelew (R1-B)	\$950,000
Total (rounded)	\$9.5 million

6.0 Conclusions and Implications

Exhibit 3 summarizes our estimated values for each scenario and the estimated change in property value due to rezoning.

Exhibit 3 – Estimated Change in Property Value Due to Rezoning

	Estimated Value
Value based on Zoning	\$9.5 million
Estimated Land Value Under Applicant's Proposal Before Amenity Contribution	\$9.0 million
Estimated Increase in Property Value Due to Rezoning	none

Our analysis indicates that the value of the subject site will not increase due to the proposed rezoning application. The proposed rezoning does not result in an increase in land value for a variety of reasons including:

- The overall proposed density of 1.38 FSR is relatively low for an apartment project in Victoria due to the large amount of on-site open space and inclusion of townhouse units. Most apartment projects in Victoria achieve higher densities.
- Part of the site is already zoned for 1.6 FSR which is higher than the proposed 1.38 FSR for the overall site. Therefore, the value for this portion of the site will decline due to the rezoning.
- The remainder of the site is zoned R1-B which permits single family housing. Analysis we have previously completed in Victoria indicates that a relatively high apartment density is required before rezoning of single family lots creates additional land value.
- The proposed development requires the assembly of the existing house at 1050 Pentrelew Place. Assembly of adjacent single family homes is costly.
- The proposed development includes underground parking for the townhouse component, which is costly in comparison to grade level garage parking.
- The rezoning includes costs to create a new publicly accessible pedestrian greenway through the property.

If the City and the applicant both support the inclusion of the publicly accessible pedestrian greenway within the project, we recommend that this be considered the community amenity contribution from the project. The project cannot support any significant additional amenity contribution based on an increase in land value created by the rezoning application.

It should be noted that, due to the large size of the project, the results of the analysis are sensitive to small changes in the revenue and cost assumptions and small changes to the overall development concept. If the scale or design of the project changes, resulting in additional floorspace, then this analysis should be updated.