

Schedule 7 to the Minutes of the Planning Committee meeting of Richmond City Council held on Tuesday, May 4, 2021.



City of Richmond



TO: MAYOR & EACH COUNCILLOR
FROM: CITY CLERK'S OFFICE

Memorandum
Planning and Development Division
Policy Planning

To: Mayor and Councillors **Date:** April 29, 2021
From: John Hopkins, MCIP, RPP **File:** 08-4057-08/2021-Vol 01
Director, Policy Planning
Re: Status of Housing Referrals and Potential 2022 OCP update

The purpose of this memorandum is to provide Council with a copy of the full report from G.P. Rollo on the financial feasibility analysis for the Low End Market Rental (LEMR) program and a proposed market rental housing program.

A 1-page executive summary of this report is attached to a staff report entitled "Options to Secure Market Rental Housing in New Development and Options to Increase Low End Market Rental (LEMR) Contributions", dated April 19, 2021, from the Director, Policy Planning which is on the May 4, 2021 Planning Committee agenda.

Some members of the public have requested copies of the full report from G.P. Rollo. As a result, staff intend to release the full report from G.P. Rollo to those who request it beginning Monday, May 3, 2021.

If you have any questions related to this memorandum, please contact me at 604-276-4279.

John Hopkins, MCIP, RPP
Director, Policy Planning

JH:cas

Att. 1: Housing Program Financial Review dated April 27, 2021 by G.P. Rollo & Associates

cc: Joe Erceg, General Manager, Planning & Development
Wayne Craig, Director, Development
Kim Somerville, Director, Community Social Development
Diana Nikolic, Senior Planner/Urban Design
Cody Spencer, Program Manager, Affordable Housing

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City of Richmond Housing Program Financial Review, Executive Summary

G. P. Rollo & Associates (GPRA) has been retained by the City of Richmond (the City) to prepare an analysis to complete a financial review of two City Housing programs:

- The Low End Market Rental (LEMR) housing program; and
- A proposed market rental housing program, which would require a minimum floor area allocation for market rental as part of private market condominium developments.

Specifically, the City has requested assistance in ensuring the program parameters are financially feasible and appropriate relative to current market conditions and needs.

GPRA has completed this analysis and has the following to report:

1. Rental Survey: We found that the median rental rate for units listed for rent were around \$2.70 per square foot, with that translating to an average monthly rent of \$2,300 for a two bedroom 855 square foot unit and require a household income of at least \$88,200 a year to meet CMHC guidelines for affordability. Purpose built rental buildings only had Studio to two bedroom units which were smaller on average than the listings on the web and thus resulted in smaller monthly rents for tenants, and we note that there is generally an inverse relationship between unit size and rent per square foot (i.e. as units increase in size the rental rate per square foot goes down and vice versa). This in part explains the lower rental rate outside City Centre as units in wood frame tend to be somewhat larger than concrete units.
2. Economic Analysis of Variable Mixes of Market Rental and LEMR: GPRA prepared proforma analysis to determine the land values that could be supported by a hypothetical two acre site in City Centre developed in concrete at 3.0 FSR and in wood frame at 2.0 FSR, and townhouse at 1.2 FSR, as well as outside City Centre in wood frame at 1.2 FSR with 10%, 15%, 20%, 50%, and 100% of the residential floor area rented at the median market rent identified through our survey. Our analysis indicates that the City could require 15% of the gross building area for market rentals if LEMR requirements do not change. With an increase in built LEMR requirements to 15% GPRA recommends requiring no more than 10% of the gross building area for market rentals. Although the analysis does indicate that projects could be viable with a stacked contribution of 15% market rental and 15% LEMR GPRA has based its viability on being able to support the lowest of land value ranges provided by the City's real estate staff. As such we have concerns that there are a significant number of properties in the City that may trade for well above the lowest values indicated and as such our recommendation is intended to reflect this reality. To recommend otherwise would risk pushing many developments into being economically unfeasible at this time.
3. Impact Mitigation: In general, best practices would be to inform builders and developers early in advance of proposed changes and to grandfather in-stream applications and consider a graduated roll out to allow for developers to make adjustments in their decision making processes. The graduated rollout is recommended specifically because there is a wide range of land values reported by the City's real estate staff and this would allow time for expectations at the higher end of pricing to be curtailed. GPRA is of the opinion that there is little the City can do to significantly improve the economics of private developments through fees waivers or reductions.
4. Potential to Increase LEMR Cash-In-Lieu Rates, introduce MR CIL: GPRA prepared economic analysis using current market revenues and costs to determine the Cash-In-Lieu rate for LEMR that would be the equivalent to providing built LEMR units. GPRA suggests that the City consider increasing rates to \$12 per square foot for townhouses and \$15 per square foot for apartments. These increases are close to a 50% increase over current rates for townhouses and wood frame apartments and thus we suggest that the single family rate be increased from \$4 to \$6 per square foot. Additional analyses have been prepared to estimate the equivalent CIL rates should the City increase built LEMR requirements from 10% to either 15% or 20%. GPRA has also prepared analysis for a CIL for a 10% market rental requirement with recommended rates of \$3.50 for wood frame apartments and \$1.75 per square foot buildable for townhouses in City Centre, and \$2.00 for wood frame apartments and \$1.75 per square foot buildable for townhouses Outside City Centre.

April 27, 2021

Cody Spencer
Program Manager, Affordable Housing
City of Richmond
6911 No. 3 Road Richmond, BC, V6Y 2C1

Re: Housing Program Financial Review

G. P. Rollo & Associates (GPRA) has been retained by the City of Richmond (the City) to prepare an analysis to complete a financial review of two City Housing programs:

- The Low End Market Rental (LEMR) housing program; and
- A proposed market rental housing program, which would require a minimum floor area allocation for market rental as part of private market condominium developments.

Specifically, the City has requested assistance in ensuring the program parameters are financially feasible and appropriate relative to current market conditions and needs.

GPRA has completed this analysis and has the following to report:

1) Rental market survey:

GPRA conducted research to identify the current median rental rates for private market rental units and rented condominium units less than 10 years old in the City, both within City Centre and outside City Centre. Our research consisted of interviews with the building managers of 3 purpose built rental building completed within the last 10 years as well as a web search of current listings of apartments for rent in the City.

TABLE 1: Survey of Rental Rates per Square Foot in Richmond

	Park Residences	Camelia	Riverport Flats	Web Search
Studio (low)	\$2.44	\$3.05	\$2.13	-
Studio (high)	\$2.89	\$3.14	\$2.82	-
One Bed (low)	\$2.70	\$2.28	\$2.96	\$2.57
One Bed (high)	\$2.91	\$2.70	\$3.04	\$4.18
Two Bed (low)	\$2.50	\$2.26	\$2.50	\$2.11
Two Bed (high)	\$2.70	\$2.26	\$2.50	\$3.01
Three Bed (low)	-	-	-	\$2.32
Three Bed (high)	-	-	-	\$2.85

We found that the median rental rate for units listed for rent were around \$2.70 per square foot, with that translating to an average monthly rent of \$2,300 for a two bedroom 855 square foot unit and require a household income of at least \$88,200 a year to meet CMHC guidelines for affordability. The purpose built rental buildings only had Studio to two bedroom units which were smaller on average than the listings on the web and thus resulted in smaller monthly rents for tenants, with the lowest being Riverport Flats that had studio units renting for \$800 per month and would require an annual income of \$34,200. Rents were lower outside City Centre (closer to \$2.50 per square foot) and we note that there is generally an inverse relationship between unit size and rent per square foot (i.e. as units increase in size the rental

rate per square foot goes down and vice versa). This in part explains the lower rental rate outside City Centre as units in wood frame tend to be somewhat larger than concrete units.

2) Economic Analysis of wood frame and concrete developments with variable components of market rental and LEMR:

The analysis is focused on determining the maximum a developer could pay for the hypothetical site to be developed at the density indicated with requirements that they provide varying portions of the built area for market rentals and still contribute built Low End Market Rentals (LEMR) or a cash-in-lieu (CIL) for projects smaller than 60 units and still achieve an acceptable return on their investment. The analysis takes revenues as a given, based on market research into current pricing for strata units in the City that are comparable to that being modeled and the rental pricing indicated by the research and the City's LEMR rental rates. Hard costs have been taken from published information from Altus¹ while soft costs are derived from research into consultant cost, municipal and other regulatory agency fees and charges, and standard development costs. Interest costs are based on current costs for financing projects and estimated duration of development and marketing. An allowance is made for a profit on all project costs (15% for the strata portion of the project weighted to reflect the proportionate share of the building represented by strata, while the rental components contribute to the overall revenue based on a valuation estimated using a 3.5% Cap Rate for disposition). The land value supported is the maximum which allows the project to achieve that minimum return on costs and thus keeps the project viable to investors and financiers.

GPRA were asked to identify the potential lift in land value compared to a base land value for development sites. This required an estimate of that "base value," which we requested the City's real estate department to provide based on recent land sales transactions. What they indicated was that lands for development at:

- higher densities (concrete high rise) ranged from \$241 per square foot of land to \$710, or \$20.97 million to \$61.89 million for a 2 acre parcel;
- medium densities (wood frame low rise) ranged from \$195 to \$350, or \$17 million to \$30.46 million for a 2 acre parcel;
- lower densities (townhouse) ranged from \$59.50 to \$289.50, or \$5.18 million to \$25.22 million.

Land Lift conceptually is an estimate of how the value of a parcel of land changes with an increase in density or a change in zoning which permits a change from one use to (presumably) a more profitable use. To estimate this GPRA takes the land value supported by the proforma exercise (methodology indicated above) for a specific density and mix us uses/tenures in the development specified for that scenario and subtracts the base land value estimate provided by the City's real estate staff. Ostensibly these base values indicate the minimum land value one could potentially acquire a parcel for that already has zoning/density in place. In order to understand the actual lift for a specific project one would need to make an assessment of what the base value is, either through a proforma exercise, and appraisal, or through the assessed value from the BC Assessment Authority (BCAA). This value can vary depending on a variety of factors, including current zoning and conditions, and whether assumptions are made about the likelihood of rezoning or redevelopment in the case of BCAA.

¹ GPRA requested comment from Altus on costs for wood frame construction higher than 6 storeys but had not received an answer at the time this report was prepared.

GPRA was also asked to assess each of the scenarios analyzed in terms of the financial difficulty to investors, ranked on a scale of 1 to 5:

1. indicates that the project is very challenging, generally not supporting any land value;
2. indicates that the project is challenging, supporting a land value lower than base values for land for that density reported by the City’s real estate staff;
3. indicates that a developer is likely neutral, largely due to the land value supported being very close to the base reported by City real estate staff;
4. indicates most developers would view the project as feasible, with land value sufficiently higher than the base value reported by the City’s real estate staff;
5. indicates a high degree of feasibility, with a supported land value beyond the median value reported by the City’s real estate staff.

Market Rental Analysis:

GPRA prepared proforma analysis to determine the land values that could be supported by a hypothetical two acre site in City Centre developed in concrete at 3.0 FSR and in wood frame at 2.0 FSR, as well as outside City Centre in wood frame at 1.2 FSR with 10%, 15%, 20%, 50%, and 100% of the residential floor area rented at the median market rent identified in the previous Task as \$2.70 per square foot for concrete units and \$2.65 per square foot for wood frame units in City Centre and \$2.60 per square foot for wood frame units outside City Centre. An analysis of townhouse at a density of 1.2 FSR in City Centre under the same parameters has also been prepared with the one difference that LEMR contributions are modeled as a CIL at current City rates rather than built units. Please note that all analysis of market rentals utilizes both the City’s current policy providing a 0.1 FSR bonus in density for market rentals (applied to the entire site, but the entirety of the bonus must be utilized as market rental space) as well as the policy requiring built LEMR units at 10% of GBA or a CIL payment for projects less than 60 units unless otherwise indicated.

City Centre, Concrete: The analysis indicates that there is potential to request up to 20% market rental from developments at 3.0 FSR (plus 0.1 FSR bonus density yielding an effective density of 3.1 FSR) in City Centre before it becomes entirely unfeasible for developers to achieve returns that would enable them to finance projects. This density yields 316 total apartment units based on our assumptions of average unit size. The breakdown of strata, market, and LEMR units varies with the composition required by each scenario.

TABLE 2: Market Rental Analysis, Concrete Construction in City Centre at 3.0 FSR

	10% MR	15% MR	20% MR	50% MR	100% MR
Concrete	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Supported Land Value	\$30,318,198	\$28,103,840	\$25,790,416	\$9,565,048	-\$7,605,916
Value per sq.ft. of land	\$348.01	\$322.59	\$296.03	\$109.79	-\$87.30
Financial Difficulty (1 -5)	4	4	3	1	1
Lift (to base City Reported Value)	\$9,345,800	\$7,131,443	\$4,818,018	-\$11,407,350	-\$28,578,314

Financial difficulty scale (1: very challenging, 2: challenging, 3: neutral, 4: feasible, 5: very feasible)

Base land value used for comparison = \$20.97 million for a 2 acre parcel

Scenarios 1 and 2 with 10% and 15% market rentals support a land value of \$348 and \$323 per square foot of land which are well above the base value of \$241 the City’s real estate department has indicated land trades at (resulting in the ranking of 4 for each of these on the financial difficulty scale). However, Scenario 3 is moderately close to that base value at \$296 which is why it has been ranked at 3, indicating neutral difficulty, and Scenarios 4 and 5 support a land value significantly below that base and as such are

considered to be unviable. It is important to keep in mind that the base value reported does not represent the continuum of land sales in City Centre for development of residential and to be cognizant that there may be developers who have acquired land for values significantly higher than this base value and for them it may not be financially feasible to provide 20% market rentals, or perhaps even 10%. We will discuss this more later in the report.

City Centre, Wood Frame: The analysis indicates that there is potential to request up to 20% market rental from developments at 2.0 FSR (plus 0.1 FSR in bonus density in return for market rental, yielding an overall density of 2.1 FSR) in wood frame in City Centre before it becomes entirely unfeasible for developers to achieve returns that would enable them to finance projects. This density yields 201 total apartment units based on our assumptions of average unit size. The breakdown of strata, market, and LEMR units varies with the composition required by each scenario.

TABLE 3: Market Rental Analysis, Wood Frame Construction City Centre at 2.0 FSR

	10% MR	15% MR	20% MR	50% MR	100% MR
Wood Frame, City Centre	Scenario 6	Scenario 7	Scenario 8	Scenario 9	Scenario 10
Supported Land Value	\$21,722,791	\$20,847,469	\$19,933,669	\$13,645,631	\$7,107,949
Value per sq.ft. of land	\$249.34	\$239.30	\$228.81	\$156.63	\$81.59
Financial Difficulty (1 -5)	4	4	3	1	1
Lift (to base City Reported Value)	\$4,723,936	\$3,848,615	\$2,934,815	-\$3,353,223	-\$9,890,906

Financial difficulty scale (1: very challenging, 2: challenging, 3: neutral, 4: feasible, 5: very feasible)

Base land value used for comparison = \$17 million for a 2 acre parcel

As with the concrete scenario the land values supported with 10% and 15% market rentals is sufficiently higher than the base value from real estate that GPRA considers them feasible, while 20% is much closer to that base value which leads to the neutral score on development feasibility. As with the concrete example the viability disappears at higher concentrations of market rental in a project.

Outside City Centre, Wood Frame: The analysis indicates that there is potential to request up to 10% market rental from developments at 1.2 FSR (plus 0.1 FSR in bonus density in return for market rental, yielding an overall density of 1.3 FSR) in wood frame outside City Centre before it becomes entirely unfeasible for developers to achieve returns that would enable them to finance projects. This density yields 130 total apartment units based on our assumptions of average unit size. The breakdown of strata, market, and LEMR units varies with the composition required by each scenario. GPRA has been asked to specifically comment on the breakdown at this density, however, and notes that only viable scenario (Scenario 6a) yields 100 strata units, 15 market rentals and 15 LEMR units (the 15 LEMR units remain constant for this specific set of scenarios), while Scenario 7a has 22 market rentals, Scenario 8a 30 market rentals, Scenario 9a 75 market rentals, and Scenario 10a 115 market rentals.

TABLE 4: Market Rental Analysis, Wood Frame Construction outside City Centre at 1.2 FSR

	10% MR	15% MR	20% MR	50% MR	100% MR
Wood Frame, Outside City Centre	Scenario 6a	Scenario 7a	Scenario 8a	Scenario 9a	Scenario 10a
Supported Land Value	\$17,345,954	\$16,722,974	\$16,084,653	\$11,776,684	\$7,420,181
Value per sq.ft. of land	\$199.10	\$191.95	\$184.63	\$135.18	\$85.17
Financial Difficulty (1 -5)	3	2	2	1	1
Lift (to base City Reported Value)	\$347,100	-\$275,880	-\$914,202	-\$5,222,171	-\$9,578,674

Financial difficulty scale (1: very challenging, 2: challenging, 3: neutral, 4: feasible, 5: very feasible)

Base land value used for comparison = \$17 million for a 2 acre parcel

Unlike the other scenarios the supported land value for 10% market rentals is relatively close to the base value from real estate that GPRA considers this scenario feasible, while viability disappears at higher

concentrations of market rental in a project. It is our belief that this is primarily because a density of 1.2 FSR is lower than developers would most likely seek in order to consider pursuing an apartment project outside City Centre. In support of this, GPRA conducted sensitivity analysis looking at wood frame outside City Centre at a 2.0 FSR and found that the viability was very similar to that of wood frame in City Centre and we speculate that this would be true for densities between 1.5 and 2.0 FSR that GPRA believes are more likely densities developers would seek for new wood frame developments outside City Centre.

City Centre, Townhouse: The analysis indicates that there is potential to request up to 50% market rental from developments at 1.2 FSR (plus 0.1 FSR in bonus density in return for market rental yielding an overall density of 1.3 FSR) townhouse in City Centre before it becomes entirely unfeasible for developers to achieve returns that would enable them to finance projects. However, in GPRA's opinion there is a great deal of uncertainty regarding the amount of land that would trade at the low end base value of \$59.50 and would suggest consistency with other analysis indicating 20% as a target.

TABLE 5: Market Rental Analysis, Townhouse Construction, City Centre at 1.2 FSR

	10% MR	15% MR	20% MR	50% MR	100% MR
Townhouse Scenario	Scenario 11	Scenario 12	Scenario 13	Scenario 14	Scenario 15
Supported Land Value	\$16,264,700	\$15,738,599	\$15,003,008	\$10,285,091	\$1,249,420
Value per sq.ft. of land	\$186.69	\$180.65	\$172.21	\$118.06	\$14.34
Financial Difficulty (1 -5)	4	4	4	3	1
Lift (to base City Reported Value)	\$11,081,931	\$10,555,831	\$9,820,239	\$5,102,322	-\$3,933,349

Financial difficulty scale (1: very challenging, 2: challenging, 3: neutral, 4: feasible, 5: very feasible)

Base land value used for comparison = \$5.18 million for a 2 acre parcel

Low End Market Rental Analysis:

GPRA has prepared proforma analysis to determine the land values that could be supported by a hypothetical two acre site in City Centre developed in concrete at 3.0 FSR and outside City Centre in wood frame at 2.0 FSR with the current 10% requirement and then 15% and 20% of the residential floor area rented at current LEMR rates:

- Bachelor LEMR: \$811/month
- One Bedroom LEMR: \$975/month
- Two Bedroom LEMR: \$1,218/month
- Three Bedroom LEMR: \$1,480/month

TABLE 6: LEMR Analysis, Concrete and Wood Frame in City Centre and Wood Frame Outside City Centre

	10% LEMR	15% LEMR	20% LEMR
Concrete	Scenario 16a	Scenario 16c	Scenario 16d
Supported Land Value	\$32,731,196	\$28,942,303	\$24,979,751
Value per sq.ft. of land	\$375.70	\$332.21	\$286.73
Financial Difficulty (1 -5)	4	4	3
Lift (to base City Reported Value)	\$11,758,799	\$7,969,906	\$4,007,353
Wood Frame	Scenario 17a	Scenario 17c	Scenario 17d
Supported Land Value	\$21,626,298	\$19,556,948	\$17,495,516
Value per sq.ft. of land	\$248.24	\$224.48	\$200.82
Financial Difficulty (1 -5)	4	4	3
Lift (to base City Reported Value)	\$4,627,444	\$2,558,094	\$496,662
Wood Frame, Outside City Centre	Scenario 6b	Scenario 6b (2)	Scenario 6b (3)
Supported Land Value	\$17,128,619	\$15,844,807	\$14,524,152
Value per sq.ft. of land	\$196.61	\$181.87	\$166.71
Financial Difficulty (1 -5)	3	1	1
Lift (to base City Reported Value)	\$129,764	-\$1,154,047	-\$2,474,702

Financial difficulty scale (1: very challenging, 2: challenging, 3: neutral, 4: feasible, 5: very feasible)

Base land value used for comparison: Concrete = \$20.97 million for a 2 acre parcel; Wood Frame = \$17 million for a 2 acre parcel

City Centre, Concrete & Wood Frame: The analysis indicates that could be potential to request up to 20% LEMR units as an in-kind contribution from concrete developments at 3.0 FSR in City Centre and wood frame at 2.0 FSR before it becomes unfeasible for developers to achieve returns that would enable them to finance projects.

However, at 20% with updated LEMR rental rates the supported land value is very close to the base value for land in City Centre and likely would push many developers and land holders into deeming it unfeasible.

Outside City Centre, Wood Frame: The analysis indicates that there is not potential to request more than the current 10% LEMR units from developments at 1.2 FSR in wood frame outside City Centre without it being unfeasible for developers to achieve returns that would enable them to finance projects.

At that, the 10% built LEMR the supported land value is very close to the base value for land outside City Centre for wood frame development, and likely would challenge many developers to try and make it economically viable. It is our opinion that the reasons for this are twofold: first, the density of 1.2 FSR is likely lower than required for developers and a more likely density we would expect developers to seek would be between 1.5 and 2.0 FSR; second, it is possible that land might be acquired outside City Centre for values less than the base indicated by the City's real estate staff, perhaps more in line with the values that were assigned to townhouse lands.

Stacked Contribution Analysis:

GPRA has prepared proforma analysis to determine the land values that could be supported by a hypothetical two acre site in City Centre developed in concrete at 3.0 FSR and wood frame at 2.0 FSR (plus the 0.1 FSR bonus density) and outside City Centre in wood frame at 1.2 FSR (plus the 0.1 FSR bonus density) with a mix of “stacked” contributions ranging from a mix of market and LEMR from 20% to 30% of the GBA. Scenarios analyzed were:

- comprised of 10% of floor area rented at median market rents identified previously and an additional 20% of floor area rented at current LEMR rents (at 1.2 FSR = 130 total units with 84 strata/15 MR/31 LEMR);
- comprised of 10% of floor area rented at median market rents identified previously and an additional 15% of floor area rented at current LEMR rents (at 1.2 FSR = 130 total units with 92 strata/15 MR/23 LEMR);
- comprised of 15% of floor area rented at median market rents identified previously and an additional 15% of floor area rented at current LEMR rents (at 1.2 FSR = 130 total units with 84 strata/23 MR/23 LEMR);
- comprised of 5% of floor area rented at median market rents identified previously and an additional 15% of floor area rented at current LEMR rents (at 1.2 FSR = 130 total units with 99 strata/8 MR/23 LEMR);
- comprised of 5% of floor area rented at median market rents identified previously and an additional 20% of floor area rented at current LEMR rents (at 1.2 FSR = 130 total units with 91 strata/8 MR/31 LEMR)

This analysis indicates that this “stacked” contribution is marginally feasible in either concrete or wood frame in City Centre, but unfeasible outside City Centre:

TABLE 7: Stacked Analysis

	10%MR + 20%LEMR	10%MR + 15%LEMR	15%MR + 15%LEMR	5%MR + 15%LEMR	5%MR + 20%LEMR
Concrete	Scenario 18a	Scenario 18b	Scenario 18c	Scenario 18d	Scenario 18e
Supported Land Value	\$21,657,003	\$26,076,707	\$23,730,424	\$28,307,905	\$24,034,623
Value per sq.ft. of land	\$248.59	\$299.32	\$272.39	\$324.93	\$275.88
Financial Difficulty (1 -5)	3	4	3	4	3
Lift (to base City Reported Value)	\$684,605	\$5,104,309	\$2,758,026	\$7,335,507	\$3,062,226
	10%MR + 20%LEMR	10%MR + 15%LEMR	15%MR + 15%LEMR	5%MR + 15%LEMR	5%MR + 20%LEMR
Wood Frame	Scenario 19a	Scenario 19b	Scenario 19c	Scenario 19d	Scenario 19i
Supported Land Value	\$17,102,483	\$19,426,806	\$18,508,826	\$18,508,826	\$18,047,655
Value per sq.ft. of land	\$196.31	\$222.99	\$212.45	\$212.45	\$207.16
Financial Difficulty (1 -5)	3	3	3	3	3
Lift (to base City Reported Value)	\$103,629	\$2,427,952	\$1,509,972	\$1,509,972	\$1,048,800
	10%MR + 20%LEMR	10%MR + 15%LEMR	15%MR + 15%LEMR	5%MR + 15%LEMR	5%MR + 20%LEMR
Wood Frame, Outside City Centre	Scenario 19e	Scenario 19f	Scenario 19g	Scenario 19h	Scenario 19j
Supported Land Value	\$14,467,321	\$15,927,447	\$15,278,959	\$16,560,477	\$15,131,596
Value per sq.ft. of land	\$166.06	\$182.82	\$175.38	\$190.09	\$173.69
Financial Difficulty (1 -5)	1	1	1	1	1
Lift (to base City Reported Value)	-\$2,531,533	-\$1,071,408	-\$1,719,895	-\$438,377	-\$1,867,258

Financial difficulty scale (1: very challenging, 2: challenging, 3: neutral, 4: feasible, 5: very feasible)

Base land value used for comparison: Concrete =\$20.97 million for a 2 acre parcel; Wood Frame = \$17 million for a 2 acre parcel

The supported land values for the wood frame outside City Centre are lower than the base value indicated by the City for land for development. As indicated above, GPRA believes that the density of 1.2 FSR is likely too low to support land values indicated by the City's real estate staff for wood frame development. However, if we assume that land could be acquired for values closer to that indicated for townhouses the wood frame scenarios outside City Centre would demonstrate similar viability to the wood frame in City Centre. As with the initial Market Rental analysis GPRA also believes that a density of 1.2 FSR used in the analysis for wood frame outside City Centre may be lower than developers would seek and that higher densities between 1.5 and 2.0 FSR in wood frame would deliver results comparable to the wood frame analysis in City Centre at 2.0 FSR.

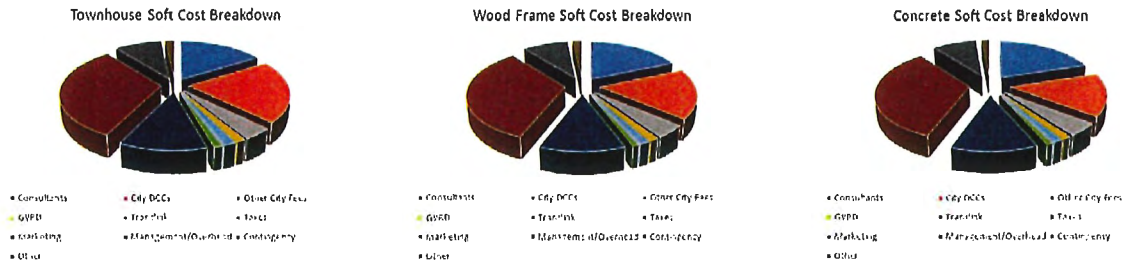
3) Impact Mitigation:

GPRA has been asked to comment on potential approaches to mitigating the impacts from greater rental housing contribution requirements on in-stream and future developments. In general, best practices would be to inform builders and developers early in advance of proposed changes and to grandfather in-stream applications. Additional considerations would be to consider a phased increase approach, wherein over a period of time to be determined new requirements would be introduced at reduced rates for a period of time before rising to either an intermediate rate or to the final new rate. These measures allow for developers to plan accordingly and to adjust their internal financial analysis of projects to reflect the City's new requirements. It will also allow time for land owners to be educated on how this would impact the speculative value of their property and potentially curb rises in the values that land trades at in the City.

An example of a potential phased rollout might be if Council were to adopt changes in requirements for LEMR and Market Rental by mid 2021, the City might target these new requirements to take effect January 1, 2022. All applications received prior to January 1, 2022 would be subject to current requirements. Any applications received after January 1, 2022 might be required to contribute 50% of whatever the increase in requirements is currently (i.e. if LEMR were currently 10% going to 20%, a developer applying January 1, 2022 would be required to provide 15% built units). This intermediate period could continue for 6 months so that by June 1, 2022 any new applications would be required to meet either another intermediate requirement, or the entirety of the new requirement adopted mid-2021, giving them a full year to make adjustments as required.

Often there is pressure from the development community to seek aid from the City to offset requirements for rental housing, with requests ranging from tax abatement, to permit fee waivers, to DCC waivers. The reality, however, is that none of these items are likely to make a substantial impact to project viability on their own. An analysis of the baseline proformas for townhouse, wood frame apartments, and concrete apartments used in this exercise shows that while City DCCs make up the second largest component of soft cost items (behind management and overhead costs for development), they account for only 15% to 21% of all soft costs.

FIGURES 1-3: Soft Cost Breakdown; Townhouse, Wood Frame, Concrete Construction



Moreover, in relation to total project costs the entire City DCC requirement amounts to \$2.36 million to \$5.35 million (2.4% to 3.5% of total costs), depending on the built form. Again, not insignificant, but unless the City were to offer to entirely waive DCCs for the entire project it would likely have little to no impact on viability and in reality most jurisdictions who do offer DCC relief it is only applicable to units that are required for market rental or non-market units.

Similarly, tax abatement offers little help to developers as their property taxes during development are a negligible portion (less than 0.2%) of total project costs. There is a material benefit from tax abatement, however, to the party that owns and operates these rental units after project completion that could aid in making LEMR units less of a financial drain on operators².

Other City fees and permits account for roughly 0.7% of total project costs, so are also unlikely to significantly impact project viability on their own.

The mechanism that could improve the financial feasibility of projects with little cost to the City would be streamlining development and approval wait times, but again this would only have marginal impact financially.

It is GPRA's opinion that there are limited opportunities available to the City to more than marginally improve the financial viability of private sector projects, and these merely shift the burden to other funding options, such as general revenue. The only other option would be a form of bonus density in return for market rental and increased LEMR requirements, but the City is constrained in height by its proximity to the airport.

4) Analysis of Potential to increase current LEMR cash-in-lieu rates:

GPRA has prepared proforma analysis to assess the potential to increase LEMR contribution rates. We employed a hypothetical case study analysis looking at the supported land value from a development with in-kind (i.e. built units to be rented out at current LEMR rates) contribution and crafting an equivalent proforma analysis to determine the cash-in-lieu contribution that supports an equivalent land value. This analysis was undertaken for townhouse, wood frame, and concrete apartments at the densities used for other analyses in this project. For single family development, as there is not an in-kind requirement, we propose an increase at a rate equivalent to that indicated by the analysis of the townhouse and apartments.

² Although no analysis of tax abatement for ongoing operations has been part of this project GPRA is expressing lessons learned from previous work that has sought to answer this question.

TABLE 8: New CIL Analysis

	10% LEMR	Indicated CIL	Current CIL	Recommended
Townhouse @ 1.2 FSR	Scenario 20a	Scenario 20b		
Supported Land Value	\$14,859,692	14,861,135		
Value per sq.ft. of land	\$170.57	\$170.58		
CIL per Sq.Ft. GBA		\$15.79	\$8.50	\$12.00
Wood Frame	Scenario 17a	Scenario 21		
Supported Land Value	\$21,626,298	\$21,627,376		
Value per sq.ft. of land	\$248.24	\$248.25		
CIL per Sq.Ft. GBA		\$22.92	\$10.00	\$15.00
Wood Frame, Outside City Centre	Scenario 6b	Scenario 6c		
Supported Land Value	\$17,128,619	\$17,129,173		
Value per sq.ft. of land	\$196.61	\$196.62		
CIL per Sq.Ft. GBA		\$24.58	\$10.00	\$15.00
Concrete	Scenario 16a	Scenario 22		
Supported Land Value	\$32,731,196	\$32,733,217		
Value per sq.ft. of land	\$375.70	\$375.73		
CIL per Sq.Ft. GBA		\$16.69	\$14.00	\$15.00

- When using current revenue and cost information the indicated CIL rates for townhouse, wood frame, and concrete apartments are all significantly higher than current rates, although this is less pronounced for concrete apartments with current LEMR requirements. However, we fully recognize that there is a high degree of variability in developments and in the values for which land is acquired. As such GPRA suggests that the City consider increasing rates to \$12 per square foot for townhouses and \$15 per square foot for apartments. These increases are close to a 50% increase over current rates for townhouses and wood frame apartments and thus we suggest that the single family rate be increased from \$4 to \$6 per square foot. GPRA has also prepared analysis for a CIL for a 10% market rental requirement with recommended rates of \$3.50 for wood frame apartments and \$1.75 per square foot buildable for townhouses in City Centre, and \$2.00 for wood frame apartments and \$1.75 per square foot buildable for townhouses Outside City Centre.

We have also prepared analysis for potential CIL rates should the City increase the built LEMR requirements to either 15% of GBA or 20% of GBA:

TABLE 9: New CIL Analysis, 15% & 20% LEMR

	15% LEMR	Indicated CIL	Current CIL	Recommended
Townhouse @ 1.2 FSR	Scenario 20c	Scenario 20d		
Supported Land Value	\$14,056,050	14,056,227		
Value per sq.ft. of land	\$161.34	\$161.34		
CIL per Sq.Ft. GBA		\$23.96	\$8.50	\$18.00
Wood Frame	Scenario 21a	Scenario 21b		
Supported Land Value	\$19,556,948	\$19,557,646		
Value per sq.ft. of land	\$224.48	\$224.49		
CIL per Sq.Ft. GBA		\$35.57	\$10.00	\$25.00
Wood Frame, Outside City Centre	Scenario 6d	Scenario 6e		
Supported Land Value	\$15,844,807	\$15,844,923		
Value per sq.ft. of land	\$181.87	\$181.87		
CIL per Sq.Ft. GBA		\$37.43	\$10.00	\$25.00
Concrete	Scenario 22a	Scenario 22b		
Supported Land Value	\$28,942,303	\$28,942,805		
Value per sq.ft. of land	\$332.21	\$332.22		
CIL per Sq.Ft. GBA		\$32.57	\$14.00	\$25.00

	20% LEMR	Indicated CIL	Current CIL	Recommended
Townhouse @ 1.2 FSR	Scenario 20e	Scenario 20f		
Supported Land Value	\$13,235,675	13,236,540		
Value per sq.ft. of land	\$151.92	\$151.93		
CIL per Sq.Ft. GBA		\$32.28	\$8.50	\$25.00
Wood Frame	Scenario 21c	Scenario 21d		
Supported Land Value	\$17,495,516	\$17,496,097		
Value per sq.ft. of land	\$200.82	\$200.83		
CIL per Sq.Ft. GBA		\$48.17	\$10.00	\$40.00
Wood Frame, Outside City Centre	Scenario 6f	Scenario 6g		
Supported Land Value	\$14,524,152	\$14,524,695		
Value per sq.ft. of land	\$166.71	\$166.72		
CIL per Sq.Ft. GBA		\$50.64	\$10.00	\$40.00
Concrete	Scenario 22c	Scenario 22d		
Supported Land Value	\$24,979,751	\$24,980,537		
Value per sq.ft. of land	\$286.73	\$286.74		
CIL per Sq.Ft. GBA		\$49.17	\$14.00	\$40.00

As one can see, the recommended CIL rates would be significantly increased with an increase of required built LEMR to either 15% or 20%, with single family being recommended to increase to \$8 per square foot if the City increased requirements to 15% built LEMR and to \$12 per square foot were requirements increased to 20%.

5) Conclusions and Recommendations

Having completed the analyses requested by the City GPRA recommends that the City do the following:

- Increase current CIL rates for LEMR as follows:
 - Single Family: \$6.00/square foot
 - Townhouse: \$12.00/square foot
 - Wood Frame Apartment: \$15.00/square foot
 - Concrete Apartment: \$15.00/square foot

- Should the City increase built LEMR requirements, please refer to the schedule indicated in the report above;

- Consider introducing requirements for 15% of gross area be required for market rentals so long as there is not any increase in the required built LEMR areas as well;

- If the City wishes to instead focus on increasing built LEMR requirements GPRA recommends 10% market rental along with a 15% requirement for LEMR. Although the analysis does indicate that projects could be viable with a stacked contribution of 15% market rental and 15% LEMR GPRA has based its viability on being able to support the lowest of land value ranges provided by the City's real estate staff. As such we have concerns that there are a significant number of properties in the City that may trade for well above the lowest values indicated and as such our recommendation is intended to reflect this reality. To recommend otherwise would risk pushing many developments into being economically unfeasible at this time;

- Any changes the City decides to make should employ best practices of providing sufficient advance notice to developers and landholders of changes and consideration of both grandfathering in-stream applications and potentially a graduated rollout. The graduated rollout is recommended specifically because there is a wide range of land values reported by the City's real estate staff and only the lowest values have been considered in preparation for this analysis. It is our opinion that a graduated rollout would allow time for expectations at the higher end of pricing to be curtailed and avoid tipping a number projects into becoming economically unviable in the short term;

- Finally, GPRA is of the opinion that there is little the City can do to significantly improve the economics of private developments through fees waivers or reductions.

I trust that these analyses and recommendations will assist the City in answering their questions regarding the potential to increase LEMR CIL rates as well as the potential to secure market rentals as part of strata developments or to increase the amount of built LEMR units required.

Yours truly,



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