URBAN SYSTEMS MEMORANDUM

DATE: March 10, 2022
TO: Cameron Scott, Manager of Community Planning
CC: Shaun Heffernan, Urban Systems
FROM: Justin Barer and Jodee Ng, Urban Systems Ltd.
FILE: 1862.0062.01
SUBJECT: Cadboro Bay Local Area Plan, Development Viability Analyses (DRAFT)

1.0 INTRODUCTION

The District of Saanich is in the process of updating the Cadboro Bay Local Area Plan (LAP). As part of this process, District staff have asked that pro forma financial analyses be prepared for 3 case study sites within the LAP area, to determine the financial viability of desired land use mixes and densities. These analyses are intended to serve as input and consideration for further refinement of the LAP.

2.0 APPROACH

Urban Systems connected with several active local developers to discuss trends related to market activity, construction hard and soft costs, financing, development challenges, revenue trajectories, and other key considerations for the analysis of a development project's financial viability.[1] Using pro forma analysis, the financial performance of rezoning and redevelopment at three Cadboro Bay-selected case study sites was assessed.

Analyses were completed as follows:

1. District of Saanich staff presented Urban Systems (USL) with 3 'test sites' (2 land assemblies + 1 larger commercial site) within the Cadboro Bay LAP for financial testing, representing the following land use designations and associated development parameters:

Case Study Sites / Assemblies Future Land Use Designations	Case Study Site Size (sq.ft.)	Building Heights	Floor Space Ratios (FSR)
1. Commercial Mixed-Use	51,118	Up to 4-storeys	1.0 to 1.6
2. Low-Rise Mixed-Use	24,628	3 storeys	1.2
3. Townhouse	38,416	Up to 3 storeys	0.6 to 1.0

2. Existing values for each site or land assembly were estimated based on their most recent BC Assessment values (2022). To this, we add a 'development premium' of 20%, under the assumption that most property owners will need to be incented to sell their properties for redevelopment, and that the premium paid by a developer will need to be higher than the premium-over-assessed that an owner may otherwise realize from selling their individual properties on the open market to end users for re-occupancy, personal use redevelopment, or as cash flowing assets.
3. For each land use, a standard development pro forma was prepared, looking at construction costs, development (soft) costs (including municipal fees and charges), financing costs, anticipated revenues

[1] Interviews were conducted with representatives from TriEagle, Abstract, Formwell, and Aryze.

and valuations, and anticipated approvals and construction timelines. The revenues and valuations consider:

a. Revenue received from sale of new condominium apartment or townhouse units

b. Potential revenue from the sale of purpose-built rental apartments, based on the capitalized value of the projected cash flow

c. Potential revenue from the sale of cash-flowing commercial units, based on the capitalized value of their projected cash flow.

Costs and revenue estimates were informed by developer interviews.

4. Pro forma sensitivity scenarios were prepared for each case study site to test the development viability implications of changes to the following variables:

   a. Overall development density

   b. Typology mix (e.g., mixed use vs. single use)

   c. Parking (underground vs. structured above grade)

   d. Tenure (own vs. rent)

5. For each pro forma, project viability was assessed based on a residual land value calculation, with a fixed target profit margin of 15% profit-to-cost. If a project can support a residual land value that is equal to or above the assessed-value-plus-assembly-premium, the project is deemed viable. Projects that show a supported land value below that threshold but still within 1-2% of that base value may also be considered marginally viable, given the sensitivity of each pro forma to minor variations in variables such as approvals time and construction costs.

3.0 ANALYSIS

3.1 FINANCIAL ANALYSIS ASSUMPTIONS

Each pro forma is driven by the following cost, revenue, financing, and other key assumptions:

Table 1: Core Pro Forma Assumptions

Variable	Quantum	Notes
Hard Costs, residential (above grade)	$285 per sq.ft. (apartment) $200 per sq. ft. (townhouse)	Per developer interviews and Altus Cost Guide, 2022
Hard Costs, commercial (above grade)	$220 per sq.ft.	Per developer interviews
Parking costs, underground	$133 per sq.ft, applied to avg. of 400 sq.ft. per parking space	Per developer interviews and Altus cost guide, 2022
Parking costs, above ground (structured)	$120 per sq.ft.	Per Altus cost guide, 2022
Soft costs	18 to 20% of hard costs	Per developer interviews
Financing terms	1% loan initiation; 75% LTV on construction, 50% LTV on land; 4% interest rate.	Per developer interviews
Timeline – site purchase to start construction	30 months	Per developer interviews
Timeline – construction	Variable (avg. 18 months)	USL estimate
Developer profit threshold	15% on project costs	Standard assumption

3.2 CASE STUDY ANALYSIS RESULTS

3.2.1 Site 1 – Commercial Mixed Use

Site one is a single parcel of nearly 1.2 acres, currently home to grocery-anchored low-density commercial strip centre of approximately 15,000 square feet. The case study assumes demolition of the existing use and replacement with a mixed-use project (residential over commercial), with approximately 15,000 square feet of replacement commercial space on the ground level and either condominium or rental apartments above. Pro forma analyses for this site test both underground and above-grade structured parking scenarios.

The development concepts tested are as follows:

- Scenario 1a Condominium over commercial at 1.0 FSR with underground parking
- Scenario 1b Condominium over commercial at 1.0 FSR (higher price point) with underground parking

- Scenario 2a Condominium over commercial at 1.6 FSR with underground parking
- Scenario 2b Condominium over commercial at 1.6 FSR with above-grade structured parking

The 2022 assessed value for this parcel is $7.87 million. The assumed price that a developer would have to pay to acquire this site for redevelopment is the assessed value plus 20%, or $9.44 million (plus transfer taxes and closing costs).

Development parameters are as follows:

Table 2: Site #1 Development Parameters

	General Scenario 1	**General Scenario 2**
Density (FSR)	1.0	1.6
Parking	1 stall per residential unit, 1 stall per 200 sq.ft. of commercial	
Gross floor area (sq.ft)	51,118	81,788
Saleable residential floor area (85% of gross)	30,632	56,659
Leasable commercial floor area (82% of gross)	12,365	12,400

At 1.0 FSR with underground parking, a viable condominium-over-retail project cannot be achieved under current costs and revenue assumptions. For a project to be viable at 1.0 FSR, condominium units would need to sell at an average price of at least $1,200 per square foot (or nearly $1.1 million for a 900 square foot unit). There is no current indication that this price point is achievable for new condominiums in Cadboro Bay

At 1.6 FSR, a condominium-over-retail project with underground parking could be viable at prevailing market prices. If parking were provided in an above-grade structure vs. a single level underground, this could create some cost savings, providing an opportunity for a viable project at slightly lower average condominium prices.

Table 3: Site #1 Summary Financial Analysis

Site 1 - Commercial Mixed Use				
	Scenario 1a	Scenario 1b*	Scenario 2a	Scenario 2b
FSR	1.00	1.00	1.60	1.60
Concept	Condo over retail	Condo over retail	Condo over retail	Condo over retail
Parking	Underground	Underground	Underground	Structured
Net Saleable Res (sf)	30,632	30,632	56,659	56,659
Net Leasable Comm (sf)	12,365	12,365	12,407	12,407
Unit Prices (psf)	$ 950.00	**$ 1,200.00**	$ 950.00	$ 930.00
Net Revenue (or value at completion)	$ 34,463,746	$ 41,922,722	$ 58,566,933	$ 57,463,216
Costs (hard + soft + finance)	$ 26,465,817	$ 26,975,991	$ 40,758,139	$ 39,894,156
Land Cost (assessed + 20%), including closing costs and transfer taxes	$ 9,440,520	$ 9,440,520	$ 9,440,520	$ 9,715,206
Profit @ 15% Total Cost	$ 5,193,612	$ 5,217,353	$ 7,168,233	$ 7,046,379
Residual Land Value	$ 2,678,717	$ 9,396,028	$ 10,279,875	$ 10,165,531
Lift	-$6,761,803	-$44,492	$839,355	$450,325
Viable	No	Marginal	Yes	Yes
*Note that this scenario is presented for illustrative purposes only. There is no current evidence that $1,200 per sq.ft. is a market-supportable price point for new condominium apartments in Cadboro Bay.				

3.2.2 Site 2 – Low-Rise Mixed Use

Site 2 is an assembly of 4 parcels with a combined 2022 assessed value of $3.89 million. Three of the parcels are currently zoned RS-10, and one is zoned C-4B. The total land assembly is 24,628 square feet. The case study analysis assumes demolition of all existing structures and reconstruction in line with the OCP "Low-Rise Mixed Use" designation. The cost to assemble the parcels is assumed to be assessed value plus 20%, or $4.67 million before transfer tax and closing costs.

The modelled scenarios consider 3 density levels (1.2, 1.6 and 2.0 FSR) and both mixed-use and residential-only projects. Both condominium and rental apartment scenarios are also modelled.

Table 4: Site #2 Development Parameters

	Scenario 1	**Scenario 2**	**Scenario 3**
FSR	1.2	1.6	2.0
Gross Floor Area, All Uses (sq.ft.)	29,533	39.405	49.256
Max. saleable or leasable residential floor area (sq.ft.)	25,121	33,494	41,867
Max. leasable commercial floor area (sq.ft.)	4,847	4,847	4,847

3.2.2.1 Scenario 1: 1.2 FSR

Four development concepts are modelled at 1.2 FSR:

1a. Condominium apartments over commercial

1b. Condominium apartments only

1c. Rental apartments over commercial

1d. Rental apartments only

Of those, the "condominium apartments only" concepts is the only one that shows viability under current market conditions. When modeled as condos over retail, even a price point of $1,050 per square foot (or $945,000 for a 900 square foot unit) is insufficient to create a viable project.

Neither of the rental concepts (with and without ground floor commercial) are viable, despite the assumption of >$3,000 per month rental rates.

3.2.2.2 Scenario 2: 1.6 FSR

Noting that the draft *Low-Rise Mixed Use* land use designation has a proposed maximum density of 1.2 FSR, and also noting that the viability of any mixed-use project would be challenged at that density, this 1.6 FSR scenario is designed to test whether that additional 0.4 FSR may be sufficient to create the potential for a viable purpose-built rental project (with or without ground floor commercial).

Two development concepts are modelled at 1.6 FSR:

2a. Market rental apartments over commercial

2b. Market rental apartments only

The land value supported by the mixed-use concept is less than 25% of the likely cost to assemble the development parcels, and the project would therefore not be considered viable. The rental-only scenario also shows a residual value well below the cost of assembly and would not be considered viable to most developers. However, if viability of the rental project were assessed using a discounted cash flow method (vs. the static profit-on-cost calculation), it shows an unlevered internal rate of return (IRR) of nearly 8%. This would still be considered quite low, but could theoretically be indicative of a borderline viable venture for an institutional or private equity investor looking to build and hold for the long term.

3.2.2.3 Scenario 3: 2.0 FSR

If density is further increased to 2.0 FSR (again, this is illustrative as it exceeds the proposed 1.2 FSR cap in this draft land use designation) and rental rates are increased by 3% to $3.60 per square foot ($3,240 per month for a 900 square foot unit), a market rental residential project would be viable when measured using a target 15% profit on cost calculation. Further, such a project could contribute a modest amenity contribution (to an affordable housing reserve fund or elsewhere). In theory, 2-3% of the total floor area could be turned over to below market rental units and the project would still be viable. However, such a small unit allotment would likely not be viable from an operations standpoint.

Table 5: Site #2 Summary Financial Analysis

SITE 2 - Low Rise Mixed Use							
	Scenario 1a	Scenario 1b	Scenario 1c	Scenario 1d	Scenario 2a	Scenario 2b	Scenario 3
FSR	1.20	1.20	1.20	1.20	1.60	1.60	2.00
Concept	Condo over retail	Condo Only	Rental over Retail	Rental Only	Rental over Retail	Rental Only	Rental Only
Parking	Underground	Underground	Underground	Underground	Underground	Underground	Underground
Net Res Floor Area (sf)	20,096	25,121	20,096	25,120	28,470	33,494	41,867
Net Leasable Comm (sf)	4,847	-	4,847	-	4,847	-	-
Condo Prices ($/sf)	$ 1,050.00	$ 980.00	$ -	$ -	$ -	$ -	$ -
Rental Rates ($/sf/mo)	$ -	$ -	$ 3.50	$ 3.50	$ 3.50	$ 3.50	$ 3.60
Net Revenue (or Value at Completion	$ 22,455,038	$ 23,978,077	$ 17,442,704	$ 18,805,056	$ 23,711,056	$ 25,073,407	$ 32,237,238
Costs (hard + soft + finance)	$ 15,302,366	$ 14,714,338	$ 14,762,470	$ 14,034,136	$ 19,189,645	$ 18,508,234	$ 23,114,685
Land Cost (assessed + 20%), including closing costs and transfer taxes	$ 4,801,735	$ 4,801,735	$ 4,801,735	$ 4,801,735	$ 4,801,735	$ 4,801,735	$ 4,801,735
Profit @ 15% Total Cost	$ 2,866,712	$ 2,767,299	$ 2,771,021	$ 2,650,981	$ 3,366,991	$ 3,246,950	$ 3,843,681
Residual Land Value	$ 4,115,912	$ 6,260,077	-$ 192,257	$ 2,014,870	$ 1,052,950	$ 3,177,206	$ 5,079,036
Lift	-$685,823	$1,458,342	-$4,993,992	-$2,786,864	-$3,748,785	-$1,624,528	$277,301
Viable	No	Yes	No	No	No	Depends*	Yes
**Also returns an unlevered IRR of 7.7% on a cash-flow basis, which may be acceptable to some investors.*							

3.2.3 Site 3 – Townhouse

Site #3 is a 5-lot assembly, currently home to 5 single detached dwellings. The total site assembly is 38,416 square feet, and the current (2022) assessed value is just under $7.4 million. The assume cost to assemble these properties for redevelopment is $8.88 million before transfer tax and closing costs.

Two scenarios are modelled: townhouses at 0.6 FSR, and townhouses at 1.0 FSR, with an assumed average unit size of 1,800 square feet. Each townhouse would have its own individual above-grade enclosed garage, either singe-wide tandem, or traditional 2-car side-by-side.

At 0.6 FSR, a new townhouse project is not viable, even at price points that are at the "upper end" of what the market would likely support. If density were increased to 1.0 FSR, a viable project could emerge (again, at the 'upper end' price level), however it would still be deemed marginal. If density were increased to 1.2 FSR (not shown in the table below), a viable project would be possible with average unit prices of $610 per square foot (vs. $660), or $90,000 less per unit.

Table 6:Site #3 Summary Financial Analysis

SITE 3 - Townhouse		
	Scenario 1	Scenario 2
FSR	0.60	1.00
Concept	Townhouse	Townhouse
Net Res Floor Area (sf)	23,050	38,416
Net Leasable Comm (sf)	n/a	n/a
Avg. Size (sf)	1,800	1,800
Unit Prices ($/sf)	$ 660.00	$ 660.00
Revenue / Value	$ 14,817,357	$ 24,695,595
Costs (hard + soft + finance)	$ 7,755,792	$ 12,228,741
Land Cost (assessed + 20%), including closing costs and transfer taxes	$ 8,877,720	$ 8,877,720
Profit @ 15% Total Cost	$ 2,437,621	$ 3,029,980
Residual Land Value	$ 4,443,755	$ 9,112,299
Lift	-$ 4,691,766	-$ 23,223
Viable	No	Yes (marginal)

3.3 AFFORDABILITY CONSIDERATIONS

Development of a new local area plan is an opportunity to create the preconditions to realize a greater diversity of housing options, not only in terms of typologies and tenures, but also levels of affordability. As demonstrated in the case study financial analyses above, additional density can allow projects to offer greater degrees of affordability. Conversely, densities set too low will ensure that only higher-priced projects are viable.

To understand housing affordability in Saanich, local median household incomes are provided. Table 7 outlines the estimated median household incomes by household type and tenure in the community for 2019.

Table 7: Estimated Median Household Income by Household Type, 2019

	Owner Median Household Income (2019)	Renter Median Household Income (2019)
Couples without children	$125,857	$61,411
Couples with children	$167,276	$81,621
Lone-parent families	$78,488	$38,298
Non-census families	$57,570	$28,091
Other census families*	$177,797	$86,755

Source: District of Saanich Housing Needs Report, 2020
*Other census families often have higher incomes compared to other family types because they can include multi-generational or other family living arrangements with multiple incomes

3.3.1 Homeownership

Table 8 below shows the price points used in the pro forma analysis for market ownership units (condominium apartments and townhouses) and the estimated time to accumulate an average down payment based on a typical savings rate.

- To illustrate, we look at a new condominium apartment of 900 square feet, sold at prices ranging from $810,000 ($900 per square foot) to $945,000 ($1,050 per square foot). Note that the $900/sq.ft. price point is below any of the modelled scenarios; to reach this price point, additional density beyond that considered in the models would be required.
- The minimum starting purchase price of $810,000 would require a household income of $139,348. In Saanich, this is affordable to couples with children and other census families earning the respective median owner incomes. A condominium apartment with a price of $810,000 would likely be unaffordable for most other household types; or the household would have to spend more than 30% of their income on mortgage payments or receive some form of financial assistance.
- A new townhouse with an average size of 1,800 square feet (as modelled at Site #3), sold at a price of $1.188 million ($660 per square foot), would require a median household income of $237,600. In Saanich, this is not likely to be affordable for most households earning the median income of their respective household type. Households purchasing a townhouse in this price range would likely require some form of financial assistance, or they would have to spend more than 30% of their income on mortgage payments.
- Statistics Canada considers households spending 30% or more of total before-tax household income on shelter costs to be living in unaffordable housing. This analysis accounts for mortgage payments towards housing costs, but does not factor in additional shelter costs such as strata fees, insurance, property taxes and other applicable taxes and fees. If those costs are factored in (as they must ultimately be), the true household income needed to purchase a home would be higher than illustrated below.

Table 8: Market Price Points and Household Income Needed to Afford a Mortgage, 2022

Scenario	$/sq.ft	Total Cost	Household Income Needed to Afford a Mortgage *	Average Down Payment Required	Years to Accumulate Down Payment Based on a Typical 10% Saving Rate
Condo Apartment - Scenario 1 (900 sq.ft)	$900	$810,000	$139,348	$81,000	5.8
Condo Apartment - Scenario 2 (900 sq.ft)	$950	$855,000	$147,090	$85,500	5.8
Condo Apartment - Scenario 3 (900 sq.ft)	$980	$882,000	$151,735	$88,200	5.8
Condo Apartment - Scenario 4 (900 sq.ft)	$1,050	$945,000	$162,573	$94,500	5.8
Townhouse - Scenario 1 (1,800 sq.ft)	$660	$1,188,000	$181,669	$237,600	13.1

*Assumes the following mortgage terms: 10% down payment for purchase prices less than $1 million, 20% down payment for purchase prices over $1 million; and a 3 year, fixed-rate interest rate of 3.09% on a 25 year amortization period.

3.3.2 Renters

Table 9 below shows the rents used in the pro forma analysis for market and below market rental units.

- A new 900 square foot rental apartment unit is assumed to have a monthly rental rate in the range of $3,150 to $3,240, or $3.50 to $3.60 per square foot. To afford these rent levels, a household would have to earn a minimum of $126,000 to $130,000. These rental costs are, therefore, unaffordable to most renter households earning the median household type incomes in Saanich.
- A new below-market rental apartment unit is assumed to have a monthly rent of $1,224. This rent is affordable to any household earning a minimum of $48,960 annually. While this is affordable to some household types in Saanich (e.g., couples with children, couples without children), lone-parent families and non-census families earning the respective renter median incomes for their household type would not likely be able to afford this rent, or they would have to spend more than 30% of their income on rent.

Table 9: Rents and Household Income Needed to Afford Monthly Rent

	$/sq.ft	Rent (Monthly)	Household Income Needed to Afford Rent*
Rental Apartment - Scenario 1 (Market)	$3.50	$3,150	$126,000
Rental Apartment - Scenario 2 (Market)	$3.60	$3,240	$129,600
Rental Apartment - Scenario 3 (Below-Market)	$1.36	$1,224	$48,960

*Statistics Canada considers households spending 30% or more of total before-tax household income on shelter costs to be living in unaffordable housing.

3.3.3 Affordability Conclusions

- The apartment and townhouse price points that would be required to deliver new ownership housing units in Cadboro Bay, at the densities outlined in the draft LAP, are generally above the median household income for most household types in Saanich.

- A condo selling for $950-$980 per square foot – a range that is deemed market supportable in the current context – would require a household income of around $150,000. This would be feasible for couples with children earning the median household income, however there may not be alignment between this housing type and what couples with children are ideally seeking.
- A townhouse selling for just under $1.2 million requires a household income of nearly $182,000 (well above the median household incomes of all groups), but perhaps more significantly, requires a down payment of nearly $238,000. The latter would take the $180,000+ earning household over 13 years to accumulate at a typical savings rate.

- The price points required to deliver market rental apartments in Cadboro Bay at the density levels outlined in the draft LAP are far higher than any of the renter median household incomes. Whereas typical market rents would require a household income in the $125,000 to $130,000 range, the median renter incomes are all under $90,000.

4.0 CONCLUSIONS

Case study financial analyses indicate some potential challenges with achieving viable redevelopment at densities contemplated in the Cadboro Bay LAP.

- Commercial Mixed Use at 1.6 FSR with a single level of underground parking or an above-grade structured parking solution could be viable, provided that apartment units are selling at an average of $930 to $950 per square foot.
- Low-rise mixed-use projects are unviable at the contemplated 1.2 FSR density level. Only a stand-alone condominium apartment project with average price points of at least $920 per square foot is shown to be viable.
- To achieve a low-rise project with market rental apartments, a minimum density of 2.0 FSR would be required. In this scenario, if market rents are increased by 3% to 3.60 per square foot, a small proportion of total floor area could be turned over to below market rental units; however, such a small unit allotment would likely not be viable from an operations standpoint.
- Townhouses at 0.6 FSR are not viable. Townhouses at 1.0 FSR show marginal viability.

Higher densities, parking relaxations, and faster, more streamlined approval processes could all significantly improve development economics, allowing new housing choices at a broader array of price points to be brought to market.

Sincerely,

URBAN SYSTEMS LTD.

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