DISCUSSION PAPER AND ECONOMIC ANALYSIS

COMMUNITY AMENITY CONTRIBUTIONS, DENSITY BONUSING AND INCLUSIONARY HOUSING

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312 - 645 Fort Street, Victoria, BC V8W 1G2 | T: 250.220.7060

Shaun Heffernan | E: sheffernan@urbansystems.ca

URBAN SYSTEMS

PREPARED FOR:

District of Saanich
Community Planning
Alanna McDonagh, Senior Planner
770 Vernon Ave.
Victoria, BC V8X 2W7

312 - 645 Fort Street, Victoria, BC V8W 1G2 | T: 250.220.7060

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EXECUTIVE SUMMARY

As the population in Saanich grows, the District of Saanich ("District") is leading a review of a new Community Amenity Contribution (CAC) and Inclusionary Housing (IH) Program and Policy to better meet the amenity and housing needs of the community and establish a transparent, efficient, balanced and predictable process for all parties.

The purpose of this discussion paper is two-fold: 1) To document key market, regulatory, and policy factors influencing the District of Saanich's Community Amenity Contribution and Inclusionary Housing approach; and 2) To present the District-wide financial and economic analysis on the ability of development projects to deliver amenities. The financial analysis findings are a point-in-time snapshot of development and will change as market conditions change.

The highlights from the discussion paper are summarized below.

Key Housing Market Trends and Issues

- Rising housing prices and a low availability of rental housing has persisted in the District of Saanich and in the Capital Regional District in recent years
- There is unmet housing need for diverse housing options in Saanich for both owners and renters (see the District of Saanich Housing Needs Report (2020) for detailed analyses).
- There is uncertainty in the housing development industry due to rising inflation rates and interest rates which impact construction costs and housing sale prices, and ultimately the viability of development projects.
- Operating expenses are becoming more challenging for non-profit housing providers to manage due to increasing property insurance costs.

Stakeholder Engagement Findings

- Non-profit housing providers emphasized the need for rents to be tied to the market and desire to be engaged early in the development approvals process by housing developers to discuss opportunities to own and/or operate potential inclusionary units.
- The ability of development projects to proceed hinges on financial viability. Real estate industry and developers indicated the desire to see defined policy outcomes, clear planning regulations, and corresponding incentives to support CACs and IH.
- Community association groups highlighted the importance of locating affordable housing units close to amenities (e.g., transit, commercial centres, community, and social services, etc.) and achieving amenities (e.g., parks, daycares) that provide local benefit.

District-Wide Financial and Economic Analysis

To determine what amenities the District of Saanich can receive from development, in the form of CACs and density bonusing zoning, 35 test sites were selected to test the potential value of amenity contributions (including affordable housing) that can be supported by rezonings and / or pre-zoned density bonusing in the various study areas. Financial analyses using development pro formas were conducted on each of the test sites.

The financial analysis determined that there is a wide range of target fixed rate CACs and / or density bonus rates payable by different projects across the District. As a result, a hybrid-CAC approach that combines the following is recommended:

- Negotiated CACs and affordable housing contributions on a site-by-site basis for projects over a given size threshold (for example multi-phased developments or those with over 500 units). The threshold should be selected such that it would capture only a minority of development

approvals. The majority of approvals would instead go through a more formulaic amenity process.

- Target fixed rate CACs or density bonus zoning for most projects (below the negotiation threshold) up to the maximum density envisioned in the future area plans, and a negotiated additional CAC if a proposal exceeds that max density.[1]

- Some target fixed rate CACs and /or density bonus zoning rate variation by geography.

Community Amenity Contributions (CACs)

To estimate CAC amounts supportable from rezonings or pre-zoned density bonusing in Saanich, analyses were conducted to determine the financial viability of redevelopment at a variety of case study sites and densities, as identified by District staff. These case studies were focused on developments with residential use as a primary use as CACs are not typically applied to industrial, institutional, and commercial development projects in comparable communities to the District of Saanich.

Centres and Corridors

- It is recommended that the District maintain a project size threshold in the Centres and Corridor (and in Villages and Neighbourhoods) which a target fixed rate CAC (cash payment or built amenity) could be used as the basis for amenity contribution negotiation, without any IH requirements.

- Below the negotiated size threshold (i.e. under 500 units), it is recommended to institute either target fixed rate CACs or bonus density zoning. The following are the recommended target fixed rates:

	Condominium Apartments (100% residential projects)	Condominium Apartments within mixed-use projects	Townhouses / Plex developments (1)
Target CAC (2)	$10 per sq.ft. ($108 per sq.m) $10,900 per unit	$5 per sq.ft. ($108 per sq.m) [2] $3,200 per unit	$8 per sq.ft. ($86 per sq.m) $9,000 per unit
Density Bonus Rate with pre-zoning (3)	$40 per sq.ft. ($430 per sq.m) $29,700 per unit	$25 per sq.ft. ($323 per sq.m) $15,800 per unit	$14 per sq.ft. ($151 per sq.m) $21,500 per unit

(1) density bonus rate would apply only if base density is at least 1.0 FSR.

(2) on net additional floor area in excess of the maximum permissible under current zoning, except where total there is a conversion of land use from non-residential to residential, where the CAC target applies to all residential floor area.

(3) on net additional floor area in excess of that permissible under a new established base density

[1] In instances where local area planning is absent or outdated, Saanich may consider using OCP maximum densities.
[2] With reduced parking requirements, many of the mixed-use projects currently shown as unviable will likely become viable. The reduced target CAC for apartment units in apartment projects is intended to reflect the slightly higher construction costs associated with building mixed-use.

Villages and Neighbourhoods

- A single standardized target fixed rate structure is recommended for development projects in the Villages and Neighbourhoods with the same size / scale thresholds that apply to the Centres and Corridors.
- The following are the recommended target fixed rates:

	Condominium Apartments (100% residential projects)	Condominium Apartments within mixed-use projects	Townhouses / Plex developments (1)
Target CAC (2)	$5-10 per square foot ($54-$108 per sq.m) $4,200 per unit	$5 per sq.ft. ($54 per sq.m) $3,300 per unit	$8 per sq.ft. ($86 per sq.m) $7,300 per unit

(1) density bonus rate would apply only if base density is at least 1.0 FSR.
(2) on net additional floor area in excess of the maximum permissible under current zoning, except where total there is a conversion of land use from non-residential to residential, where the CAC target applies to all residential floor area.

Preliminary Inclusionary Housing Recommendations

With regards to IH units, the recommendations at this time for development projects located in the Centres and Corridors are:

- Negotiate affordable housing provision within projects above the size threshold that triggers a negotiated CAC process
- Do not require inclusionary units within market condominium projects due to four primary reasons:
    - Small number of units delivered which do not optimize property management efficiencies;
    - Unforeseen operating cost increases in a strata corporation;
    - Complexity during major building renovations, upgrades, or replacement; and
    - It will negate the ability of these projects to make other amenity contributions.
- Consider adding an inclusionary below market rental requirement within market rental housing projects in the future, but do not include as part of the policy being put forward at this time.
    - If / when an inclusionary below market rental component is considered for market rental projects, also consider alternate unit price targets vs. the 10% discount to CMHC median market. One idea would be to require below market rental units at a fixed % discount to actual market rents. This would ensure that the size of the discount vs. market rent does not increase over time, making it harder to deliver units.

IH was not tested for development projects in Villages and Neighbourhoods at this time as the current land use policies are designated at lower densities than the Centres and Corridors. Furthermore, an assumption of the above recommendations is to not presume that senior government financing support programs do not exist in municipal policy setting. There is no guarantee that programs that exist currently as they may not in the future.

The findings and recommendations for District of Saanich's CAC and IH approach will be refined through subsequent phases. The next step in the project will take the financial analysis findings back to stakeholder groups for additional opportunities to confirm assumptions and inputs used in the scenario development. This feedback will be used to inform the policy development and community engagement. The final phase is to bring a clear, effective, predictable CAC and IH Program and Policy for Council's consideration. The Program and Policy will consider the different approaches to CAC and density bonusing and consider future opportunities with options to include inclusionary housing for market rental projects.

1.0 INTRODUCTION

A community amenity is any public benefit, improvement, or contribution that enhances the quality of life for a community. These can include public spaces shared by Saanich residents such as parks, public open spaces, recreation facilities, libraries, and public art. They can also include affordable housing through CAC and Density Bonus Zoning provisions. Community amenities become strained through population growth and new development which leads to increased demands on and for amenities.

To ensure that the supply and quality of community amenities remain high, and that affordable housing can be developed more steadily, the District of Saanich has commissioned this work to develop a District-wide approach to amenity zoning, including potential for new amenities, cash-in-lieu contributions, and affordable inclusionary rental housing. The intent is for this new Program and Policy to replace the Interim Community Amenity Contribution (CAC) policy that currently governs amenity contributions tied to developer-initiated rezonings. The discussion paper and financial analysis will provide more robust direction to District Staff and Council on how to adjust the Interim policy to be a more transparent, efficient, balanced, and predictable process.

As a critical step towards development of the new Program and Policy, this discussion paper provides a comprehensive overview of information gathered and analyses prepared to date. This includes:

- Key market trends and issues (**Section 3.0**), which feed directly into assumptions used in subsequent financial modelling;
- Emerging and existing trends for local government policy tools (**Section 4.0**);
- Stakeholder engagements (**Section 5.0**); and,
- District-wide financial and economic analysis (**Section 6.0**) to test the economic ability of different development types and tenures, in different parts of the District, to make cash amenity contributions, or to provide affordable housing units.

Based on the findings from this multi-stage exploration and analysis, we present key policy option considerations (**Section 7.0**), and finally, our preliminary recommendations (**Section 8.0**).

For those who are new to the concept of community amenities and inclusionary housing, and how community growth is typically financed, **Section 1.0** introduces key concepts. Further, approaches to CACs and Inclusionary Housing (**Section 2.0**) also provides an overview of common approaches and key lessons learned to gathering community amenity contributions.

1.1 FINANCING COMMUNITY GROWTH

Population growth and new developments create additional demand for amenities and services. To maintain a healthy community, it is imperative that amenities grow proportionally to the number of residents and to create complete communities.

The most common philosophy guiding financing approaches to community growth is: “growth pays for growth.” Under this philosophy, new development is fiscally responsible for increasing capacity of community infrastructure, not local taxpayers, in ways that support changing populations and urban forms.

Local governments in British Columbia have many tools available to ensure that new development pays for, or contributes towards, the cost of new infrastructure and community amenities. In the following subsections, we provide an overview of Development Cost Charges, Density Bonusing, and Community Amenity Contributions. Inclusionary Housing is also outlined as it is typically integrated

into these zoning-based tools to support affordable housing, alongside other new amenities and services generated through these mechanisms.

In general, there are two approaches to zoning-based tools for achieving community amenities – the "Basket of Goods Approach" and the "Value Capture / Ability to Pay Approach".

- Through the **Basket of Goods Approach** a list of amenities (i.e., Basket of Goods) and associated capital costs are identified for (or with) the community. The share of that capital cost that should be attributed to new growth is determined and is allocated accordingly amongst new development to establish contribution rates.
- The **Value Capture / Ability to Pay Approach** is based on the understanding that rezoning often creates increased land value by increasing allowable density and/or land use. This is known as 'land lift', which can be assessed by local governments who look to capture a portion of the expected increase in value. Generally, it is negotiated at the time of rezoning.

Often, municipalities will look to combine the above approaches, looking both at what is required to fund desired amenities, and what is feasible from a development economics standpoint.

1.2 KEY CONCEPTS

1.2.1 DEVELOPMENT COST CHARGES

Development Cost Charges (DCCs) are fees collected from developers on a user pay basis to help fund the cost of growth-related infrastructure and parks. DCCs are regulated by the province through the *Local Government Act* (LGA) and directed by the DCC Best Practices Guide. The LGA specifies five infrastructure categories for which DCCs can be collected and used, including: Transportation (including Active Transportation); Water; Sanitary; Drainage; and Park Acquisition and Improvements.

As DCCs are limited to the five specific infrastructure categories identified above, they cannot be used to pay capital costs for new libraries, fire halls, police stations, affordable housing, or recreation buildings. They also cannot be used for the operation and maintenance of District's infrastructure. The LGA and DCC Best Practices Guide provide very specific guidance for how DCCs can be applied and define the types of eligible DCC projects

1.2.2 DENSITY BONUSING

Density bonusing is one tool available for securing either the delivery of specific built amenities, or cash-in-lieu contributions that can be used to fund amenities. Under the terms of Section 482 in the LGA, municipalities can build density bonus policy into their zoning bylaws, in which different density rules are established within a given zone such that there is one density rule generally applicable (a 'base' density), and other density levels that can be accessed if certain conditions are met.

1.2.3 COMMUNITY AMENITY CONTRIBUTIONS

Community Amenity Contributions (CACs) are another zoning-based tool used to secure amenities. The key difference from density bonusing is that CACs are not explicitly legislated in the *Local Government Act*. The lack of clear legal authority has at times created uncertainty about implementing CAC policies, and inconsistency in local governments' approach to implementation (and even terminology used).[3]

[3] There are cases where policies for density bonusing are referred to as CACs, and vice versa.

CACs are, effectively, an agreed upon contribution (cash or in-kind) obtained by a local government at the time of rezoning. It is entirely optional or voluntary (i.e., it cannot be classified as a "fee"), insofar as a development could be undertaken under the as-of-right zoning conditions without a CAC. The former Ministry of Community, Sport, and Cultural Development published a provincial guide to CACs in 2014 (*Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability*) that has become a go-to resource for municipalities seeking to obtain CACs in their community.

1.2.4 INCLUSIONARY HOUSING

Inclusionary housing (IH) programs refer to the framework of policies, regulations, and other tools used to create affordable housing by collecting concessions from developers. There are two broad types of IH programs: mandatory and voluntary. Within British Columbia, true inclusionary zoning is not permitted under current legislation. Therefore, inclusionary programs in British Columbia are voluntary. Voluntary Programs (also called incentive-based or negotiated approaches) encourage developers to provide affordable housing by using regulatory concessions as incentives. Under voluntary programs, affordable housing objectives can be integrated into Density Bonusing and CAC policies for contributions that include built units and/or cash-in-lieu.

1.3 KEY POLICY CONSIDERATIONS

The CAC and IH policy is guided by the following principles:

- **Transparency** to create a clear process that ensure Staff, Council, the development community, and the public can understand the CAC / IH contributions.
- **Efficiency** to ensure that the application process surrounding CACs is undertaken in an efficient manner.
- **Balance** between the types and locations of amenities being created while ensuring they are both reasonable and economical.
- **Predictability** that ensures a process with consistent demands for amenities, use of definitions, etc.

2.0 APPROACHS TO CACS AND INCLUSIONARY HOUSING

Local governments take different approaches to density bonusing, CACs and IH. Generally, we can group these into four common approaches, each with their own sub-stream variations:

- Density Bonus provision within a zoning bylaw
- Target fixed rate CACs at rezoning
- Negotiated CACs (as a condition of rezoning)
- Hybrid approaches

This section ends with key lessons learned including on how to avoid common pitfalls when applying community amenity contributions and IH frameworks.

2.1 DENSITY BONUSING

Density bonusing provisions within zoning bylaws are considered the most clear and direct approach to amenity contributions. There are two ways to implement this approach: pre-zoning, and rezoning. Pre-zoning involves incorporating a density bonus into an existing zone, which allows a developer to either build at the base density of the original zone or to add bonus floor area up to the maximum pre-zoned amount in exchange for a fee. The density bonus fee is identified through a pro forma economic analysis and does not require rezoning. In turn, the second approach involves rezoning into a density bonus zone. Generally this includes three options:

- Rezone to an existing zone that includes density bonus provisions
- Rezone to a customized comprehensive development (CD) zone that permits the increased density
- Rezone to an existing 'shelf ready' zone that has been created to allow for the increased density

Regardless of whether a density bonus 'ladder' is accessed via pre-zoning or through rezoning, the requirements to access the bonus density may include in-kind amenities or cash-in-lieu.

2.2 TARGET FIXED RATE CAC APPROACH

Since CACs cannot be implemented as a charge or fee, this approach establishes a "target rate" (or multiple target rates) to be paid at the time of rezoning. Should a developer wish to increase density or height on site (often to develop a project that meets with land designations per a neighbourhood or community plan), a rezoning process is required. In most instances, the site is re-zoned to a site-specific customized zone. The process is entirely voluntary and is initiated by the applicant.

2.3 NEGOTIATED CAC APPROACH

Although this approach is not recommended in the Provincial Guide, many local governments do take a case-by-case negotiated approach, often guided by economic analysis to determine "land lift" and associated CACs at rezoning. As discussed above, land lift is the additional residual value of land created by a change in use and /or density. Land values are typically a function of development entitlements and can be calculated through a residual approach: revenue minus cost minus profit equals land value.

Generally, negotiated approaches to CACs are most useful (and justifiable) for large, complex, multi-phase rezoning applications, where local government wants to have the latitude to ensure that the right mix of amenities is achieved. Negotiations often slow the rezoning process and can create

significant uncertainty for developers. They are also less transparent for the public and developers. If all rezoning applications are subject to negotiated CACs (as they are in some places), this can reduce the supply of development sites and the overall pace of development, thereby contributing to higher housing costs.

2.4 HYBRID APPROACHES

Many local governments create a hybrid approach, combining the first three approaches or implementing different approaches for different areas of their municipality. The following demonstrates two examples of hybrid approaches.

1. A new zone is created that indicates both a base and bonus density. This zone is not applied to any parcels, but rather is a 'shelf-ready' zone. It provides developers with a variety of options:
    - Build under existing zoning on the parcel, ignoring the newly created zone
    - Re-zone to the new zone and build to the base density. This does not trigger any amenity contributions
    - Re-zone to the new zone and build up to the maximum bonus density threshold in exchange for defined amenity contributions (in-kind, cash-in-lieu, IH)
    - Re-zone to a comprehensive development (custom) zone, ignoring the newly created zone, and negotiate CACs. That negotiation will be driven by a combination of land lift calculation and municipal amenity requirements / targets.
2. A maximum density is specified for an area in an OCP or Neighbourhood Plan but does not set out the process for amenity contributions. It is assumed in this case that amenity contributions will be negotiated at the time of rezoning, with guidance for internal and external stakeholders, clear parameters, and a unit counts or scale threshold. There is uncertainty in the outcome, as any of the above approaches could be implemented for amenity contributions.

2.5 KEY LESSONS LEARNED

The following outlines key lessons learned to avoid common pitfalls that can arise in the application of CAC and IH frameworks:

- Ensure CACs and IH targets are realistic based on market analysis
- Maintain a negotiated approach for major projects as it is more likely to capture additional amenity value.
- Fixed-rate targets are better for smaller centres and low-density zones where large comprehensive developments are not anticipated.
- Establish procedures and timeframes to monitor and update the program.
- Establish appropriate thresholds when acquiring affordable rental housing as units versus cash-in-lieu.
- Target affordable "market" rental housing and avoid targeting deep subsidy units as these are hard for developers to deliver and manage.
- Limit the number of area specific CAC fixed target rates to reduce complexity and administrative burden (i.e., not too many specific targets or geographies).
- Having clear delineation between what amenities are being captured through CAC, DCCs and required works and services (i.e., frontage improvements).

- For communities that have not had a formal CAC program, suggest developing a fixed target approach.*
- Cash-in-lieu thresholds are driven by a few key factors including viability of delivering the units versus cash for developers, but also the ability for the units to be effectively managed (either by the private sector or a non-profit partner).
- Requiring minimum affordable housing unit sizes and unit mix by number of bedrooms allows for local governments to meet specific affordable housing policy objectives, but it requires the creation of a new sub-process to review affordable housing development applications.
- Minimum affordable housing requirements can also place additional burden on housing providers to ensure their development concept meets the affordable housing program requirements.
- Clear threshold for when a negotiate approach would apply in hybrid models.
- Consistent updates are required to maintain CAC programs and keep targets and amenity requirements relevant. Ideally, this can be timed to coincide with other development fee and rate changes (i.e., DCC updates), and be every 2-3 years for minor updates and every 5-years with major updates. This would reduce developer uncertainty regarding changes to fixed CAC and DCC fees.

*Although the development of a fixed target is generally recommended for communities that have never developed a formal CAC program, this is dependent on organizational capacity. Through the thorough analysis that the District has committed to undertake, we believe that Saanich will be able to establish an effective selective, with guidance for internal and external stakeholders, clear parameters, unit counts program.

3.0 KEY MARKET HOUSING TRENDS AND ISSUES

3.1 HOUSING MARKET

The cost of housing in Saanich and in the Capital Regional District (CRD) has risen significantly in recent years, similar to housing trends in other urban areas of British Columbia. In the CRD and Saanich, the average sales price has increased across all types of housing: single-family dwelling, townhouse, and apartment. The unmet need for diverse housing options for both owners and renters is detailed in the District of Saanich's Housing Needs Report (2020). The demand for rental housing in the Victoria Census Metropolitan Area (CMA) continues to be high as vacancy rates remain low in 2021. This section outlines recent monthly average sales prices in Saanich and the broader CRD housing market, and rental vacancy rates and rents for the primary rental market for the Victoria CMA.

3.1.1 CAPITAL REGIONAL DISTRICT

Based on housing sales for the Victoria region in April 2022, the Victoria Real Estate Board states that rising interest rates and sharp inflation increases combined with higher housing prices has resulted in notable lower sales compared to the previous year. While there is less inventory than historical averages, housing prices remain high in the region. On the construction side, CMHC recorded 4,809 housing starts for the Victoria CMA for 2021, a historic high for the region.

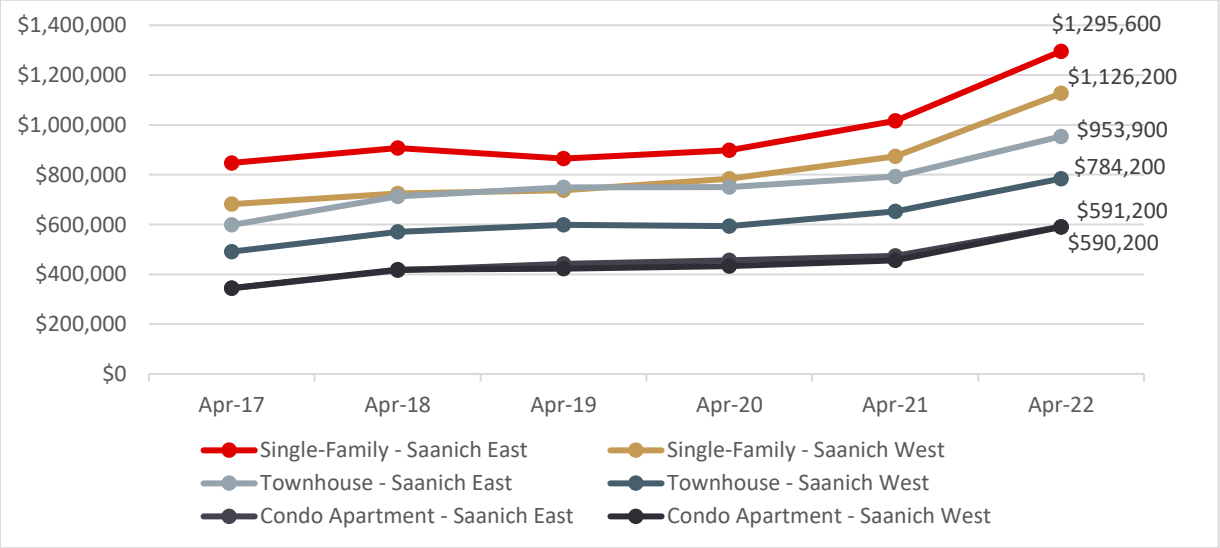
In the primary rental market, the vacancy rate for the Victoria CMA was 1.0%, down from 2.2% in the previous year, signaling a low inventory of available rental housing.

3.1.2 DISTRICT OF SAANICH

From 2017 to 2022, the April benchmark prices across all housing types in Saanich East and Saanich West have increased by 53% or more (

Figure 1). The Saanich benchmark prices in April 2022 for a typical single-family house exceeds $1 million, with a typical townhouse at approximately $780,000 (Saanich West) or $950,000 (Saanich East), and a typical apartment at approximately $590,000 (Saanich West and Saanich East).

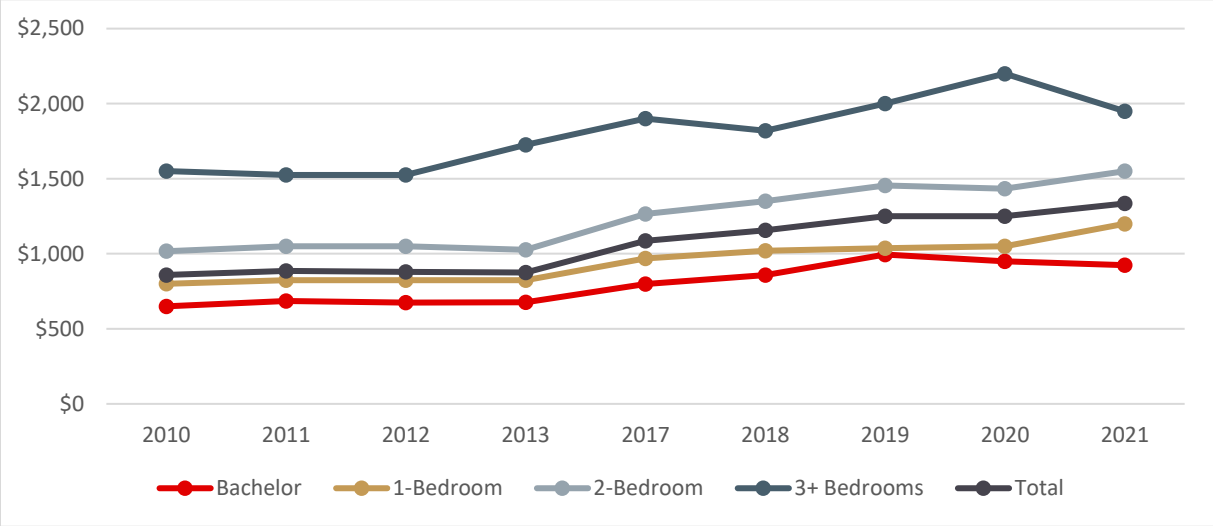
Figure 1: Benchmark Prices, Saanich, April 2017 to April 2022



Source: Victoria Real Estate Board, MLS Home Price Index

Similar to the Victoria CMA, there is limited available purpose-built rental units in the District of Saanich. The primary market rental vacancy rate for the District of Saanich in October 2021 is 1.7%, down from 3.3% in the previous year. In 2021, there are 3,367 purpose-built rental units in Saanich, up 286 units from 2017. Similar to other municipalities in BC, the majority of the primary rental market was built

The median rent in the primary rental market has increased by 23% across total units from 2017 to 2021. CMHC reports the median rent in the primary rental market in 2021 as $1,335 per month.



Source: CMHC, Rental Market Survey

Using CMHC's 2021 median rents, 10% below CMHC median market rents would be as follows:

- Studio: $833
- 1 Bed: $1,080
- 2 Bed: $1,395
- 3 Bed: $1,755

These are the rates used for the below market rental housing for the economic and financial analysis in Section 6 of this paper.

3.2 HOUSING NEED

In 2020, the District of Saanich undertook a *Housing Needs Report* in partnership with the CRD to understand the key areas of need in the community.[5] The findings are highlighted below:

- In 2016, Saanich's housing stock has a higher proportion of single-detached houses than the CRD, 47% and 42%, respectively. Saanich also had a lower proportion of apartment buildings compared to the region, 20% and 32%, respectively. The remainder of the housing stock in the

[5] https://www.saanich.ca/assets/Community/Documents/Planning/Housing-Needs-Report.pdf

District consists of ground-oriented homes: apartment or flat in a duplex (22%), row houses (8%), and semi-detached houses (3%),

- If Saanich continues growing in a similar manner as the past few Census years, the community will add 5,290 households between 2016 and 2025. The new households are projected to be 47% renters and 53% owners.
- Housing indicators show that affordability has been the most significant housing issue in Saanich from 2006 to 2016, with 40% of renter households and 17% of owner households not meeting the affordability standard in 2016.
- A much higher proportion of renter households (26%) in Saanich are in Core Housing Need than owner households (6%).
- Both primary and secondary market rents have risen in recent years. The Saanich median rent in the primary market was $1,250 in 2019, which would require an annual income of approximately $52,000 for rent to be affordable (e.g., less than 30% of before-tax household income). The Saanich median rent has since risen to $1,335 in 2021.
- In 2019, the average sales price of a single-detached dwelling in Saanich was $930,220 and a household would require an annual income of approximately $178,000 to afford a house at this price range (e.g., spending less than 30% of before-tax household income).

In summary, there is a need for more affordable housing in Saanich and housing options for renters, people with disabilities, seniors, and for families.

3.3 OTHER MARKET TRENDS

While housing prices continue to increase in the Saanich and CRD markets, there are other economic and market trends impacting both private developers and non-profit housing providers that will affect the cost of owning, operating, and maintaining housing in the future. These factors are taken into consideration by housing providers when planning to develop, build, or operate housing, and impact the cost to end-users (e.g., homeowners and renters).

3.3.1 INFLATION, SUPPLY CHAIN CHALLENGES, AND INTEREST RATES

Following the start of the COVID-19 pandemic, the economy in Canada slowed down in 2020 due to local and international government-imposed restrictions on mobility. Since the Canadian economy and many economies around the world re-opened in 2021, a combination of factors has caused a surge in inflation across most of the globe, which continues to impact Canada's housing market in 2022.

Interest rates in Canada are on the rise as inflation continues to increase at a rapid pace. While interest rates were near zero in March 2020, the Bank of Canada has raised its policy interest rate four times so far in 2022 (as of August 2022) by a total of 1.75 basis points. With the benchmark interest rate is at 2.5 percent in July 2022, the Bank of Canada has indicated that the policy rate may need to be raised "to the top end of above the neutral range in order to bring demand and supply into balance and keep inflation expectations well anchored".[6]

There is uncertainty in the development industry as to how much inflation and interest rates will increase, both of which could have significant impacts on construction costs and housing demand. In British Columbia, the consumer price index was 146.5 in June 2022, 7.9% higher compared to the

[6] Gray, Mackenzie. (02 June 2022). Deputy Bank of Canada governor warns key interest rate could rise above previous target of 3 per cent. *CTV News*. Retrieved on 2022-06-07 from www.ctvnews.ca

previous year[7]. In Victoria, the consumer price index jump was on par at 144.3, increasing by 8.4% during the same period.

Supply chain challenges became prevalent at start of the COVID-19 pandemic as markets around the world were shut down or restricted. Even as the Canadian economy re-opened in 2021, most markets continue to be intermittently impacted by supply chain issues and labour shortages which result in longer manufacturing and shipping times. These challenges impact housing developers as supply chain disruptions can delay construction timelines and therefore increase time and costs.

3.3.2 ABSORBING THE COST OF DEVELOPING INCLUSIONARY HOUSING UNITS

Although there are construction costs associated with building IH units, these costs are generally not passed onto tenants or to homeowners of the market strata units. The costs associated with developing IH units in a project are accounted for by a reduction in the land price during the sale transaction, or a reduction in the developer's profit, or as a mix of both.

For a project to be deemed financially viable, developers must balance the construction costs, market value of the units, and the purchase price of the land. If construction costs and land costs are too high and potential project concepts are not viable, landowners will need to reduce their land prices to sell.

However, the development of an IH policy and requirements must take into consideration the land economics of what makes a development project financially viable. If the costs to build housing are too high, over time it might result in land prices below what landowners are willing to sell for. In this case, it could cause a slowdown of residential development in the community and could result in fewer units being built.

Furthermore, in terms of municipal policy development it is prudent to presume that senior government financing support programs do not exist. While programs like CMHC's Rental Construction Financing Initiative and the National Housing Co-Investment Fund exist currently there is no guarantee that they will in the future. With that said these programs have been briefly summarized below as they can improve purpose-built and affordable housing developments.

3.3.3 CLIMATE CHANGE

In addition to rising construction costs, residential development is also increasingly regulated at all levels of government (federal, provincial, and municipal) as innovation and emerging issues (e.g., climate change) occurs in the industry and available credit is tightened by financial institutions. In recent years, policy frameworks and regulatory strides have been made towards enhancing accessibility requirements and increasing energy efficiency (e.g., Step Code) to reduce the environmental impact of new constructions. There are signs that the amount of credit available for development is being tightened at top-tier banks as lending institutions prepare for economic changes in the next few years. Residential developers are looking to find ways to adapt to new requirements and navigating the uncertainty in the market while ensuring the development remains financially viable.

[7] Consumer Price Index (June 2022). *BCStats*. Retrieved on 2022-08-03 https://www2.gov.bc.ca/assets/gov/data/statistics/economy/cpi/cpi_highlights.pdf

3.3.4 MASS TIMBER

Mass timber construction, in contrast to light-frame wood construction, is built using engineered wood products typically made of large, solid wood panels, columns, or beams often manufactured off-site for load-bearing wall, floor, and roof construction. Mass timber is engineered for high strength ratings like concrete and steel but is significantly lighter in weight. As a result, mass timber is seen as an environmentally-friendly substitute for carbon-intensive materials and building systems like concrete and steel.

As of 2020, Canada's national building code permits 12 stories of mass timber construction, considering its strength and fire resistance rating, while B.C. had already approved buildings up to 12 storeys.8

The cited advantages to using mass timber is a reduction in greenhouse gas emissions during construction by up to 45%, generation of jobs in the clean economy sector and in Indigenous communities, and creation of economic opportunities.

Post-secondary institutions such as the University of British Columbia, the University of Victoria, and the British Columbia Institute of Technology have completed or are undertaking mass timber projects for student housing and institutional uses. There are also mass timber projects being constructed by private companies for housing and office uses in BC and Alberta. In Saanich, there is an active development application for two proposed 8- or 10-storey mass timber residential buildings.

The building industry remains cautious about the costs associated with mass timber as it is a new construction method9. In April 2022, BC's Mass Timber Action Plan was released by the Government of BC. One of the key steps in the Action Plan is to make improvements to the building code to advance mass timber projects, signaling that the current regulatory processes are not without challenges.

A stakeholder also mentioned that wood frame is more cost effective up to six storeys while concrete is cost effective at 10 storeys or higher. The same stakeholder also said that mass timber buildings are facing challenges due to escalating lumber prices, supply chain issues, and skilled labour shortages. A report from the Canadian Wood Council also states that there are challenges related to Builder's Risk Insurance that applies a higher fee to mass timber than conventional materials. Proponents attribute this to a lack of information and claims history, but the added cost can ultimately disincentive mass timber projects.

3.3.5 OPERATING COST INCREASES

Rising strata insurance rates in British Columbia have created more challenging conditions for housing operators and strata unit owners. In 2020, strata owners have seen insurance rates increasing between 50% and 300%. A report titled "State of the British Columbia Strata Insurance Market: Pressures Facing the B.C. Strata Insurance Market in 2021" by Deloitte (April 2021)[10] highlights four key market pressures impacting B.C. Strata Insurance:

1. **Increases in Insured Value and Replacement Costs**: The two drivers here related to increase in average condominium prices and increased housing demand coupled to escalating construction costs illustrated through the Building Construction Price Index (BCPI)

[8] Naturally Wood. (n.d.). Mass timber and tall wood construction. Retrieved on 2022-06-07 from www.naturallywood.com
[9] Sorensen, Jean. (03 June 2022). Mass timber mid-rises pushing through building challenges. *Journal of* Commerce. Retrieved on 2022-06-07 from Canada.constructconnect.com
[10] http://www.ibc.ca/on/resources/studies/state-of-the-bc-strata-market

2. **Concerns with Building Quality**: There are multiple factors at play from poorly designed and built strata units from the 1990s leading to a high number of water damage claims; increases in allowed building height for wood-frame buildings (from 6- to 12-storeys) due to insurance company concerns about increased claims; and B.C.'s unique terrain impacted, including cold weather, floods, oceanic climate, and earthquake risks that require higher quality buildings.
3. **Rising Extreme Weather Events**: Climate change is increasing the number of extreme weather events (e.g., wildfires, flooding, and windstorms) which, alongside the risk of earthquakes, is increasing the frequency and severity of claims.
4. **Gaps in Legislative Requirements**: B.C. is seen as having fewer legislative requirements for strata corporations, such as those related to updating reserve funding, maintenance plans, and risk management training than Alberta and Ontario.

These pressures are leading strata corporations to take on larger deductibles on a building's insurance policy and to shift responsibility of fixtures (e.g., kitchen cabinets and appliances) to condo owners to reduce premiums. Loss prevention is also seeing a renewed focus as strata corporations focus on preventive maintenance to limit costs resulting from larger deductibles. Increased premiums also lead to increased housing costs for tenants. All of which leads to additional risks to the strata unit owners.

As a result, the increasing insurance pressures have led the B.C. Government to amend the *Strata Property Act* and *Financial Institutions Act*, among other regulatory changes[11]. These changes include additional protections for strata unit owners, identifying when a strata does not require full insurance coverage, strengthening depreciation reporting requirements, and changing the minimum required contribution by strata unit owners and developers to contingency reserve fund, among other changes.

3.3.6 EXPIRING OPERATING AGREEMENTS FOR NOT-FOR-PROFIT OPERATORS

Between 2015 and 2020 operating agreements between BC Housing and non-profits across the province expired, representing nearly 6,000 units. Approximately 24,000 additional units will have their operating agreements expire by 2033.

These operating agreements set out the conditions for subsidies provided by senior government to non-profit housing projects. These agreements are typically tied to a 35-year amortization period. Once they expire, the non-profit societies become solely responsible for any housing project's ongoing financial viability. Ensuring the long-term financial viability for buildings that have a high proportion of Rent Geared to Income (RGI) may be challenging. As a result, non-profits may be forced to reduce affordability levels to maintain the physical condition of the building.

While BC Housing has stepped in to support some housing societies that were challenged by the end of operating agreements, this remains a challenge in the sector that will need continued attention to ensure affordability levels are maintained even while also continuing to maintain and operate healthy, safe buildings. There are a number of avenues non-profits can explore when considering the end of their operating agreement. These are fully documented in BC Housing's "Expiring Operating Agreements: A Planning Guide for BC's Non-Profit Housing Societies."[12]

[11] https://news.gov.bc.ca/releases/2020FIN0033-001143

[12] BC Housing and BC Non-Profit Housing Association. (April 2018). Expiring Operating Agreements: A Planning Guide for BC's Non-Profit Housing Societies. *BC Housing*. Retrieved on 2022-06-07 from www.bchousing.org

3.3.7 CAPACITY BUILDING – HOUSING ORGANIZATIONS

The District of Saanich's *Housing Needs Report* identifies organizational capacity in the non-profit sector as a limitation.[13] Stakeholders engaged in that report felt that there is a limited pool of trained staff in the region who have experience working with vulnerable populations. The current housing market has placed further pressure on these staff, as many are increasingly unable to afford housing with only one job. Taking on multiple jobs can lead to burnout, resulting in further lost staff capacity.

Housing organization capacity combined with potential changes to rent structures and operations models due to expiring operating agreements mean that most non-profit housing providers may experience significant capacity issues. While larger organizations likely have robust portfolios that can navigate change, as well as transition plans, smaller organizations who may be less well-resourced are more likely to experience pressures associated with the issues noted here and in **Section 3.3.6**.

This points to the importance of ensuring any policies that include non-profits ensure that they are part of the planning and delivery of units to ensure there is non-profit capacity to support and operate them.

[13] Housing Needs Report (Nov 2020). *District of Saanich*. Retrieved on 2022-06-07 from www.saanich.ca

4.0 LOCAL GOVERNMENT POLICY TOOLS

The following section outlines additional land use policies and regulatory tools available to local governments that can support the creation of community amenities and affordable housing. In addition to these policies and tools, there are affordable housing funding programs from CMHC and BC Housing that are available for developers to apply for which may help offsets the costs of providing affordable housing in Saanich, however, some of these are contingent upon receiving local government approval on the rezoning application.

4.1 CHANGES TO LAND USE

Changes to land use policy and regulation can permit rental housing (as a tenure) only in certain zones which can moderate land values in these zones. When making these land use amendments, it is important to consider whether any incentives are needed and whether CACs should be exempted on these developments, such as in Saanich's Interim CAC policy. When land use changes permit intensification of the land, this is able to generate more land lift to allow for potential community amenity contribution room.

4.1.1 RESIDENTIAL RENTAL TENURE ZONING (RTZ)

Until 2018, local governments were not permitted to zone for rental housing under B.C.'s land-use planning framework[14]. With amendments to the *Local Government Act* and *Vancouver Charter*, local governments have new authority to zone for residential rental tenure (i.e., rental housing), and enact zoning bylaws that:

- Require that new housing in residential areas be developed as rental units; and
- Ensure that existing areas of rental housing are preserved as such.

The intent of these changes is to give local governments greater ability to preserve and increase the overall supply of rental housing in their communities and increase housing choice and affordability. As a note, this is not the same as IH which would allow local governments to provide additional density in exchange for affordable rental housing units.

Research from Metro Vancouver shows that RTZ typically has a moderating effect on land values by eliminating strata development potential but may not encourage new rental development[15]. Given high land values in Saanich and increasing construction and financing costs, it may be necessary to incentivize new developments to be viable in RTZ areas such as by increasing allowable densities and providing exemptions from CACs. Through a combination of these factors, new rental projects may be able to outcompete existing uses.

4.1.2 FREQUENT TRANSIT DEVELOPER AREAS

Frequent Transit Development Areas (FTDAs) are intended to guide greater density and transit service improvements along key commuter corridors to create transit-oriented communities. FTDAs concentrate growth in centres and corridors that are well served by frequent transit and are typically identified on maps in community plans (e.g., Official Community Plan, Transportation Master Plan,

[14] Residential Zoning Bulletin. *BC* Government. Retrieved on 2022-06-07 from www2.gov.bc.ca
[15] Metro Vancouver. (March 2019). *Reducing the Barrier of High Land Cost: Strategies for Facilitating More Affordable Rental Housing Construction in Metro Vancouver*. Retrieved from 2022-07-04 from www.metrovancouver.org

and/or Land Use Plans). TransLink provides best practices on their website[16], which focus on the 6 Ds: destinations, distance, design, density, diversity, and demand management. BC Transit's *Transit Future Plan: Victoria Region* [17] supports the continued development of rapid transit and frequent transit networks, which is already identified in community plans like the Uptown-Douglas Plan.

More recently, BC Transit released the *Victoria Regional RapidBus Implementation Strategy* (2021), as the framework for implementing RapidBus routes identified in the Transit Future Plan. The introduction of frequent, fast, and reliable RapidBus service will have a profound effect on Saanich and the Capital Region by increasing connectivity between communities, contributing to mode shift and GHG reduction targets, and supporting sustainable land use. Each of the three RapidBus routes proposed in the Strategy will all serve areas of Saanich to various extents, with the first line (Westshore Line) starting service by 2024. The McKenzie Line connecting the Uptown-Douglas Area to the University of Victoria, is contained entirely in Saanich, with implementation options for the corridor being explored by the District through the *McKenzie RapidBus Corridor Strategy*.

4.1.3 INTENSIFICATION THROUGH REZONING OR PREZONING (E.G. ATTACHED OR DETACHED SECONDARY SUITES, ETC.)

Rezoning properties for density or flexible housing uses is one of the fastest ways to access land and financing for new housing. Secondary suites, zoning for rental buildings, smaller lots, lot subdivisions, stratification, or mixed-use can all increase supply of housing within the existing land supply. Saanich has taken steps to provide intensification opportunities for dwellings through rezoning by permitting secondary or garden suites in all Single-Family Dwelling (RS) zones on appropriate lots through amendments to the Zoning Bylaw. This action was identified in the *2019-2023 Strategic Plan* and is reflected in affordable housing objectives and policy contained in Saanich's Official Community Plan. Housing diversity and affordability are also central to recently completed or ongoing initiatives such as the Strategic OCP Update, which identifies the need for a policy framework to encourage further housing diversity by expanding opportunities for "missing middle" forms and infill housing. Among the many actions identified in the *Saanich Housing Strategy* is to develop a "Missing Middle" Housing Program, which will be initiated in 2022. Together these initiatives and corresponding updates to regulations are creating a supportive policy environment for further residential intensification in the community.

Another example of intensification through rezoning or prezoning is the City of Coquitlam, which has been implemented the Housing Choices Program (2011). The program 's goal is "providing new small-scale, ground-oriented housing options in some residential areas of Southwest Coquitlam[18]." The program is captured in the Neighbourhood Attached Residential land use designation in their Official Community Plan and as RT-1 (infill residential) and RT-3 (Multiplex Residential) in the Zoning Bylaw, which allows for a wide range of housing options, including backyard suites, narrow-lot single family homes, duplexes, triplexes, fourplexes, and multiplexes.

[16] Translink. (n.d.). Transit Oriented Communities. Retrieved on 2022-06-07 from www.translink.ca
[17] BC Transit. (May 2011). Transit Future Plan: Victoria Region. Retrieved on 2022-06-07 from www.bctransit.com3
[18] City of Coquitlam. (2019). Housing Choices Program. Retrieved on 2022-06-07 from www.coquitlam.ca

4.2 REGULATORY TOOLS AND FUNDING

The regulatory tools in this section impact housing from a broader perspective by limiting the term of rental housing (e.g., no short-term rental is allowed in most areas Saanich), securing housing units on certain terms (e.g. housing agreements), encouraging greener building practices, and streamlining the development process. Each of these tools can have a positive or negative impact on residential development by decreasing or increasing project costs and its potential to provide community amenities.

4.2.1 SHORT-TERM RENTAL REGULATIONS

Short-term rentals (fewer than 30 days) allow residential property owners to typically earn more revenue than long-term rentals (30 days or more). While short-term rentals have economic benefits for homeowners, they reduce the availability of units in the rental market (e.g., apartments, suites, etc.) and can lower the affordability of local rental markets. Regulating short-term rentals through zoning, business licensing, and bylaw enforcement can reduce the impact of short-term rentals on the long-term rental stock in a community. Alternatively, local governments can protect the long-term rental market by banning or limiting short-term rentals.

In Saanich, short-term rentals are not permitted in most areas of Saanich outside of those that permit visitor accommodation (hotels) and bed and breakfast uses. The City of Victoria's *Short-term Rental Regulation Bylaw* (no. 18-036) requires a short-term rental operator to pay for a valid business license and have their place inspected by a bylaw officer. Further, Victoria limits short-term rentals to principal residences only (unless legally non-conforming) for up to two bedrooms in an occupied dwelling or the whole home on occasion19.

4.2.2 HOUSING AGREEMENTS

Housing Agreements are the primary legal tool used by local governments to govern tenure, occupancy, rent levels and resale restrictions for affordable units. These agreements are intended to help ensure long-term affordability of housing units and the length of the term is determined by the local government and agreed to by the developer of the units upon signing the agreement. The length of term varies by community in BC with some agreements requiring affordability in perpetuity or a pre-determined number of years that is applied consistently across all affordable rental housing projects. [20]

4.2.3 BC ENERGY STEP CODE

In April 2017, the provincial government adopted the BC Energy Step Code as regulation and is an optional compliance path in the BC Building Code. The Step Code aims for "net-zero-energy-ready buildings" across all construction projects in BC by 2032 and is a performance-based standard with defined metrics for building envelope, equipment and systems, and airtightness testing.

As of 2018, local governments may require the BC Energy Step Code in new construction projects at the municipal level. The District of Saanich requires building permits for new residential construction applied on or after January 1, 2020 to demonstrate compliance with the BC Energy Step Code at either Step 2 or Step 3, depending on the project type. Engagement with building industry stakeholders in the

[19] City of Victoria. Short-term Rentals. Retrieved on 2022-06-07 from www.victoria.ca
[20] Metro Vancouver *What Works: Affordable Housing Initiatives in Metro Vancouver Municipalities. Available at: http://www.metrovancouver.org/services/housing/HousingPublications/1267_WhatWorks_LR.pdf*

District on implementing the upper steps of the BC Energy Step Code and Low Carbon Energy Systems in new development was recently completed. This will inform how regulatory tools can be utilized to reduce operating carbon emissions in new projects. With this process complete, District staff will be providing recommendations to Council during Summer 2022.

4.2.4 STREAMLINING DEVELOPMENT APPROVAL PROCESSES

As part of the Province's *Homes for BC* plan the provincial government undertook the Development Approvals Process Review (DAPR).[21] The review included extensive engagement and considered a range of legal and other elements of the development approvals process in BC.

As one outcome of that review, the provincial government introduced Bill 26 in 2021. This legislation is currently moving through the BC Legislature and is intended to streamline elements of the development approvals process. The proposed changes will "remove the default requirements for local governments to hold public hearings for zoning bylaw amendments that are consistent" with a community's official community plan (OCP). While local governments have always had this ability, the default has always been to hold a public hearing unless a Council specifically waives it. With this legislation, Councils will have to explicitly request a public hearing when projects conform to the OCP. This change may be indicative of broader changes coming to the development approvals process and speculation around the role of the province in ensuring adequate supply.[22] [23]

The District of Saanich, in partnership with its consultant, KPMG, published the Development Process Review, 2021 report that establishes 15 recommendations to improve the efficiency, effectiveness, and impact of Saanich's development application review process. It provides a prioritized three-year implementation plan, commencing in 2022. The key recommendations from the report are generally to address gaps and overlaps in policy to provide clear direction for all participants in the development process, streamline applications by complexity, explore additional delegation to staff, improve technological solutions, establish clear metrics, and update resources for applicants.

[21] Full report available here: https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/local-governments/planning-land-use/dapr_2019_report.pdf
[22] Little, Simon (23 Feb 2022). B.C. mulls overriding local governments to promote more housing development. *Global News*. Retrieved on 2022-06-07 from www.globalnews.ca
[23] Barnes, Gary. (02 Jun 2022). B.C. municipalities could be held accountable or meeting housing targets. Retrieved on 2022-06-07 from www.kelownacapnews.com

4.2.5 FEDERAL AND PROVINCIAL GOVERNEMENT FUNDING FOR AFFORDABLE HOUSING

There are several programs administered by the federal and provincial governments for funding affordable housing development. Developers, non-profit housing operators, and other partners can apply to use these funds towards the construction and operation of affordable housing developments. Some programs highly favour, or are contingent upon, projects receiving rezoning adoption from local governments before approving the funds. The most commonly accessed programs are outlined below.

Program Name	Program Description
CMHC National Housing Co-Investment Funding	Provides low-interest and forgivable loans to fund for new, high-performing affordable housing located close to necessary supports and amenities, from public transit and jobs to daycares, schools and healthcare. Also offers 50-year amortization.
CMHC Rental Construction Financing Initiative	CMHC rental construction financing provides low cost funding to eligible borrowers during the most risky phases of product development of rental apartments (construction through to stabilized operations). The minimum loan is $1,000,000, and a maximum of up to 100% of Loan to Cost (for residential loan component). Also offers 50-year amortization.
CMHC Seed Funding	Interest-free loans and/or non-repayable contributions to develop and preserve affordable housing.
BC Housing Community Housing Fund	Provides funding to develop affordable rental homes for middle and low-income families, independent seniors and individuals in BC.
BC Housing Hub	Works with community, government and non-profit and private-sector stakeholders to facilitate the creation of new affordable rental housing and homeownership options for middle-income British Columbians (earning under $99,000 a year).

5.0 STAKEHOLDER ENGAGEMENT

5.1 APPROACH TO ENGAGEMENTS

As part of Phase 2 of the CAC and IH Policy project, the first round of stakeholder engagement was completed between February and April 2022, including focus group discussions with housing providers, the real estate and developer community, and social service providers and community organizations. Follow up interviews were also conducted to gather further insight on emerging themes and findings.

Urban Systems has also completed a series of interviews with developers to inform the economic and pro forma analysis, which is the main focus of this discussion paper. Developers were interviewed to understand current costs, how costs have been changing, emerging trends, financing factors (e.g., amortization periods, interest rates, construction financing, etc.), among other topics.

5.2 FOCUS GROUPS FINDINGS

The following subsections highlights the key findings from focus group discussions.

5.2.1 HOUSING PROVIDERS

Housing providers who participated in the focus groups include the University of Victoria, Greater Victoria Housing Society, and the BC Non-Profit Housing Association. Following initial focus group discussions, further conversations were held with other key housing providers, including the Capital Region Housing Corporation (Capital Regional District), M'akola Development Services and email correspondence with Pacifica Housing, which are summarized in **Section 5.3**.

Key findings from engagement with housing providers were that:

- Affordable units need to be centrally located and concentrated to be financial sustainable. One attendee noted that the minimum threshold is a concentration of 25 to 40 units.
- Housing providers need to be engaged earlier in the development process to ensure affordable units are operationally and financially viable. Developers should not wait until the unit are built to engage housing providers.
- Rents need to be able to cover debt servicing and operations. One factor of operational sustainability is the cost of acquiring affordable units from developers.
- Saanich has good amenities but lacks density. Amenities should be based on best practices for walkability, transit, and active transportation.
- Indigenous and immigrant households have different needs in terms of unit sizes because of family compositions. Housing providers for these types of households should be engaged to better understand their unique needs
- Attendees were not supportive of affordable units in perpetuity, but instead they would rather tie financial requirements to that of the building / mortgage (e.g., 35 years).
- Not-for-profits should be exempt from paying CAC/IH rates
- Create cost certainty by limiting the politics associated with negotiated CAC/IH rates. Replicate process similar to DCCs.
- Requirement for rezoning approval to access funding from senior government can create additional uncertainties for housing providers that are trying to offset the costs of affordable housing development.

5.2.2 DEVELOPMENT AND REAL ESTATE COMMUNITY

Real estate and developers included Abstract, Shape Properties, Mike Geric Construction, Jawl Properties, Colliers, Victoria Residential Builders Association, Aryze Developments, and the Urban Development Institute. Following initial focus group discussions, further conversations were held with Abstract, Aryze Developments, Chard Development, Tri-Eagle Development Corporation, and Formwell Homes to capture detailed construction costs and potential sale revenues based on the market area.

Key findings from engagement with development and real estate community include:

- Significant uncertainty for developers in Saanich (and elsewhere) due to a combination of factors:
    - Rapidly increasing construction costs (hard costs) mean bigger contingencies have to be carried
    - Step Code and other building code requirements
    - Financing challenges
    - Rate increases lead to uncertain impact on buyer demand and price points
    - Lengthy development approval processes and opposition at the public hearing lead to increased carrying costs (soft costs and hard costs)
    - Boundary delineations, as per OCP or Local Area Plans
    - Prescriptive densities vs. 'performance based' regulations (e.g., heights, setbacks, design standards)
- Due to this uncertainty, CAC and IH policies should:
    - Define desired outcomes and provide incentives (e.g., bonus density, tax exemptions, faster municipal approval process, guaranteed timelines).
    - Clear targets (OCP, Area Plans) – make OCP land use policies clear, but caution to not make policy overly prescriptive to allow for density flexibility, with strong design guidelines. Encourage infill development everywhere.
    - Flexible policies tied to market trends with specific desired outcomes (e.g., defined levels of affordability).
    - Define and cost desired amenities – encourage development of amenity priorities for each area, and associated costs, and use that as basis for CACs. Give developers and community specific goals "to rally around."
    - IH requires faster approvals to succeed (ownership or rentals); do not tie development entitlements to financing arrangements (e.g., BC Housing, CMHC).

5.2.3 SOCIAL SERVICE PROVIDERS AND COMMUNITY ORGANIZATIONS

Community Associations included Mount View Colquitz Community Assocation, Saanich Neighbourhood Place, and Mount Tolmie Community Association. Following initial focus group discussions, further conversations were held with other service providers and community organizations, including the Victoria Immigrant and Refugee Centre Society (VIRCS) and Victoria Native Friendship Center (VNFC), which are summarized in **Section 5.3**.

Key findings from engagement with social service providers and community organizations include:

- Housing should be in areas where people can easily walk to commercial centres, community and social services, schools, and recreation. Many Saanich residents are already regularly travelling to areas with these amenities.

- Uptown-Douglas, Shelbourne Valley, and Tillicum-Gorge were identified as amenity deficient areas. Priority amenities in these areas include community services, public open spaces, and natural features.
- Amenities need to be prioritized across the District and within neighbourhoods while maintaining a long-term view of what amenities should be established or preserved first, such as parks and natural spaces.
- Community services such as childcare and mental health and family supports must be considered as the CAC and IH Program is developed.
- Further consideration is required into how affordability is defined and the trade-offs of increasing the number of "affordable" units versus providing fewer units with deeper subsidies. This is particularly prevalent when market conditions make it challenging for a greater number of people to find housing.

5.3 FOLLOW UP INTERVIEWS FINDINGS

Follow up interviews included the Victoria Immigrant and Refugee Centre Society (VIRCS), Victoria Native Friendship Center (VNFC), Capital Region Housing Corporation (Capital Regional District), M'akola Development Services, Woodsmere and email correspondence with Pacifica Housing. Key themes and notes are summarized below:

5.3.1 INDIGENOUS, IMMIGRANT, AND REFUGEE HOUSEHOLDS

- Require support completing affordable housing applications and liaising with landlords.
- Face extreme housing pressures and experiences of discrimination and racism, with difficulties accessing and affording the current housing market.
- Prefer not to be clustered as it can lead to greater discrimination and feelings of segregation.
- Housing providers should consider various cultural beliefs and practices surrounding families requiring larger units.

5.3.2 UNIT SIZE

- BC Housing Construction standards often dictate unit sizes to access funding and secure operating agreements.
- Units can be mixed based on apartment styles. Units with 3+ bedrooms should be put on ground floor to house families and minimize noise to other tenants.
- Indigenous, immigrant, and refugee households are likely to have larger family compositions, which can require 3- to 6-bedroom units; or else they can become underhoused.

5.3.3 AMENITIES

- Nearby amenities should include parking, schools, health services, commercial (groceries), direct transit routes, parks, and playgrounds. These types of amenities can create more stable tenant populations.
- Location and amenities matter less given the housing crisis for Indigenous, immigrant, and refugee households. However, it is best if there is convenient access to basic amenities like transit, childcare, grocers, food banks, etc.
- Immigrants and refugees require access to transit. They do not require access to parking or active transportation infrastructure.
- Indigenous households require access to transit and parking. Parking can be a barrier for families.

5.3.4 SCALE OF HOUSING

- Non-profit housing providers benefit from owning and/or operating a larger volume of units as it helps achieve economies of scale.
- The right volume of housing units to own and/or operate ranges between non-profit housing providers as it depends on the organization's mandate and operational model.
- Some housing providers can manage a minimum of 25 to 40 units, which should be strung together across development projects in proximity to each other.
- Other housing providers prefer 100 units in a stand-alone building, which can be managed by a single non-resident caretaker.
- If non-profit housing providers can acquire the units at a lower cost, then the smaller mortgage payments would lower the minimum unit threshold for operational viability.
- Saanich should consider a pre-approved not-for-profit housing provider roster for developers to contact when they have affordable housing units to ensure a fair opportunity for non-profit organizations to purchase or operate units.
- Larger buildings are more commonplace and cost effective. However, they are also more challenging to manage. For example, larger buildings are more difficult to fill and can lead to operating challenges in the first year.

5.3.5 CHANGING OPERATING EXPENSES

- The level of operating expenses depend on the rent scale, affordability targets, staff time, mortgage payments, and unit acquisition agreements.
- Mortgage payments have a large impact on operating expenses and are dependent on what value the developers will turn over the units to non-profit housing providers.
- Increasing land, construction, and development costs are causing increases in operating expenses for non-profit housing providers which can be particularly tight on budget while ensuring affordability of the units,
- Changes to insurance have resulted in unmanageable escalating costs across all housing assets, especially impacting non-profit housing providers.
- Property taxes exemptions lower operating costs while recent years have seen a higher increase in property transfer taxes due to a larger number of turnkey purchases and deal structures between developers and non-profit housing operators.

5.3.6 APPROVALS PROCESS ANDIINCENTIVES

- Developments with affordable housing components should have streamlined policies and administrative processes to provide true incentives to housing developers.
- The review of invoices and other DCC requirements to receive a waiver for affordable housing projects can remove the intended financial incentive for developers.
- Obtaining rezoning is often a funding requirement from senior levels of government which can impact both the number of affordable housing projects and affordability of the units brought onto the market as costs increase throughout the approvals process.

5.3.7 AFFORDABLE AGREEMENTS

- Philosophically, some non-profit housing providers prefer not to have housing agreements on land title that maintain housing affordability in perpetuity as the lifespan of the housing asset typically lasts 60 years only.

- If a non-profit housing provider is receiving capital or operational funds from BC Housing, they would prefer the flexibility to work with the municipality to sign a housing agreement that meets the terms of BC Housing funding (often 60 years) or other financing terms (e.g., duration of a mortgage).
- Affordable homeownership housing agreements requires an entity to maintain affordability between sales to ensure the housing unit maintains its below market value for future owners.
- Some non-profit housing providers prefer to act as property managers, and have the developer or municipality remain the owner, while a third-party funder like BC Housing dictates the terms of the housing agreement.

5.3.8 DEFINITIONS

- Avoid setting affordability targets that are not tied to market trends to ensure operational viability for housing operators.
- Affordability is often tied to individual incomes that must qualified through the BC Housing Household Income Limits (HILs), which is typically 30 -35% of their income.
- Rigid definitions of accessible units can make them hard to fill. Universal design approach can make it easier to find units, which lowers operational challenges.

6.0 DISTRICT-WIDE FINANCIAL ANALYSIS

This section summarizes the key findings from analysis of the potential value of amenity contributions (including affordable housing) that can be supported by rezonings and / or pre-zoned density bonusing in the various study areas under today's market conditions.

6.1 APPROACH

Analyses have been prepared for case study sites located across the District of Saanich's **Centres, Corridors, Villages, and Neighbourhoods**

Within these areas, USL has:

- Analyzed the feasibility and appropriate **target fixed-rate CACs** for projects that are rezoned and then built at one of the density points under active exploration for future CCV Plans, local area plans, and OCP;
- Analyzed the feasibility and appropriate **fixed-rate density bonus payments** for projects built at densities under active exploration, assuming that each site was to be pre-zoned using density bonus zoning, and could therefore be built to the new base density as-of-right; and,
- Analyzed the feasibility of **inclusionary non-market rental housing** within both target fixed rate CACs and density bonusing structures.

6.2 EVALUATION OF CAC AND DENSITY BONUSING POTENTIAL

To estimate CAC amounts supportable from rezonings or pre-zoned density bonusing in Saanich, we analysed financial viability of redevelopment at a variety of case study sites and densities, as identified by District staff.

To identify reasonable **CAC target rates**, financial analysis was used to model the likely performance of rezoning and redeveloping each site under the maximum density identified by staff as being under consideration for a given site. In some cases, the envisioned maximum density does not yield the highest residual land value and may in fact have a lower supported value than under current zoning. In such cases, we also modelled the likely performance of rezoning and redeveloping at another density level, within the range of future envisioned densities.

The underlying assumptions for this type of analysis are that a developer would purchase a site (single parcel or parcel assembly) at current market value under existing use and zoning[24] (i.e., that the developer would not pay the value of the site as if already rezoned). The CAC target rate is based on the lift in land value between current zoning and the max density (or highest value density if not the max density) under future designation and would be charged on all floor area exceeding the maximum permissible under current zoning.

To identify reasonable **density bonus rates** that could be applied if the District elects to use density bonus zoning and pre-zone parcels (i.e., permit a new base density as-of-right, with the option to bonus

[24] If a developer previously purchased a land parcel under different market conditions in Saanich, then the redevelopment project costs in today's market conditions would be much less due to the lower land cost. Depending when the land acquisition occurred, it is possible that some development concepts tested here could be viable.

up to a max density), the same sets of financial analyses on the same sites were used to model the differences in project performance and associated supportable land value under base vs. max densities. In such a case, the density bonus rates would be based on land value increases driven by the additional density beyond base density and would be charged on all floor area above that permissible at the base density.

The stages in each case study analysis are as follows:

1. **Case Study Site Identification**: District staff provided maps and associated details for 35 case study sites across Saanich. These case studies are thought to be broadly representative of conditions that exist at other sites in and around each study area.
2. **Base Value Estimation for CAC application:** For each of the case study sites, base values were estimated in the absence of any rezoning. As most case study sites are currently zoned for single-detached housing, the land values under existing zoning were typically set using 2022 BC Assessment Authority (BCAA) property assessments. To each assessed value, a 20% premium was added under the assumption that a developer will need to offer a premium to incent current owners to sell lands into a development assembly. Further, given price escalations over the past 2 years, a developer would also have to be able to outbid an end-user who wishes to either use the existing dwelling, or redevelop under existing zoning. The parcels effectively need to be worth more to the developer than to a user intending to use the site under existing zoning. For parcels with an active commercial use, a combination of assessed value review and back-of-envelope income-based valuations were prepared to determine value under current zoning / use.

3. **Base Value Estimation for Pre-Zoned Density Bonus application:** For instances where multiple densities are modelled, and where the District has indicated that pre-zoning may be considered, the base value from which land lift was calculated was set as the land value supported by a redevelopment at the new base density. For example, if a site is pre-zoned under density bonus zoning with a prescribed density range of 1.8 FSR (4-storey) to over 4.0 FSR (12 storeys), the base value for the density bonus calculation would be the value supported by the 1.8 FSR development.

   The exception to the above would be for cases where the supported land value under a new base density falls below the value supported by current zoning. In such cases, the base value for the bonus density calculation would be the same as under CAC application: the value as currently zoned.[25]

4. **Determination of Redevelopment Viability:** We determined whether rezoning and redevelopment, or density bonus and redevelopment, is financially viable. To be viable, the value of the property as a redevelopment site at either the maximum envisioned density (or below, if maximum density and maximum value do not align) must exceed the value of the property under current zoning.

5. **CAC / Density Bonus Rates:** for sites that were financially viable, we calculated:

   a. The increase in land value due to the bonus density; and

[25] Where the base density valuation is the same for CAC and density bonus calculations, the absolute value of the land lift (and CAC or density bonus payment) would be the same in both conditions. However, the pre-square-foot value would be different. This is because for CACs the payment would be spread across more floor area (the higher value density minus value under current zoning), whereas the density bonus would be spread across only the floor area increment between the new base density and whatever density supports the highest value.

b. The potential target CAC or density bonus rate as a percentage of that increase in land value, with CACs set at 50% of the increased value, and pre-zoned density bonuses at 75% of the increased value.[26]

6. **Affordable Housing Provision:** For some of the sites that were financially viable for redevelopment, we estimated the amount of non-market affordable rental housing that could be built on-site at the deemed below market rental rate (10% below median CMHC market rates as determined by their Rental Market Survey). The affordable housing component is assumed to be provided instead of the provision of other on-site amenities, or any cash-in-lieu contributions. The affordable housing space replaces space that would otherwise be sold or rented at market rates.

   As the provision of affordable units negatively impacts the overall financial performance of a given project (like any other amenity, it is a form of land value capture), the land lift decreases. For instance, at the envisioned rental rates for inclusionary units, the value of each unit at completion is substantially below the cost of construction. For each site where affordable housing was tested, the pro forma was sensitivity tested to return the maximum amount of non-market floor space without pushing the land lift calculation below zero.

Table 6-1: Economics of Market Condo Unit vs. Inclusionary Rental Unit at 10% below median market rent per CMHC, at sample site in Shelbourne Valley

Capital cost per unit, including financing, excluding profit and land cost	$470,000 per unit
Sales Value per strata unit before commissions	$665,000
Non-Market Rental Unit Value*	$221,000
Foregone value per non-market unit (vs. market equivalent)	$444,000
Amenity value per non-market unit**	$250,000

*Capitalized value of projected net operating income
**Cost to construct less non-market rental value

6.3 ASSUMPTIONS PERTAINING TO INCLUSIONARY HOUSING

As part of the broader CAC and density bonusing analysis, the District is interested in exploring the possible shares of affordable housing units that could be provided by new developments, and particularly by larger-scale new residential and mixed-use construction within the District's Centres and Corridors. This calculation is based on the increase in land value that is created by the bonus density available through either rezoning or density bonusing within a pre-zoning framework.

For each of the case study financial analyses prepared in the Centres and Corridors, those projects that show viability and an ability to pay cash contribution are subject to further analysis to determine the proportion of affordable rental units that could be supported by the increased land value. There are a series of key assumptions that underpin the approach and analysis of affordable unit provision:

[26] Note again that the 'increased value' calculation differs in the CAC case vs. density bonusing case. In the former, the calculation is the difference between value supported by the new max density, vs. the value under current zoning. In the latter, it is the difference between value supported by the new max density, vs. the value supported by the new pre-zoned base density.

1. **Project Viability:** IH analysis has only been prepared for case study sites that show viability in the absence of any amenity contributions. The financial ability of any new housing project to provide affordable units is created by the value of additional density that is accessed via rezoning or density bonusing. The greater the value of that density, the greater the potential provision of affordable units. In the absence of either rezoning or the 'accessing' of density bonusing within a pre-zoning situation, no affordable units can be provided.

2. **Lift Calculation:** The affordable housing potential from a rezoning or a density bonus situation is analyzed based on:

    a. the value of the increase in density beyond existing zoning;

    b. the value of the increase in density between base and maximum densities under exploration (i.e., likely density ranges targeted for a future OCP); or,

    c. the value of the increase in the density between base and another future density under consideration, if that other density returns a higher supported land value than the maximum density.[27]

    In a scenario where the District elects to pre-zone areas with new base and max densities, then development could occur as-of-right at the base density, and therefore cannot be required to provide inclusionary units within B.C.'s legislative framework. In such a case, only the value of the increase in density beyond the base density supported by the new zone would be relevant in calculating affordable housing provision.

    If, however, a development were to go through a developer-initiated rezoning, then the increase in value beyond that supported by existing zoning would be the base land value for the calculation of any amenity provision potential, including affordable units.

3. **Feasibility:** The cost of an affordable housing contribution (i.e., what is a feasible contribution for the developer) is based on either:

    a. 50% of the increase in land value generated by the bonus density accessed through rezoning[28], or
    b. 75% of the increase in land value generated by the bonus density over the higher of a pre-zoned base density or value under current zoning.

4. **Floor Area:** Affordable housing provision calculations are made based on a percentage of gross floor area in each project, rather than units. If affordable housing units are smaller than market units, then more total units may be delivered.

5. **Unit Sizes and Mix:** The amount of affordable housing in a project will be shaped by factors that affect the cost of creating the units (hard and soft costs), including target unit sizes and mix (e.g., number of 1 bed vs. 2 bed vs. 3 bed units). For this analysis, all pro formas with an

[27] A lower density level can often support a higher residual land value than a higher density level if there are significant increases in construction costs per square foot associated with the latter, without sufficient additional revenue to offset them. An example of this is midrise concrete construction (e.g., 7-12 storeys). The switch from woodframe to concrete (past 6-storeys) can add $50+ per square foot in hard costs. Unless there is evidence that a significant price premium can be charged for units in such buildings, that typology will support a lower residual land value than a lower density woodframe project.

[28] In the case of a developer-initiated rezoning, the 'bonus density' is all floor area above that permitted under current zoning.

inclusionary non-market rental housing component have the affordable floor space broken out as follows:

Table 6-2: Non-Market Unit Distribution by Bedroom Count for Inclusionary Housing Pro Formas

Unit Type	Proportion of Units	Floor Area (sq.ft.)
Studio	30%	475
1 Bed	40%	600
2 Bed	20%	800
3 Bed	10%	1,000

6. **Unit Values:** The amount of affordable housing will also be shaped by factors that influence the value of each unit. These include rents, operating costs, prevailing mortgage rates, and market capitalization (cap) rates. For this analysis, all affordable rental units are assumed to be offered at rents that are **10% below median 2021 CMHC rents**.

Table 6-3: Rental Rates for Below Market Rental Housing Units, 2021 CMHC

Unit Type	Monthly Rental Rate
Studio	$832.50
1 Bed	$1,080.00
2 Bed	$1,395.00
3 Bed	$1,755.00

7. **Operations:** Upon project completion, the affordable housing units within an otherwise market rate development may be retained by the developer or sold to a third-party owner/operator. The value of the non-market units (i.e., what someone could afford to pay for them, or what they are worth to a developer as compared to a market rate unit) is calculated based on their net operating income (NOI) and a market capitalization (cap) rate.

   As these units will generate well below market rents, their value will be low compared to market rental units, or comparable condo units. For a third-party buyer (likely a non-profit), the amount they can pay to purchase units to rent as affordable units will depend on their access to equity and financing, and the terms of their financing (mortgage rate, amortization period, loan-to-value requirements). Non-profits are unlikely to purchase units that result in a negative cash flow during the operations of the building. Therefore, as mortgage rates go up, all else being equal, the value of a unit (what a non-profit can afford to pay for it) will fall.

   It is also assumed that a developer is not creating 'turnkey' units that are handed over to the District or a non-profit for zero dollars. Under these conditions, the developer would realize zero value from each unit, and therefore the number of units that could be delivered would be substantially lower as none of the construction costs would be offset by revenue for that space.

8. **Revenues vs. Costs Escalation:** The pro forma analyses that have been completed for this assignment assume that net operating incomes (gross rent minus vacancy and operating costs) for affordable rental units will rise at 1.5% per year. Embedded within this assumption is that operating costs as a proportion of gross rents remain fixed. However, it is possible, and even likely, that operating cost increases will outpace rental rate increases over the coming years, barring a change to allowable rental rate increases in provincial legislation. This uncertainty underscores the importance of the District giving consideration to a mechanism allowing affordable unit operators to apply for rent increases beyond that permitted by the

residential tenancy act if / when there are extraordinary unanticipated capital costs, or a prolonged period of time where expenses outpace rent growth. These matters can be addressed as part of a housing agreement.

9. **Housing as Amenity:** When calculating the potential for affordable housing provision, we assume that all of the 'amenity room' is taken up by the provision of these units. Therefore, no other amenity contribution could be expected from such a project.

10. **Inclusionary Requirements:** While we have completed IH analysis in purpose-built market rental projects as part of this assignment, we recommend very careful consideration of where, and under what conditions, inclusionary units may be a reasonable requirement within such projects. The District should be developing policy with an explicit eye to avoiding a situation where an IH requirement creates an undue barrier or disincentive to the construction of new market rate units – either condominium or rental.

6.4 FINANCIAL ANALYSIS CASE STUDY RESULTS

This section presents the results of the financial analyses that were prepared at 35 case study sites across the District of Saanich. These financial analyses form the basis for CAC target rate and density bonusing rate recommendations, along with recommendations around IH provision. This section is broken out by study area and presents results for both strata ownership and market rental scenarios.

For each site where housing is modelled as strata units, the analysis show:

- Which of the Saanich subareas the sites are located (Centres, Corridors, Villages, Neighbourhoods)
- The site size
- The current use and current zoning
- The intended future use designation and associated density range
- The parking ratios for residential and commercial space
- The estimated supportable land value under current zoning (including assumed purchase premium, transfer taxes and closing costs)
- The estimated supportable land value if built to the designated base density
- The estimated supportable land value if built to the designated maximum density
- The calculated **community amenity contribution** (CAC) at 50% of the lift in value due to the additional density
    - If the envisioned maximum density does not support the highest land value, the calculated amenity contribution is based on the development concept / density with the maximum supported land value
- The calculated CAC per square foot of additional floor area
    - This is calculated on the net additional floor area in excess of the maximum permissible under current zoning.
- The calculated **density bonus value** at 75% of the lift in value due to the additional density *over the envisioned future base density*

- Where appropriate, the estimated ability of each case study site to support inclusionary affordable housing units, and the differences in affordable housing provision under re-zoning (target CACs) vs. pre-zoning (density bonus payments).

For **rental** scenarios, tables and / or notations are presented that show the returns of each project on a **10-year cash flow basis using the metric of unlevered internal rate of return (IRR).** While the economics of market rental housing are quite different from market condominiums and typically cannot readily support (or warrant) up-front payment of a cash amenity contribution, in certain cases there may be an opportunity to offer in-kind built amenity, including non-market housing.

For these analyses, a market rental project is deemed viable if it can either:

- Support a residual land value higher than the value under current zoning (meaning it could be built and sold to an investor), or
- Return an unlevered IRR of at least 5.5% based on a 10-year cash flow with deemed disposition in year 11.[29]

6.4.1 ANALYSIS OF CASE STUDY SITES – INTRODUCTION

The following sections provide both tabulations and narrative discussion of the pro forma financial analyses that were prepared for each of the case study sites, under multiple typology and density conditions. While most of the tabular information and narratives will speak for themselves, there are some elements that may be less intuitive. To assist with reader interpretation of the results, a preliminary introduction and discussion to some of the notations and terms used in the analysis is provided below.

- **"Estimated base land value under current zoning"**
    - This is the calculation for what a developer would likely have to pay to acquire a given land parcel, or to assemble a series of parcels, for redevelopment.
    - For most sites, this value is calculated as the BC Assessment Authority (BCAA) 2022 value + 20% development assembly premium (for multiple parcel sites).
    - For some sites with active cash flowing uses (e.g., commercial strip centres), the BCAA-based land assessment is supplemented by very high-level valuation calculations based on expected cash flow and current market cap rates.
- **"Estimated value under designated base density"**
    - This is the residual land value supported by a future development built at the lowest density being explored for future land use designations
    - This designated base density value is, in most cases, used as the basis for calculating land lift and contribution potential within the framework of density bonus zoning
    - The designated base density value would not be used as the starting point for bonus density calculations in circumstances where it is lower than the estimated base value under current zoning.

[29] While return thresholds vary by project type and investor profile, we understand that many investors looking for longer-term stable returns will seek out projects where a projected unlevered IRR is at least 1%, and ideally >2%, above prevailing market cap rates. Based on the estimate that prevailing market cap rates for newer production Saanich today is around 4.25%, we have set the IRR threshold at 125 basis points above this.

- **"Estimated value at designated max density"**
    - This is the residual land value supported by whatever the highest envisioned density is in a future land use designation.
- **"Estimated maximum supported land value"**
    - This is the maximum residual value supported by the site under any of the current or future conditions modelled.
    - In some cases, this value will align with the max envisioned density
    - In other cases, this value will align with another density level along the spectrum of future possible densities (e.g., a 6-storey apartment may yield a higher value than a 12-storey apartment).
    - In other cases still, it may align with a future base density, or with the value under current zoning.
    - The estimated maximum supported land value may be the same as the value under designated max density, the value under designated base density, the value under current zoning, or another value altogether that is not presented in any of those categories (e.g., a mid-point density, such as a 6-storey building within a land designation calling for a range from 4 storeys up to 12 storeys).

6.4.2 ANALYSIS FOR "CENTRES" STUDY AREA – STRATA OWNERSHIP UNITS

Shelbourne Valley and Tillicum Centre

Table 6-4: Summary of Estimated Supportable Amenity Contributions through Provision of Bonus Density through Re-zoning (CACs) or Pre-Zoning (Density Bonusing) – Shelbourne Valley and Tillicum Centre

CASE STUDY SITES	Site 1	Site 2	Site 3	Site 4
Location	Shelbourne btwn Knight Ave & Derby Rd.	1700 block McKenzie Ave.	Cedarwood & Teakwood	3100 Tillicum Rd.
Centre	Shelbourne Valley	Shelbourne Valley	Shelbourne Valley	Tillicum Major Cntr
Site Size (sq.ft.)	48,588	39,622	39,934	16,985
Current Use	SF Homes + Vacant Lot	SF Homes	SF Homes	SF Homes
Current Zoning	RS-6	RS-6 / RD-1	RS-6	RS-6
Intended Rezoned Typology	8-12 storey apartment w/townhouse	4,6,8 storey apartment	Townhouse (up to 3 storeys)	6, 8, 12 storey apartment
Future NP Base Density	3.2	1.8	1.0	2.4
Future NP Max Density	4.6	3.2	1.2	4.6
Parking Ratio Residential (per unit)	0.8	0.8	garages	0.8
Parking Ratio Commercial (1 stall per X sq.ft.)	108	108	108	108
# Units at Future NP Base Density	202	90	27	51
# Units at Future NP Max Density	290	151	27	95
Avg. Unit Size (sq.ft.)	632	669	1,800	666
Unit Size Range (min-max sq.ft.)	475-1,000	475-1,000	N/A	475-1,000

Supported Land Values	Site 1	Site 2	Site 3	Site 4
Estimated base value under current zoning*	$3,995,000	$4,680,000	$5,401,000	$3,574,000
Est. Value at **Designated Base** Density	$5,665,000	$10,669,000	$5,578,000	$4,112,000
Est. Value at **Designated Max** Density	$9,145,000	$5,133,000	$5,578,000	$1,884,000
Est. **Maximum Supported** Land Value	$9,145,000	$14,478,000	$5,578,000	$4,112,000
Associated Dev't Typology	12-storey	6-storey	3-storey TH	6-storey

*Including taxes and closing costs

CAC and / or Density Bonus Potential (no inclusionary units)	Site 1	Site 2	Site 3	Site 4
Estimated **CAC** @ 50% of lift to designated *max density*	$2,575,000	$226,000	$88,000	($845,000)
Per sq.ft.	$13	$2	$3	($12)
Per unit	$8,879	$1,497	$3,259	($8,895)
Estimated **CAC** @ 50% of lift to concept with *max supported land value*, if different from value at max density	n/a	$4,899,000	n/a	$269,000
Per sq.ft.	n/a	$65	n/a	$8
Per unit	n/a	$40,488	n/a	$5,275
Estimated **DB** @ 75% of lift from base density value to max supported value	$2,610,000	$2,857,000	n/a	n/a
Per sq.ft. (incremental)	$38	$120	n/a	n/a
Per unit (incremental)	$29,659	$92,161	n/a	n/a

Inclusionary Housing Provision	Site 1	Site 2	Site 3	Site 4
Through Rezoning (CAC)				
# Units	7	13	n/a	n/a
as % of ***total*** units	3%	10%	n/a	n/a
Through Pre-Zoned Density Bonus				
# units	5	5	n/a	n/a
as % of ***incremental*** *units over base density*	6%	15%	n/a	n/a

Site 1: Shelbourne between Knight and Derby

This site is just over 1-acre (making it the largest of the 4 test cases shown in the table above), is zoned for single family housing, and the intended land use designation is for 8-12 storey residential. The value under current zoning (assessed + assembly premium) is just under $4 million.

A rezoning to either 8 or 12 storeys (both assume concrete construction) appears to be viable; each carries a residual value that is higher than the value under existing zoning. While it is often true that projects in the 8-12 storey range struggle to be viable due to higher-cost concrete construction without sufficient additional density to achieve economies of scale, projects at both 8 and 12 storeys are viable at this test site. This is attributable to the combination of:

- Relatively higher achievable unit prices due to locational attributes (e.g., proximity to commercial services, parks, schools, and the University)
- Relatively lower land prices compared to other "Centres" test sites. The assumed cost that a developer would have to pay to assemble these properties is around $4 million, or $3.6 million per-acre. This is the lowest per-acre land cost of any of the Centres case study sties.

A CAC charged at 50% of the value created by the bonus density (vs. current zoning) would yield approximately $2.58m, or $13 per square foot.

A density bonus charged at 75% of the value of the difference between a base density of 8-storeys and a bonus of 12-storeys would yield approximately $2.6m, or $38 per incremental square foot.

This project is of a sufficient size (around 200 units) to consider an IH component.

- If 50% of the additional land value created by the bonus density (vs. current zoning) is allocated to affordable housing, the maximum share and number of units that could be supported is around 3% (7 units).
- If 75% of the additional land value created by the bonus density between 8 and 12-storeys is allocated to affordable housing, the maximum share is approximately 6% of the *incremental* number of units, or about 5 units.

Site 2: 1700 Block McKenzie Ave – Shelbourne Valley

This site is nearly 40,000 square feet, is zoned for single family, and is intended for 4, 6 or 8 storey apartments. The base value under current zoning (assessed + assembly premium) is nearly $4.7 million, or $5.15 million per acre.

A rezoning to allow construction of either a 4 or 6-storey wood frame apartment condominium yields residual land values above the base value. At 4 storeys, the land residual is $10.6 million; at 6-storeys, that residual increases to $14.4 million. At 8-storeys however, the land residual is only $ 5 million, or within $450,000 of the value under current zoning. This reflects the jump in construction costs when switching from wood frame to concrete, without sufficient additional density to achieve economies of scale.

A CAC charged at 50% of the value created by the bonus density up to 6-storeys (vs. current zoning) would yield approximately $4.9 million, or $65 per square foot.

If the site were pre-zoned to allow 4-storeys as-of-right, with the option to bonus up to 6 or 8 storeys, a density bonus charged at 75% of the value of the difference between a base density and a bonus of 6-storeys would yield approximately $2.8 million, or $120 per incremental square foot.

Redevelopment on this site could support an IH contribution of around 10 units under the rezoning condition, and 4 units under density bonus provisions. The latter would represent approximately 15% of the incremental units.

Site 3: Cedarwood & Teakwood – Shelbourne Valley

This site of nearly 40,000 square feet in the Shelbourne Valley is currently zoned for and occupied by single family homes. It is intended for townhouses of up to 3-storeys.

A rezoning to allow townhouses at 1.2 FSR would result in a land residual of nearly $5.6 million. This compares to a base value of $5.4 million under existing zoning. This project would be viable and could make a modest CAC contribution of around $3 per square foot or ~$3,500 per unit. Note that a lower density townhouse project is not shown to be viable.

Site 4: 3100 Tillicum Road – Tillicum Centre

This 17,000 square foot site located in Tillicum Centre is zoned and occupied by older single-family homes. The base land value is around $3.6 million, or approximately $9.2 million per acre. The intended use is 6, 8 or 12 storey apartments.

Due to relatively higher construction costs of 8 and 12-storey product (approximately 25% price premium for concrete over wood frame construction), neither of these typologies was deemed viable. The 8-storey apartment project shows a residual land value under $1 million, while the 12-storey apartment generates a land residual of just under $1.9 million. These are both well below the value under current zoning.

A rezoning to build a 6-storey wood frame condo project is viable, returning a land residual of $4.1 million. A CAC target of 50% of the value created by the bonus density would yield $269,000, or around $8 per square foot. The relatively low land lift and supportable CAC, as compared to Site 2 for instance, is a function of a relatively higher base land value ($9.1m / acre, vs. $5.1m / acre).

Quadra-McKenzie and Royal Oak Centres

Table 6-5: Summary of Estimated Supportable Amenity Contributions through Provision of Bonus Density through Re-zoning (CACs) or Pre-Zoning (Density Bonusing) – Quadra-McKenzie and Royal Oak Centres

CASE STUDY SITES	Site 5a	Site 5b	Site 6	Site 7	Site 8
Location	McKenzie Ave & Annie St.		744-758 Greenlea Dr.	4569-4581 Elk Dr.	752-758 Greenlea Dr.
Centre	Quadra - McKenzie Centre		Royal Oak Centre	Royal Oak Centre	Royal Oak Centre
Site Size (sq.ft.)	44,466		77,941	34,810	41,441
Current Use	SF Homes		SF Homes	SF Homes	SF Homes
Current Zoning	RS-10, RS-6, RD-1		RS-8	RS-6, RS-8	RS-8
Intended Rezoned Typology	4-12 storey apartment	4-12 storey mixed-use	4, 6 storey apartment	4,6,8 storey mixed-use	3-storey townhouses
Future NP Base Density	1.8	1.8	1.8	1.8	1.0
Future NP Max Density	4.6	4.6	2.4	3.2	1.2
Parking Ratio Residential (per unit)	0.8	0.8	0.8	0.8	1.5
Parking Ratio Commercial (1 stall per X sq.ft.)	108	108	108	108	108
Avg. Unit Size (sq.ft.)	671	672	672	673	1800
Unit Size Range (min-max sq.ft.)	475-1,000	475-1,000	475-1,000	475-1,000	N/A
% Distribution of Floor Area for Units by Type (bachelor, 1-bed, 2-bed, 3-bed)	20, 40, 30, 10	20, 40, 30, 10	20, 40, 30, 10	20, 40, 30, 10	70, 30

Supported Land Values	Site 5a	Site 5b	Site 6	Site 7	Site 8
Estimated base value under current zoning*	$4,932,000	$4,932,000	$7,473,000	$3,834,000	$3,834,000
Est. Value at **Designated Base Density**	$10,838,000	$79,000	$16,602,000	$430,000	$4,342,000
Est. Value at **Designated Max Density**	$7,854,000	$3,911,000	$21,937,000	($2,714,000)	$4,342,000
Est. **Maximum Supported Land Value**	$14,074,000	$4,932,000	$21,937,000	$4,402,000	$4,342,000
Associated Dev't Typology	6-storey	Current zoning	6-storey	6-storey	3-storey TH

*including taxes and closing costs

CAC and / or Density Bonus Potential (no inclusionary units)	Site 5a	Site 5b	Site 6	Site 7	Site 8

Estimated **CAC** @ 50% of lift to designated *max density*	$1,461,000	($510,000)	$7,232,000	($3,274,000)	$254,000
Per sq.ft.	$8	($6)	$49	($29)	$9
Per unit	$10,822	($4,679)	$30,515	($27,983)	$9,071
Estimated **CAC** @ 50% of lift to concept with *max supported land value*, if different from value at max density	$4,571,000	n/a	n/a	$284,000	n/a
Per sq.ft.	**$54**	n/a	n/a	$4	n/a
Per unit	$33,859	n/a	n/a	$3,191	n/a

CAC and / or Density Bonus Potential (no inclusionary units) Cont'd	**Site 5a**	**Site 5b**	**Site 6**	**Site 7**	**Site 8**
Estimated **DB** @ 75% of lift from base density value to max supported value	$4,002,000	n/a	$4,002,000	$426,000	n/a
Per sq.ft. (incremental)	$91	n/a	$86	$20	n/a
Per unit (incremental)	$121,273	n/a	$66,700	$15,778	n/a

Inclusionary Housing Provision	**Site 5a**	**Site 5b**	**Site 6**	**Site 7**	**Site 8**
Through Rezoning (CAC)					
# Units	15	n/a	32	n/a	n/a
as % of ***total*** units	10%	n/a	13%	n/a	n/a
Through Pre-Zoned Density Bonus					
# units	5	n/a	10	n/a	n/a
as % of ***incremental*** *units over base density*	14%	n/a	16%	n/a	n/a

Site 5: McKenzie Avenue & Annie Street – Quadra-McKenzie Centre

This site measures just over 1-acre in size and is home to older single-family dwellings. The intended use is apartments of up to 12 storeys in height, or mixed-use (apartments over commercial) up to 12-storeys in heights. The value as currently zoned is approximately $4.8 million per acre.

As was the case with Site 4, a residential project that requires a switch from wood frame to concrete will likely not be feasible (or at least not the most attractive development option), given prevailing construction costs and likely achievable unit prices. While the 8 and 12-storey apartment projects do support land values above that under current zoning ($6.7m and $7.8m respectively), both of these fall short of the $$10.8 million and $14.1 million land residuals supported by the 4 and 6-storey wood frame condo projects.

A CAC charged at 50% of the bonus density created through rezoning up to 6-storeys would yield approximately $4.5 million, or $54 per square foot.

A density bonus rate charged at 75% of the bonus density between a 4-storey base and a 6-storey max would yield around $2.4 million, or $91 per incremental square foot.

Modelling was also conducted for 4, 6, 8 and 12-storey mixed use (condo over ground floor commercial). None of the scenarios carried a land residual higher than the value of the site as currently zoned, although the 6-storey mixed-use project's residual land value is within about 4% of the current value. While the slightly higher above-grade construction costs of a mixed-use building vs. a woodframe

apartment plays some role in this relatively poorer project performance, the primary issue that makes the mixed-use scenarios unviable is the extent and cost of commercial parking. The mixed-use scenarios assume the construction of nearly 20,000 square feet of commercial space. With a parking ratio of 1 stall per 108 square feet (1 per 10 square metres), this amount of commercial floor area would require provision of around 150 parking stalls. The results contrast as follows:

Table 6-6: Illustrative Cost Differences – 6-storey apartment vs. mixed-use

	6-storey apartment	6-storey mixed-use
Gross Buildable Area	107,000 sf	107,000 sf
Value at completion	$76 million	$78 million
All-in cost to construct (hard + soft + financing)	$500 per sq.ft.	$600 per sq.ft.
Cost of parking (hard costs only)	$5.6 million	$11.9 million
Total project costs (hard + soft)	$50.2 million	$59.8 million

Site 6: 744-758 Greenlea Drive – Quadra-McKenzie Centre

This site measures nearly 78,000 square feet (1.8 acres) and is home to single family dwellings under RS-8 zoning. The intended use for the site is apartments of 4 to 6-storeys. The site's value under current zoning is approximately $7.5 million, or $4.2 million per acre.

Both 4 and 6-storey condominium projects are viable, and each generates a substantial uplift in residual value ($16.6 million for 4-storey, $21.9 million for 6-storey).

A CAC charged at 50% of the value created by the rezoned bonus density equates to around $7.2 million, or $49 per square foot.

A density bonus charged at 75% of the value created by bonus density between 4 and 6-storeys equates to nearly $4 million, or $86 per incremental square foot.

The relatively high CAC / DB potential at this site, despite somewhat lower unit prices compared with locations along McKenzie west of Quadra, or in / around the Shelbourne valley, is due to a combination of factors:

- Relatively low land value under current zoning (<$4.2 million per acre), compared to sites NEAR Quadra & McKenzie ($4.8m/acre), Tillicum Centre ($9.2m/acre), or Shelbourne Valley west (~$5m / acre).
- Scale of project: at 6-storeys, this represents a 650-700-unit development of multiple buildings.

Site 7: 4569-4589 Elk Drive – Royal Oak Centre

This site is nearly 35,000 square feet (0.8 acres) and is home to single family homes under RS-6 and RS-8 zoning. The intended future use is mixed-use development of 4 to 8 storeys. The site's value under current zoning is approximately $3.8 million, or $4.8 million per acre.

Under both 4 and 8-storey conditions, each project returns a negative land value and therefore would not be considered viable. At 6-storeys (1 level of commercial with 5 levels of apartment above), the project returns a residual land value of approximately $3.3 million; this is about $580,000 below the value of the site under current zoning. As was the case with the mixed-use project modelled at Site #5, the main issue that limits development viability is the incremental construction costs for mixed-use, and in particular the additional costs tied to the provision of commercial parking stalls at a 1-per-10 sq.m. ratio. The per-acre land value under current zoning is about 15% higher than the other Royal Oak

case study site (Site #6), and about 1% lower than test Site #5 at Tillicum Centre. Assumed unit prices are similar to those as the other Royal Oak test site and Quadra-McKenzie Centre.

In comparing the cost to construct a 6-storey mixed-use project at the subject site with the cost to build a 6-storey wood frame apartment at a similar site nearby, we see that the former comes in at more than a 12% cost premium. This is primarily due additional parking. Whereas parking accounts for $97 per buildable square foot in the mixed-use scenario, a comparable apartment project has parking costs closer to $49 per gross buildable square foot.

Site 8: 752-758 Greenlea Drive – Royal Oak

This site measures just under 1 acre, is zoned RS-8 and is home to older single-family homes. The intended land use is townhouses up to 1.2 FSR. Under current zoning, it is assumed that the site could be purchased for approximately $3.8 million (just over $4 million per acre).

When rezoned to allow for townhouses at 1.2 FSR, the project could support a residual land value of $4.3 million. A CAC at 50% of the value crated by the rezoned onus density is approximately $254,000, or $9 per square foot.

Uptown-Douglas Centre

Table 6-7: Summary of Estimated Supportable Amenity Contributions through Provision of Bonus Density through Re-zoning (CACs) or Pre-Zoning (Density Bonusing) – Uptown-Douglas Centre

CASE STUDY SITES	Site 9	Site 10	Site 11	Site 12	Site 13a	Site 13b	Site 14
Location	Saanich Rd. & Darwin Rd.	Shamrock, Oak & Cloverdale	3378/ 3388 Douglas St.	Harriet Rd. & Burnside Rd.	Dupplin & Kelvin		Seymour & Cloverdale
Centre	Uptown-Douglas	Uptown-Douglas	Uptown-Douglas	Uptown-Douglas	Uptown-Douglas		Uptown-Douglas
Site Size (sq.ft.)	35,284	101,930	62,291	55,757	40,805		110,017
Current Use	SF Homes; strip commercial	industrial; strip commercial	Commercial	SF homes; strip commercial	Light industrial		industrial; commercial
Current Zoning	RS-6, C-2	C-6DE, C-2	C-2	R-6	M-1DW		M-2, C-6
Intended Rezoned Typology	Townhouse + 4-storey apartment	up to 12-storey apartment or mixed-use	12-18 storey mixed-use	4-6 storey apartment	6-8 storey mixed-use rental res over office / industrial	6-8 storey mixed-use condo res over office / industrial	12 storey apartment
Future NP Base Density	1.4	4.2	4.8	1.6	2.1	2.1	4.2
Future NP Max Density	1.4	4.0	9.0	2.4	2.8	2.8	4.2
Parking Ratio Residential (per unit)	0.6 apt / 1.5 TH	0.6	0.6	0.6	0.6	0.6	0.6
Parking Ratio Commercial (1 stall per X sq.ft.)	n/a	108	108	108	1100	1100	108
Avg. Unit Size (sq.ft.)	672	671	671	673	720	633	671
Unit Size Range (min-max sq.ft.)	475-1,000	475-1,000	475-1,000	475-1,000	475-1,000	475-1,000	475-1,000
% Distribution of Floor Area for Units by Type (bachelor, 1-bed, 2-bed, 3-bed)	AP - 20, 40, 30, 10 TH – 0, 0, 70, 30	20, 40, 30, 10	20, 40, 30, 10	20, 40, 30, 10	10, 25, 40, 20	30, 40, 20, 10	20, 40, 30, 10

Supported Land Values	Site 9	Site 10	Site 11	Site 12	Site 13a	Site 13b	Site 14
Estimated base value under current zoning*	$4,841,000	$21,973,000	$13,422,000	$7,057,000	$4,952,000	$4,952,000	$19,456,000
Est. Value at Designated **Base Density**	$5,183,000	$13,425,000	$5,536,000	$12,032,000	($4,326,000)	$4,017,000	$19,843,000
Est. Value at Designated **Max Density**	$6,610,000	$13,425,000	$7,520,000	$18,262,000	($13,324,000)	($830,000)	$19,843,000
Est. **Maximum Supported Land Value**	$6,610,000	$21,973,000	$13,422,000	$18,262,000	$4,952,000	$4,952,000	$19,843,000
Associated Dev't Typology	TH + 4-storey apt	Current zoning	Current zoning	6-storey	Current zoning	Current Zoning	12-storey

*including taxes and closing costs

CAC and / or Density Bonus Potential (no inclusionary units)	Site 9	Site 10	Site 11	Site 12	Site 13a	Site 13b	Site 14
Estimated **CAC** @ 50% of lift to designated *max density*	$885,000	($4,274,000)	($2,951,000)	$5,602,000	($9,138,000)	($2,891,000)	$194,000
Per sq.ft.	$16	($11)	($5)	$53	($83)	($25)	$0.42
Per unit	$12,292	($8,172)	($4,582)	$33,148	($100,418)	($28,068)	$343
Estimated **CAC** @ 50% of lift to concept with *max supported land value*, if different from value at max density	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Per sq.ft.	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Per unit	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Estimated **DB** @ 75% of lift from base density value to max supported value	n/a	n/a	n/a	$4,672,000	n/a	n/a	n/a
Per sq.ft. (incremental)	n/a	n/a	n/a	$105	n/a	n/a	n/a
Per unit (incremental)	n/a	n/a	n/a	$179,692	n/a	n/a	n/a

Inclusionary Housing Provision	Site 9	Site 10	Site 11	Site 12	Site 13a	Site 13b	Site 14
Through Rezoning (CAC)							
# Units	n/a	n/a	n/a	20	n/a	n/a	n/a
as % of *total* units	n/a	n/a	n/a	12%	n/a	n/a	n/a
Through Pre-Zoned Density Bonus							
# units	n/a	n/a	n/a	5	n/a	n/a	n/a
as % of *incremental units over base density*	n/a	n/a	n/a	9%	n/a	n/a	n/a

Site 9: Saanich Rd. & Darwin Road – Uptown-Douglas Centre

This site is over 35,000 square feet and includes parcels with RS-6 and C-2 zoning. It is currently home to older single-family homes and one older single-level commercial property. The value as currently zoned is approximately $4.8 million, or nearly $6 million per acre. The intended future use is a combined townhouse and 4-storey apartment project, all served by shared underground parking. The overall density modelled is 1.4 FSR, consistent with previous modelling for this site and concept prepared in 2019.

At a combined 1.4 FSR, yielding 10 townhomes and 45 apartment units, the site just crosses the viability threshold, supporting a land value of nearly $5.2 million. This compares to a value under current zoning of $4.8 million, including the assumed land assembly premium paid for acquisition.

A CAC at 50% of the value created by the rezoned bonus density is $885,000, or $16 per square foot.

No bonus density would be applicable in this case.

Site 10: Cloverdale Ave, Oak Street, Blanshard Street

This site measures nearly 102,000 square feet (2.34 acres) and is occupied by a variety of older 1-storey commercial structures. The site has an Urban Mixed-Use Residential" designation in the Uptown-Douglas Plan, which was adopted by council in February, 2022, which calls for mid to high-rise mixed-use or residential with a base of 8-storeys and a maximum heights of 12-storeys. Active commercial use is required along Oak Street and Cloverdale Avenue. The value as currently zoned, based on the last property assessment, is nearly $18 million ($7.6m per acre). With an 'assembly premium' , taxes and closing costs, the assumed price to purchase this land is nearly $22 million, or $9.4 million per acre.

An 8-storey apartment project returns a residual land value of around $5 million, while a 12-storey apartment supports a residual value of $13.4 million. Mixed-use projects at both heights return lower residual values. All modelled typologies show supportable land values well below the land value under current zoning, indicating that this site is unlikely to be a candidate for near-term redevelopment unless the land was purchased 3 or more years ago.

The large disparity between supported rezoned land values and current values is a function of both the relatively high current land value and the relative expense of concrete construction.

Site 11: 3378-3388 Douglas Street

This site measures 62,300 square feet and is currently zoned C-2 with active commercial uses. This zoning permits redevelopment at a density up to 1.2 FSR as-of-right, which could yield nearly 63,000 square feet of combined commercial and residential floor area. The envisioned future use for this site is 12 to 18-storey apartments over a commercial podium. Value under existing zoning is approximately $13.4 million, or $9.4 million per acre. This value likely reflects both the value of the active commercial uses on site today, and the Uptown-Douglas Plan (which was in-process at the time of the last property assessment)

At the maximum intended density of 18-storeys, given prevailing development costs and unit sales prices, the residual land value supportable is approximately $7.5 million. This compares to a residual value at 12-storeys of $5.5 million. Both are well below the value under current zoning. At this point, this project would not be viable.

Site 12: Harriet Road & Burnside Road

This is a 56,000 square foot site with a current zoning of RS-6 and C-2, occupied by older single family homes and single-storey commercial space. The site's value under current zoning, with assembly premium and closing costs, is just over $7 million ($5.5 million per acre). The intended future use is for apartments of 4 to 6 storeys, per the "Neighbourhood Apartment" land use designation in the Uptown-Douglas plan.

At 4-storeys, a condo apartment project could support a residual land value of $12.7 million, well above the value under current zoning. At 6-storeys, a project could support a land value of nearly $19 million.

A CAC charged at 50% of the value created through the rezoning would yield approximately $5.6 million, or $53 per square foot.

A density bonus charged at 75% of the value created by the increase in density from 4 to 6-storeys would yield approximately $4.7 million, or $105 per square foot.

Site 13: 573 Kelvin Rd & 562 Dupplin Road

This site, measuring 40,805 square feet (0.94 acres) is located at Kelvin and Dupplin Roads in the Uptown-Douglas Plan area. It is currently zoned "M-1DW", allowing for a variety of industrial, office and service commercial uses. Active uses on site are older 1 and 2-storey light industrial / service commercial building. The envisioned future use is either rental or condo housing over commercial and 1-2 levels of industrial.

None of the rental scenarios support a positive land residual, much less a land residual that exceeds the value under current zoning or use. There may be a pathway to viability for the right owner / developer who is looking at this project form a long-term cash flow perspective, but certainly not from anyone looking to buy the site, build the project, lease it up, and sell it to an investor.

With condo apartment units above commercial / industrial, the land residual at 6-storeys shows a project that is approaching (but not quite at) viability. An 8-storey concrete project is not viable.

Site 14: Mass Timber 8- and 12-storey Mixed Use

This concept was previously tested in 2019 and returned negative land residuals. At that time, the assessed value (with assembly premium) was approximately $8 million. As of 2022, the site's assessed value was over $24 million. This significant increase in assessed value is likely a function of speculative valuation driven by future intended land designations per the Uptown-Douglas plan ("Core" designation). The stipulated height range in the plan is 12-18 storeys mixed-use, with a notation regarding consideration for buildings beyond 18 storeys.

The currently viability of mass timber market construction is challenged in light of rapid cost escalations now putting mass-timber construction costs higher than concrete. This cost increase is being driven by a combination of escalating lumber costs, supply chain challenges, and shortages of the highly-specialized skilled trades that are required for this type of construction. Interviews conducted with builders familiar with mass timber construction indicated that such projects would be very unlikely to find economic viability in the next 5 years, save for one-off luxury projects in markets where units can be sold at substantial price premiums.

6.4.3 ANALYSIS FOR "CENTRES" STUDY AREA – RENTAL

Each of the same test sites as discussed above were re-run with the same concepts, as market rental projects.

- None of the sites are viable as build-and-sell rental projects, most have negative residual land values and profit margins well below 0%. The few that do support a positive land value, that value is well below the value under current zoning.
- 4 projects at 4 sites are able to meet or exceed the 5.5% IRR threshold:
    - Site #2 – 6-storey apartment project: 5.9% IRR
    - Site #5 – 6-storey apartment project: 6.0% IRR
    - Site #6 – 6-storey apartment project: 6.7% IRR
    - Site #12 – 6-storey apartment project: 6.3% IRR
- There are 3 other projects that are above 5%, which may be deemed viable by a smaller sub-set of investors:
    - Site #5 – 6-storey mixed use project:5.1% IRR
    - Site #7 – 6-storey apartment project: 5.1% IRR
    - Site #9 – TH + 4-storey apartment: 5.3% IRR

Table 6-8: Potentially Viable Market Rental Projects amongst Centres case study sites

CASE STUDY SITES	Site 2	Site 5a	Site 6	Site 12
Address	1700 block McKenzie Ave.	McKenzie Ave & Annie St.	744-758 Greenlea Dr.	Harriet Rd. & Burnside Rd.
Area	Shelbourne Valley	Quadra - McKenzie Centre	Royal Oak Centre	Uptown-Douglas
Site Size (sq.ft.)	39,622	44,466	77,941	55,757
Current Use	SF Homes	SF Homes	SF Homes	SF homes; strip commercial
Current Zoning	RS-6 / RD-1	RS-10, RS-6, RD-1	RS-8	R-6
Intended Rezoned Typology	4,6,8 storey apartment	4-12 storey apartment	4, 6 storey apartment	4-6 storey apartment
Future NP Base Density	1.8	1.8	1.8	1.6
Future NP Max Density	3.2	4.6	2.4	2.4
Parking Ratio Residential (per unit)	0.8	0.8	0.8	0.6
Parking Ratio Commercial (1 stall per X sq.ft.)	108	108	108	108

Supported Land Values	Site 2	Site 5a	Site 6	Site 12
Under current zoning*	$4,623,000	$4,874,000	$4,529,000	$4,696,000
At Future Base Density	$64,000	($308,000)	($213,000)	$1,455,000
At Future Max Density**	($392,000)	($670,000)	($3,310,000)	$321,000
Unlevered IRR	5.9%	6.0%	6.7%	6.3%

Each of the sites with >5.5% IRR was also tested for the potential to offer non-market rental units (at 10% below CMHC median market rents for the District) as an amenity contribution, either through rezoning or as part of future density bonus zoning. The results are as follows:

- Site #2 – 6-storey apartment project, 40,000 sq.ft. site (Shelbourne Valley)
  - Total Units: 115
  - Up to 10% of units (13 units) at non-market rents through rezoning (CAC)
  - Up to 15% of *incremental* units (5 units) at non-market rents through density bonus zoning
- Site #5 – 6-storey apartment project, 45,000 sq.ft. site (Quadra-McKenzie)
  - Total Units: 125
  - Up to 4% of units (5 units) at non-market rents through rezoning (CAC)
  - Up to 15% of *incremental* units (5 units) at non-market rents through density bonus zoning.
- Site #6 – 6-storey apartment project, 78,000 sq.ft. site (Royal Oak)
  - Total Units: 226
  - Up to 13% of units (32 units) at non-market rents through rezoning (CAC)
  - Up to 25% of incremental units (10 units) at non-market rents through density bonus zoning.
- Site #12 – 6-storey apartment project, 134,000 sq.ft. site (Uptown-Douglas)
  - Total Units: 161
  - Up to 12% of units (19 units) at non-market rents through rezoning
  - Up to 35% of incremental units (19 units) at non-market rents through density bonus zoning

6.4.4 DISCUSSION - CENTRES STUDY AREAS

- Of the 16 strata ownership development concepts tested across 14 case study sites, nine of the concepts were shown to be viable and have amenity contribution potential.
- Under strata ownership redevelopment conditions, four sites cannot support an amenity contribution as they remain more valuable under their existing use and zoning than as development sites at any of the intended use and density levels.
- Four sites are viable for redevelopment and could support an amenity contribution; however the density that supports the highest land value (and highest amenity contribution) does not align with the maximum envisioned designated density. This is often the case for sites where there is an option to build at 4 or 6-storeys (woodframe), or 8-12 storeys (concrete).
- For sites that are shown to be financially attractive for rezoning (or pre-zoning) and redevelopment, the calculated supportable CACs range from about **$8 to $53 per square foot** of bonus floor area, depending on existing use, development rights under existing zoning, and land values.
- The supportable density bonus range through pre-zoning varies widely, from **$20 to $120 per incremental square foot.** These values can be skewed significantly upwards in cases where the incremental floor area between a base and bonus density (e.g., 4 vs. 6 storeys) is relatively small, but where the density increase supports a significant lift in land value.

- The higher end of the CAC range is found for sites with older existing structures. There is no readily apparent pattern from the case study sites of higher or lower CAC amounts in any given centre; there is evidence of high and low supported CACs in each of the centres.
- In most cases where concrete construction is required (due to heights in excess of 6-storeys), then the rezoning does not support a CAC. This could change if concrete projects can charge a price premium that more than offsets their higher construction costs. There is not yet any evidence that this is possible in the Saanich centres.
- With regard to inclusionary non-market rental housing, we found 5 of the 13 case study sites could support some IH considerations, provided that the balance of units are sold as market condominium apartments. These sites are located in Uptown-Douglas, Royal Oak Centre, the Shelbourne Valley, and Quadra-McKenzie Centre.
    - If inclusionary non-market rental housing units must be delivered at 10% below CMHC median market rents, then the contribution could be in or around **10% of total units**. This assumes that all of the amenity contribution financial room is taken up by provision of inclusionary units.
    - If IH were required as part of a density bonus zoning program (with pre-zoning), then the requirement could be in the range of **10-15% of *incremental units* over the base density.**
- The number of inclusionary units could be increased if the District were willing to consider:
    - Inclusionary units at non-market rents that are slightly closer to true market values for new buildings (e.g., rents set at a discount to actual market rents)
    - Affordable home ownership units, sold at lower prices than new market units, but still at prices that are higher than the cost to construct.
- Inclusionary units at 10% below CMHC median market rents are worth substantially less upon completion than the cost to build them.
    - Each unit costs around $450,000-$470,000 to deliver (in a typical 6-storey apartment), including the price of land, development costs, and construction financing
    - A non-profit looking to purchase units and operate them at 10% below CMHC median market rents would not be able to pay more than around $230,000 per unit, given projected net operating income after operating expenses and mortgage payments
    - If non-market rental rates were set 20-30% higher, but still at a substantial discount to actual market rents, then a non-profit could afford to purchase units at cost to deliver.[30]
    - The opportunity cost (or the 'amenity value') of each non-market rental unit delivered by a developer is equal to the difference between (A) the net revenue that could be generated by an equivalent market unit and (B) the value of that unit based on its projected net operating income.

[30] This assumes a non-profit is purchasing units at an 80/20 loan to value ratio, with 30-year amortization, 3.5-4% mortgage rate, and a debt service coverage requirement of 1.1.It also assumes that unit operation costs do not deviate from 30% of gross operating income over time.

6.4.5 ANALYSIS FOR "CORRIDORS" STUDY AREA – STRATA OWNERSHIP UNITS

Analyses were prepared at 10 test sites, at multiple densities, and in some cases with multiple uses (e.g., apartment vs. mixed-use).

East and West Shelbourne Valley Area Plan Areas

Table 6-9 Summary of estimated Supportable Amenity Contributions through Provision of Bonus Density through Re-zoning (CACs) or Pre-Zoning (density bonusing) – Shelbourne Valley

CASE STUDY SITES	Site 1a	Site 1b	Site 2	Site 3
Location	Fleet & McKenzie	Fleet & McKenzie	McKenzie & Oakwinds	901-951 McKenzie
Centre	East SVAP	East SVAP	West SVAP	West SVAP
Site Size (sq.ft.)	31,603	31,603	26,264	35,801
Current Use	SF Homes	SF Homes	SF Homes	SF Homes
Current Zoning	RS-6	RS-6	RS-10	RS-10
Intended Rezoned Typology	4,6,8 storey apartment	4,6,8 storey mixed-use	4, 6, 8 storey mixed-use	4, 6 storey stacked townhouse
Future NP Base Density	1.8	1.8	1.8	1.8
Future NP Max Density	2.4	3.2	3.2	2.2
Parking Ratio Residential (per unit)	1.0	1.0	1.0	1.2
Parking Ratio Commercial (1 stall per X sq.ft.)	129	129	129	129
# Units at Future NP Base Density	77	58	24	44
# Units at Future NP Max Density	131	120	108	54
Avg. Unit Size (sq.ft.)	625	631	733	1450
Unit Size Range (min-max sq.ft.)	475-1,000	475-1,000	475-1,000	N/A
% Distribution of Floor Area for Units by Type (bachelor, 1-bed, 2-bed, 3-bed)	30, 40, 25, 5	30, 40, 25, 5	30, 40, 25, 5	0, 0, 70, 30

Supported Land Values	Site 1a	Site 1b	Site 2	Site 3
Estimated base value under current zoning*	$5,850,908	$5,851,000	$4,059,000	$5,252,000
Est. Value at Designated Base Density	$5,254,000	($3,067,000)	($1,051,000)	$5,747,000
Est. Value at Designated Max Density	$1,356,000	($5,254,000)	($4,469,000)	$7,557,000
Est. Maximum Supported Land Value	$7,576,000	$5,851,000	$4,059,000	$7,557,000
Associated Dev't Typology	6-storey	Current zoning	Current zoning	Stacked TH

*including taxes and closing costs

CAC and / or Density Bonus Potential (no inclusionary units)	Site 1a	Site 1b	Site 2	Site 3
Estimated **CAC** @ 50% of lift to designated *max density*	($2,248,000)	($5,553,000)	($4,264,000)	$1,114,000
Per sq.ft.	($26)	($65)	($60)	$18
Per Unit	($17,160)	n/a	($39,481)	$20,630
Estimated **CAC** @ 50% of lift to concept with *max supported land value*, if different from value at max density	$863,000	n/a	n/a	n/a
Per sq.ft.	$14	n/a	n/a	n/a
Per Unit	$8,379	n/a	n/a	n/a
Estimated **DB** @ 75% of lift from base density value to max supported value	$1,294,000	n/a	n/a	$1,330,000
Per sq.ft. (incremental)	$68	n/a	n/a	$93
Per Unit (incremental)	$49,769	n/a	n/a	$133,000

Inclusionary Housing Provision	Site 1a	Site 1b	Site 2	Site 3
Through Rezoning (CAC)				
# Units	3	n/a	n/a	n/a
as % of *total* units	5%	n/a	n/a	n/a
Through Pre-Zoned Density Bonus				
# units	3	n/a	n/a	n/a
as % of *incremental units over base density*	13%	n/a	n/a	n/a

Three sites were tested along McKenzie Avenue, east and west of Shelbourne Street. One site was tested with apartments from 4 to 8-storeys; two were tested with mixed-use apartment over commercial at 4 to 8-storeys. The fourth site was tested for viability as stacked townhouses, up to 6-storeys.

Site #1: Fleet & McKenzie Area

This site measures 31,600 square feet and is located near the University of Victoria. Tests were conducted under both apartment and mixed-use redevelopment conditions.

The apartment scenario (Site #1) shows viability as a 6-storey apartment project. At 4-storeys it returns a residual value slightly below the estimated value under current zoning. At 8-storeys it supports a residual value well below that under current zoning, as the additional cost of construction with the shift to concrete is not sufficiently offset by the additional bonus density.

A CAC charged at 50% of the lift to the maximum supported land value would yield nearly $900,000 $14 per square foot.

If the site were pre-zoned for 4-8 storey residential, then a density bonus payment set at 75% of the incremental land lift (from 4 to 6-storeys) would yield approximately $1.3 million or nearly $70 per *incremental* square foot.

An IH component has also been tested at this site. Through a rezoning process, assuming that the full 50% of lift were allocated to the provision of affordable units on-site, a 6-storey project could support 3 units (5% of total). The number of units supported is the same under a pre-zoned density bonusing structure, which would equate to around 13% of the incremental units yielded by the bonus density.

Mixed-use concepts were also tested at this site, with condominium apartments over ground-floor commercial, at 4, 6, and 8 storeys. None of the projects yielded a land value above the estimated value under current zoning. This is largely a function of the increased costs driven by provision of additional parking spaces for the commercial component. Whereas the 6-storey apartment would need to provide 85 parking spaces (at 1.0 per unit), the 6-storey mixed-use would need to provide 153 parking spaces (70 residential + 83 commercial). The cost difference is over $3 million. This substantial below-grade cost premium, in conjunction with the higher above-grade construction costs of a mixed-use project, result in an overall difference in cost of over $60 per square foot gross buildable.

Site #2: McKenzie and Oakwinds

Site 2, located along McKenzie west of Shelbourne Street, is a 26,000 square foot site zoned RS-10 and home to older single detached dwellings. The envisioned future use for the site is either mixed-use (4 to to 8-storeys), or stacked townhouses (up to 6-storeys).

As with Site #1, the mixed-use scenarios do not support a land value equal to or higher than the estimated value under base zoning. None of the scenarios generate a residual land value above zero. The reasons for this are the same as those outlined for Site #1.

The stacked townhouse scenarios at both 4 and 6-storeys are shown as viable. A CAC charged at 50% of the value created by the bonus density would yield nearly $1.1 million, or $19 per square foot.

Site #3: 900 Block McKenzie

This site measures nearly 38,000 square feet and is home to an older commercial strip centre. The envisioned future use is 4 or 6-storey mixed-use.

As currently modelled, neither 4 nor 6-storey scenarios are shown as viable. While both yield a positive residual land value, the highest of those values is still more than $2 million below the value of the project under its existing zoning and active use. The non-viability is again largely a function of the cost of parking. If parking requirements were reduced (while keeping in step with requirements of major commercial tenants) and /or if some of the parking were provided on the surface vs. underground, viability would be improved.

North to Royal Oak

Table 6-10: Summary of estimated supportable Amenity Contributions through Provision of Bonus Density through Re-zoning (CACs) or Pre-Zoning (density bonusing) – Quadra towards Royal Oak

CASE STUDY SITES	Site 4	Site 5	Site 6a	Site 6b
Location	4011 Quadra	Quadra & Kenneth	McKenzie & Saanich Rd.	
Centre	North to Royal Oak (Quadra)	North to Royal Oak (Quadra)	North to Royal Oak (Quadra)	
Site Size (sq.ft.)	37,706	42,926	21,043	
Current Use	Commercial strip	SF Homes	SF Homes	
Current Zoning	C-2	RS-6	RS-10 / RS-6	
Intended Rezoned Typology	4,6 storey mixed-use	4,6 storey apartment	4,6,8 storey apartment	4, 6, 8 storey mixed use
Future NP Base Density	1.8	1.8	1.8	1.8
Future NP Max Density	2.4	2.4	3.2	3.2
Parking Ratio Residential (per unit)	1.0	1.0	1.0	1.0
Parking Ratio Commercial (1 stall per X sq.ft.)	129	129	129	129
# Units at Future NP Base Density	69	103	51	38
# Units at Future NP Max Density	101	139	88	76
Avg. Unit Size (sq.ft.)	629	627	630	627
Unit Size Range (min-max sq.ft.)	475-1,000	475-1,000	475-1,000	475-1,000
% Distribution of Floor Area for Units by Type (bachelor, 1-bed, 2-bed, 3-bed)	30, 40, 25, 5	30, 40, 25, 5	30, 40, 25, 5	30, 40, 25, 5
Parking Ratio Residential (per unit)	1.0	1.0	1.0	1.0
Parking Ratio Commercial (1 stall per X sq.ft.)	129	129	129	129

Supported Land Values	Site 4	Site 5	Site 6a	Site 6b
Estimated base value under current zoning*	$5,392,000	$5,670,000	$2,624,000	$2,624,000
Est. Value at Designated Base Density	$98,000	$7,706,000	$2,580,000	($1,728,000)
Est. Value at Designated Max Density	$26,34,000	$10,315,000	($435,000)	($3,412,000)
Est. Maximum Supported Land Value	$5,392,000	$10,315,000	$3,664,000	$2,624,000
Associated Dev't Typology	Current zoning	6-storey	6-storey	Current zoning

*includes closing costs and taxes

CAC and / or Density Bonus Potential (no inclusionary units)	Site 4	Site 5	Site 6a	Site 6b
Estimated **CAC** @ 50% of lift to designated *max density*	($1,914,000)	$2,322,000	($1,661,000)	($3,018,000)
Per sq.ft.	($42)	$45	($29)	($53)
Per Unit	($18,950)	$16,705	($18,875)	($39,711)
Estimated **CAC** @ 50% of lift to concept with *max supported land value*, if different from value at max density	n/a	n/a	$622,000	n/a
Per sq.ft.	n/a	n/a	$16	n/a
Per Unit	n/a	n/a	9147	n/a
Estimated **DB** @ 75% of lift from base density value to max supported value	n/a	$1,957,000	$851,000	n/a
Per sq.ft. (incremental)	n/a	$76	$67	n/a
Per Unit (incremental)	n/a	$54,361	$50,059	n/a

Inclusionary Housing Provision	Site 4	Site 5	Site 6a	Site 6b
Through Rezoning (CAC)				
# Units	n/a	20	5	n/a
as % of *total* units	n/a	14%	7%	n/a
Through Pre-Zoned DB				
# units	n/a	11	5	n/a
as % of *incremental units over base density*	n/a	30%	28%	n/a

Site #4: 4011 Quadra

This site measures nearly 38,000 square feet, is home to an older 11,640 square foot strip commercial centre and is zoned C-2. The plaza is currently over 95% leased, and has one vacancy with an asking base rate of $22 per square foot. The value of this site under current zoning is $5.2 million (per BC Assessment). The value under active current use is estimated at between $4.5 and $5.5 million.

A 4-storey mixed use project on this site generates a negative land residual and is not viable.

A 6-storey mixed-use project supports a residual value of $2.6 million, which is well below the value under current zoning or active use. Neither scenario is currently viable.

Viability could be improved through a reduction in required commercial parking.

Site #5: Quadra & Kenneth

This site measures just under 1-acre in size, is zoned RS-6, and is home to older single-family homes. Its envisioned future use is 4 or 6-storey apartments.

Both 4 and 6-storey apartment concepts yield residual land values higher than the value of the site under current use. At 4-storeys, the site returns a lift of $2.7 million; at 6-storeys, the lift is increased to $5.7 million.

A CAC charged at 50% of the value created by the bonus density up to 6-storeys would yield $2.3 million, or $45 per square foot.

A density bonus charged at 75% of the value created by the incremental bonus density from 4 up to 6-storeys would yield a contribution of nearly $2 million, or $76 per incremental square foot.

The scale of a future project at this site (over 100 units) warrants consideration for IH provision. Through rezoning, the incremental land value created by the bonus density could be used to provide up to 20 inclusionary units, or 14% of the total unit provision. Through pre-zoning and density bonusing, the yield of units would be approximately 11, representing over 40% of the incremental units permitted.

Site #6: McKenzie & Saanich Road

This site measures slightly under a half-acre (21,000 sq.ft.), is zoned RS-10 and is home to older single-family homes. The envisioned future use is for apartments of 4 to 8-storeys.

The site's estimated value under current zoning, including the anticipated premium required to assemble the site (plus closing costs) is approximately $2.6 million ($5.4 million per acre). The value of the site at a future base density of 4-storeys is slightly under this as-is value ($2.58 million). At 8-stroreys, the site returns a negative residual land value. At 6-storeys, there is a viable project with a land residual approximately $1 million above the current zoned value.

A CAC charged at 50% of the value created by the bonus density up to 6-storeys would yield just over $500,000, or $13 per square foot.

A density bonus charged at 75% of the value created by the incremental bonus density form 4 up to 6-storeys would yield a contribution of $780,000, or $62 per incremental square foot. Because the residual value at 4-storeys is lower than the value as currently zoned, the difference in value between that as currently zoned and at 4-storeys (approx. $45,000) is discounted from the lift calculation.

This site was also run as a mixed-use concept at 4, 6, and 8 storeys. All three scenarios returned negative residual land values. This is a function of higher construction cost and significant additional parking provision vs. the 100% residential equivalent. If the required commercial parking ratio were reduced (e.g., to 1 space per 500 sq.ft., vs. 1 space per 130 sq.ft.), this would result in a viable project at 6-storeys, with a small land lift and a $2/sq.ft. amenity contribution potential. Viability could also be improved through higher commercial lease rates (if market supportable) and a lower commercial cap rates. These factors are, however, dependent on broader market conditions and not in the direct control of the District.

West Quadra McKenzie Centre

Table 6-11: Summary of estimated Supportable Amenity Contributions through Provion of Bonus Density through Re-zoning (CACs) or Pre-Zoning (density bonusing) – West Quadra McKenzie Centre

	Site 7	Site 8	Site 9	Site 10a	Site 10b
Location	McKenzie & Saanich Rd.	Rainbow & Sevenoaks	4015 Saanich & McKenzie	3656 Raymond St.	3659 Raymond
Centre	West Quadra-McKenzie Centre	West Quadra-McKenzie Centre	West Quadra-McKenzie Centre	West Quadra-McKenzie Centre	West Quadra-McKenzie Centre
Site Size (sq.ft.)	34,132	34,014	33,077	10,010	10,010
Current Use	SF Homes	SF Homes	SF Homes	SF Homes	SF Homes
Current Zoning	RS-10, RS-6	RS-10	RS-6, RS-10	RS-6	RS-6
Intended Rezoned Typology	6-storey apartment	Townhouses	4,6,8,12 storey mixed-use	4, 6 storey mixed-use	4,6 storey apartment
Future NP Base Density	2.4	0.90	1.8	1.8	1.8
Future NP Max Density	2.4	1.2	4.6	2.4	2.4
Parking Ratio Residential (per unit)	1.0	garages	1.0	0.8	0.8
Parking Ratio Commercial (1 stall per X sq.ft.)	129	129	129	129	129
# Units at Future NP Base Density	38	17	88	18	25
# Units at Future NP Max Density	76	26	179	27	33
Avg. Unit Size (sq.ft.)	627	1600	629	635	634
Unit Size Range (min-max sq.ft.)	475 - 1,000	N/A	475-1,000	475-1,000	475-1,000
% Distribution of Floor Area for Units by Type (bachelor, 1-bed, 2-bed, 3-bed)	30, 40, 25, 5	80, 20	30, 40, 25, 5	30, 40, 25, 5	30, 40, 25, 5

Supported Land Values	Site 7	Site 8	Site 9	Site 10a	Site 10b
Estimated base value under current zoning*	$3,660,000	$3,191,000	$3,976,000	$1,805,000	$1,805,000
Est. Value at Designated Base Density	$7,340,000	$1,401,000	($831,000)	($1,595,000)	$533,000
Est. Value at Designated Max Density	$7,340,000	$3,448,000	($4,062,000)	($619,000)	$1,224,000
Est. Maximum Supported Land Value	$7,340,000	$3,448,000	$3,976,000	$1,805,000	$1,805,000
Associated Dev't Typology	6-storey apartment	1.2 FSR TH	Current zoning	Current zoning	Current zoning

*includes closing costs and taxes

CAC and / or Density Bonus Potential (no inclusionary units)	Site 7	Site 8	Site 9	Site 10a	Site 10b
Estimated **CAC** @ 50% of lift to designated *max density*	$1,840,000	$129,000	($4,062,000)	($1,212,000)	($290,000)
Per sq.ft.	$28	$5	($30)	($64)	($15)
Per Unit	$24,211	$4,962	($22,693)	($44,889)	($8,788)
Estimated **CAC** @ 50% of lift to concept with *max supported land value*, if different from value at max density	n/a	n/a	n/a	n/a	n/a
Per sq.ft.	n/a	n/a	n/a	n/a	n/a
Per Unit	n/a	n/a	n/a	n/a	n/a
Estimated **DB** @ 75% of lift from base density value to max supported value	n/a	$193,249	n/a	n/a	n/a
Per sq.ft. (incremental)	n/a	$14	n/a	n/a	n/a
Per Unit (incremental)	n/a	$21,472	n/a	n/a	n/a

Inclusionary Housing Provision	Site 7	Site 8	Site 9	Site 10a	Site 10b
Through Rezoning (CAC)					
# Units	13	n/a	n/a	n/a	n/a
as % of *total* units	11%	n/a	n/a	n/a	n/a
Through Pre-Zoned Density Bonus					
# units	n/a	n/a	n/a	n/a	n/a
as % of *incremental units over base density*	n/a	n/a	n/a	n/a	n/a

Site #7: McKenzie & Saanich Road

This is a 34,000 square foot site along McKenzie just west of Saanich Road. It is home to older single detached homes and is envisioned for future 6-storey apartment. The value of the site as currently zoned is approximately $3.66 million, or nearly $4.7 million per acre.

If the site were rezoned to allow for a 6-storey apartment building, it would support a land value of just over $7 million. A CAC charged at 50% of the value created by the density bonus would yield $1.8 million. This translates to $28 per square foot, or just under $17,000 per unit.

The scale of this project at 110 units would warrant possible IH consideration. If all of the financial room available for an amenity contribution is used for provision of non-market rental units, the project could support approximately 10% of total units as affordable rentals (10% below CMHC median market rents).

Site #8: Rainbow & Sevenoaks

This site, located along McKenzie Avenue just east of the Patricia Bay Highway, measures 34,000 square feet and is home to older single-family dwellings. The value of the site as currently zoned is approximately $3.2 million, and the intended future use for the site is townhouses.

Townhouse pro formas were prepared at 0.9 and 1.2 FSR, which would result in projects of 19 to 26 units at an average unit size of 1,600 square feet. At 0.9 FSR, the project would support a land value of $1.4 million, less than 50% of the value under existing zoning including the price premium required for assembly. At 1.2 FSR, the project shows a land residual of nearly $3.5 million.

A CAC charged at 50% of the land value created by the bonus density to 1.2 FSR would yield $129,000 or $5 per square foot.

If the site were pre-zoned with density bonusing potential from 0.9 to 1.2 FSR, a density bonus charge at 75% of the lift from base to max density would yield nearly $200,000 or $14 per incremental square foot.

Site #9: Saanich & McKenzie

This site measures 33,100 square feet and is located just slightly to the east of Site #8. It is zoned RS-6 and RS-10 and is currently home to older single family dwellings. The site's value under current zoning is approximately $4 million, or $5.2 million per acre. The intended future use is mixed use up to 12-storeys.

Pro formas were prepared at 4, 6, 8 and 12 storeys. The 6-storey pro forma showed the strongest performance, yielding a land residual of $2.3 million. This, however, is still $1.7 million below its value as currently zoned. At 12-storeys, the land residual is $-4 million. As with many of the other mixed-use projects, the economics of this project are hampered by the commercial parking provision and an insufficiently high commercial revenue potential to offset incremental construction costs.

A 6-storey apartment project at this site would likely show similar performance to that modelled for Site #7; as land costs are approximately $500,000 more per acre than Site 7, all else being equal, the per-square-foot CAC potential would be around $9 per square foot.

Site #10: 3656 Raymond

This is a 10,000 square foot site on the west side of the District, located north of Tillicum Centre and just north of the Trans Canada Highway. It is zoned RS-6 and has an older structure on site. While absolute land value under current zoning is well below other sites modelled above ($1.66 million), the site's smaller size results in a much higher relative land cost on a per-acre basis ($7.2 million). This higher base value hampers redevelopment viability.

As a mixed-use project of 4 or 6-storeys, the project supports a negative land value. As a 4 or 6-storey apartment project, the land residuals are positive, but are still below the site's as-is value. A slight improvement in apartment prices could push the project into viable territory, however its ability to pay an amenity contribution would be very marginal.

6.4.6 ANALYSIS FOR "CORRIDORS" STUDY AREA – RENTAL UNITS

Each of the same test sites discussed above were re-run with the same development concepts, this time as market rental projects.

- In some cases where land values are relatively lower (+/- $5 million per acre), rental projects can generate a positive profit margin in the 1-3% range. As with the "Centres" case study sites, none of these projects would be viable as a build-and-sell under prevailing market conditions.
- 4 projects at 4 sites are able to clear the 5.5% IRR threshold:
    - Site #1 – 6-storey apartment project (ESVAP): 5.9% iRR
    - Site #5 – 6-storey apartment project (Quadra): 6.4% IRR
    - Site #6 – 6-storey apartment (McKenzie & Saanich): 6.2% IRR
    - Site #7 – 6-storey apartment (Rainbow & Sevenoaks): 6.7% IRR
- Mixed-use 6-storey projects at Sites 9 and 10 (on McKenzie west of Quadra) show potentially marginal build-and-hold viability, with unlevered IRRs in the 5.3-5.4% range.

Each of the sites with >5.5% IRR was also tested for potential to offer non-market rental units as an amenity contribution, either through rezoning or as part of a future density bonus zoning. The results are as follows:

- Site #1 – 6-storey apartment, 31,600 sq.ft. site
    - Total Units: 98 units
    - Up to 5% of units (5 units) at non-market rents through rezoning
    - Up to 13% of *incremental* units (3-4 units) at non-market rents through density bonus zoning.
- Site #5 – 6-storey apartment, 43,000 sq.ft. site
    - Total Units: 133 units
    - Up to 14% of units (19 units) at non-market rents through rezoning
    - Up to 20% of incremental units (8 units) at non-market rents through density bonus zoning
- Site #6 – 6-storey apartment, 21,000 sq.ft. site
    - Total Units: 65 units
    - Up to 7% of units (5 units) at non-market rents through rezoning
    - Up to 35% of incremental units (7 units) at non-market rents through density bonus zoning
- Site # 7 – 6-storey apartment, 34,000 sq.ft. site
    - Total Units: 105 units
    - Up to 10% of units (11 units) at non-market rents through rezoning
    - Only 6 storey density tested; density bonus zoning would not apply.

Table 6-12: Summary of estimated inclusionary unit potential within select market rental housing projects in "Corridors" study areas

CASE STUDY SITES	Site 1a	Site 5	Site 6a	Site 7
Location	Fleet & McKenzie	4050 Quadra	McKenzie & Saanich Rd.	Rainbow & Sevenoaks
Site Size	31,603	42,926	21,043	34,132
Intended rezoned typology	Apartment 4-8 storey	Apartment 4, 6 storeys	Apartment 4-6	6-storey apartment
# Units (most viable density)	98	132	65	105
Future Base Density	1.8	1.8	1.8	2.4
Future Max Density	3.2	2.4	2.4	2.4
Returns and Inclusionary Housing Potential				
Profit	-2.79%	1.04%	-0.24%	3.21%
Unlevered IRR	5.88%	6.39%	6.24%	6.68%
Inclusionary Units				
as % of Total units	5%	14%	7%	10%
as % of incremental units	13%	20%	35%	n/a

6.4.7 DISCUSSION – CORRIDORS SCENARIOS

Of the 14 strata ownership development concepts tested across 10 case study sites, half of the concepts were shown to be viable. None of the mixed-use concepts modelled were viable, regardless of construction material (wood frame or concrete). Those located in areas with slightly lower land values, or in areas with potential for slightly higher lease rates, were closer to viability, but even in those cases were unable to support a residual land value equal to or greater than the value under current zoning. The primary issues with the mixed-use projects were the significant additional parking provision requirement (1 stall per 130 sq.ft.) as compared to an equivalent residential project, and the higher hard costs associated with mixed-use construction.

A change in commercial parking requirements would be beneficial to the economic viability of mixed-use projects and would allow for sites that are not currently financially attractive for redevelopment to become viable. One option may be to explore current parking requirements of 'typical' tenants in a variety of retail and service commercial categories (e.g., retail, personal service, restaurants, entertainment etc.), and adjust minimum parking requirements to align with indicated industry needs. Another option would be to use industry parking standards as a guide for the establishment of both parking minimums *and maximums*. This would allow for flexibility to set parking provision based on market requirements, and allow developers to determine the "right" ratio to make projects both financially viable and commercially leasable.

Apartment projects up to 6-storeys, and both traditional and stacked townhouse projects, are all shown to be viable. Sites rezoned for development of 6-storey apartments can generally support target CAC rates in the range of $13-$19 per square foot. Larger-scale projects (e.g., at or over 1 acre) could support higher CACs (>$40 per square foot) due to the combination of slightly lower land values on a per-acre basis (in some cases), and lower effective land costs on a per-buildable-square-foot basis. Consider Cases #4 vs. #5:

- Both are relatively close to one another, along Quadra north of McKenzie. The latter is around 1-acre, while the former is around 0.85 acres.
- The difference in per-acre land value is about $450,000.
- The difference in land cost per buildable square foot is $13 ($56 vs. $69)
- If the land costs of case study #5 were applied to case study #4, the base land value of the latter would drop from $5.4 million to $4.98 million. While this would still not be sufficient to make the mixed-use project viable, it is closer and speaks to the positive impact of scale.

Amongst the apartment projects, the relative ability to pay an amenity contribution does not vary significantly by area. Areas where condo prices are relatively higher also tend to be areas where per-acre land costs are also higher; this reduced the potential land lift achieved through rezoning, and thus the potential amount of an amenity contribution.

If the District wishes to pursue pre-zoning with density bonusing in any of the corridor sub-areas, the supportable rates in the financial analyses range from $54 to $95 per incremental square foot.

Some sites in each of the corridor sub-areas showed an ability to support on-site affordable housing contributions, in the range of 5% to 14% of total units. Affordable housing provision potential is correlated with larger project sizes, and inversely correlated with per-acre land price.

The same observations around affordable housing provision, and the relative value of each unit versus cost to build, apply in these case study sites as they did in the Centres.

With regards to market rental scenarios in the Corridors study areas:

- None of the projects generate profit on cost margins that would make them viable for a build, lease-up and sell strategy.
- Four sites show viability under build and hold conditions, when evaluated on the basis of unlevered IRR. Each of these also shows the potential for some non-market inclusionary rental housing provision, in the 5%-14% of total units range; the larger projects / sites generally have a greater ability to deliver more units.
- We would caution against pushing market rental projects to provide a significant number of non-market units for a number of reasons:
    - The IH provision potential shown in the Table 6-12is premised on a cash flow analysis that assumes a static ratio between gross incomes and operating costs.
    - Given the current and likely near to medium-term inflationary environment, it is likely that operating cost growth will outpace rental rate growth, as the latter is capped by provincial legislation, thus shrinking the NOI
    - If shrinking NOI is paired with higher mortgage rates, then rental projects that today show viability with an ability to support non-market units, could quickly become financially unattractive, particularly compared to market condominiums at equivalent densities.
    - If the priority is to deliver the most rental units to the market in any given year as possible, then the District should be looking at ways to incentivize these projects and help them overcome growing market barriers to success, through levers such as parking reductions, additional density, and expedited approvals.

6.4.8 ANALYSIS FOR "VILLAGES" STUDY AREAS – STRATA OWNERSHIP UNITS

Here we present the results of financial analyses at 6 case study "Villages" sites. Note that inclusionary non-market housing analyses were not prepared for these sites; rather, only calculations of potential CAC and / or density bonus payments are considered.

Gorge Village and Four Corners

Table 6-13: Summary of estimated Supportable Amenity Contributions through Provision of Bonus Density through Re-Zoning (CAcs) or Pre-Zoning (density bonusing) – Gorge Village and Four Corners

CASE STUDY SITES	Site 1	Site 2	Site 3
Address	Tillicum and Obed	Davida and Tillicum	3544 Quadra St
Area	Gorge Village	Gorge Village	Four Corners
Site Size (sq.ft.)	27,469	26,006	29,439
Current Use	SF Homes	SF Homes	SF Homes
Current Zoning	RS-6, RD-1	RS-6	RS-6
Intended Rezoned Typology	4,6 storey mixed-use	3 storey townhouse	4,6,8 storey apartment
Future NP Base Density	2.0	1.0	2.0
Future NP Max Density	3.0	1.2	3.2
Parking Ratio Residential (per unit)	1.7	1.2	1.7
Parking Ratio Commercial (1 stall per X sq.ft.)	130	0	0
# Units at Future NP Base Density	63	17	80

# Units at Future NP Max Density	101	20	128
Avg. Unit Size (sq.ft.)	630	1550	625
Unit Size Range (min-max sq.ft.)	475-1,000	N/A	N/A
% Distribution of Floor Area for Units by Type (bachelor, 1-bed, 2-bed, 3-bed)	30, 40, 25, 5	N/A	N/A

Supported Land Values	**Site 1**	**Site 2**	**Site 3**
Estimated base value under current zoning*	$4,050,000	$4,394,000	$4,437,000
Est. Value at Designated Base Density	($1,778,000)	$3,000,000	$4,270,000
Est. Value at Designated Max Density	($81,000)	$4,063,000	($898,000)
Est. Maximum Supported Land Value	$4,050,000	$4,394,000	$5,008,000
Associated Dev't Typology	Current zoning	3-storey TH (1.2 density)	6-storey

CAC and / or Density Bonus Potential (no inclusionary units)	**Site 1**	**Site 2**	**Site 3**
Estimated **CAC** @ 50% of lift to designated *max density*	($3,080,000)	($569,000)	($3,960,000)
Per sq.ft.	($45)	($31)	($50)
Per unit	($30,495)	($28,450)	($30,938)
Estimated **CAC** @ 50% of lift to concept with *max supported land value*, if different from value at max density	n/a	n/a	$420,000
Per sq.ft.	n/a	n/a	$7
Per unit	n/a	n/a	$4,200
Estimated **DB** @ 75% of lift from base density value to max supported value	n/a	n/a	$428,000
Per sq.ft. (incremental)	n/a	n/a	$29
Per unit (incremental)	n/a	n/a	$21,400

Site #1: Tillicum and Obed (Gorge Village)

This site measures 27,500 square feet, is home to single detached dwellings and is envisioned for 4 or 6-storey mixed use. Value under current zoning (assumed purchase price) is approximately $4 million.

As with other mixed-use projects, neither the 4 nor 6-storey scenarios are shown to be viable; both return negative residual land values. This would not be a likely candidate site for redevelopment under current market conditions. Market viability could be improved through higher unit sales prices and commercial lease rates, and lower minimum commercial parking requirements.

Site #2: Davida and Tillicum (Gorge Village)

This site measures 26,000 square feet, is home to older single detached homes, and is intended for 3-storey townhouse development. Its value under current zoning is approximately $4.4 million.

At a base density of 1.0 FSR, a townhouse project cannot support a residual land value that is higher than the value as currently zoned.

At 1.2 FSR, a higher density townhouse project comes closer to viability but does not eclipse the value under current zoning. Townhouse projects at this density are oftentimes viable; in this case, the current land value (nearly $7.4 million per acre) does not allow this project to cross that threshold.

Site #3: Four Corners

This site in Four Corners village measures 29,500 square feet. It is zoned RS-6, is home to single-detached dwellings, and is intended for future apartment development between 4 and 8 storeys.

A 4-storey project returns a residual land value slightly below what is likely required to purchase the site under current zoning. At 8-storeys, the site returns a negative residual value due to the higher concrete construction costs and insufficient bonus density to offset. A 6-storeys, there is a viable project with a modest lift in land value that, if charged at 50% of the lift, would yield $420,000 or $7 per square foot.

Feltham Village and Strawberry Vale

Table 6-14: Summary of Estimated Supportable Amenity Contributions through Provision of Bonus Density through Re-Zoning (CACs or Pre-Zoning (density bonusing) – Feltham Village and Strawberry Vale

CASE STUDY SITES	Site 4	Site 5a	Site 5b	Site 6
Address	1704 Feltham Rd	1606 Blair Ave	1606 Blair Ave	4143 Wilkinson Rd
Area	Feltham Village	Feltham Village	Feltham Village	Strawberry Vale Village
Site Size (sq.ft.)	36,027	24,725	24,725	190,048
Current Use	SF Homes	SF Homes	SF Homes	Shed, field
Current Zoning	RS-6, RT-2	RS-6	RS-6	A-1
Intended Rezoned Typology	2,3 storey townhouse	3 storey townhouse	4 storey apartment	6 storey mixed-use
Future NP Base Density	1.0	1.2	1.2	2.3
Future NP Max Density	1.2	2.0	1.2	2.3
Parking Ratio Residential (per unit)	1 garage per unit	1 garage / unit	1 garage / unit	1.7
Parking Ratio Commercial (1 stall per X sq.ft.)	0	0	0	130
# Units at Future NP Base Density	22	18	67	543
# Units at Future NP Max Density	26	18	67	543
Avg. Unit Size (sq.ft.)	1,650	1,650	625	650
Unit Size Range (min-max sq.ft.)	N/A	N/A	N/A	N/A
% Distribution of Floor Area for Units by Type (bachelor, 1-bed, 2-bed, 3-bed)	N/A	N/A	N/A	N/A

Supported Land Values	Site 4	Site 5a	Site 5b	Site 6
Estimated base value under current zoning*	$5,832,000	$4,680,000	$4,666,000	$10,000
Est. Value at Designated Base Density	$4,618,000	$4,287,000	$3,335,000	$20,658,000
Est. Value at Designated Max Density	$6,108,000	$4,287,000	$3,335,000	$20,658,000
Est. Maximum Supported Land Value	$6,108,000	$4,680,000	$4,666,000	$20,658,000
Associated Dev't Typology	1.2 FSR TH	Current zoning	Current zoning	6-storey

CAC and / or Density Bonus Potential (no inclusionary units)	Site 4	Site 5a	Site 5b	Site 6
Estimated **CAC** @ 50% of lift to designated *max density*	$190,000	($295,000)	($998,000)	$8,530,916
Per sq.ft.	$8	($17)	($27)	$24
Per unit	$7,308	($16,389)	($14,896)	$15,711
Estimated **CAC** @ 50% of lift to concept with *max supported land value*, if different from value at max density	n/a	n/a	n/a	n/a
Per sq.ft.	n/a	n/a	n/a	n/a
Per unit	n/a	n/a	n/a	n/a
Estimated **DB** @ 75% of lift from base density value to max supported value	n/a	n/a	n/a	n/a
Per sq.ft. (incremental)	n/a	n/a	n/a	n/a
Per unit	n/a	n/a	n/a	n/a

Site #4: 1704 Feltham Rd. (Feltham Village)

This site measures 36,000 square feet and is home to older single detached dwellings. The future envisioned use for this site is 2-3 storey townhouses. The value under current zoning is $5.8 million, or nearly $7.1 million per acre.

At a base density of 1.0 FSR, the project would not be viable. If upzoned to 1.2 FSR, the land residual is higher than the value under existing; if a CAC is charged at 50% of the increase in value created by the density bonus, this yields $190,000 or $8 per square foot.

Site #5: 1606 Blair Ave (Feltham Village)

This site measures nearly 25,000 square feet, is home to older single family homes, and is intended for future 3-storey townhouse use. The value under current zoning is $4.7 million, or $8.2 million per acre.

Due to its very high value under current zoning, nether a townhouse project (1.2 FSR) nor an apartment project (2.0 FSR) is viable at this site. The townhouse project supports a higher residual value than the apartment project. For it to reach a viability threshold, it would take a combination of additional density (if such can be supported on the site) and higher unit prices without commensurate increases in construction costs.

Site #6: 4143 Wilkinson Road (Strawberry Vale Village)

This is a very large (4.4 acre) parcel under farm use, with A-1 farmland zoning. The District has asked to test this site for future 6-storey mixed use.

Due to the unique nature of this site (current zoning, current use, and size), it would not be a likely candidate for application of a fixed target rate CAC; rather, this would be an archetypal site where a negotiated amenity contribution would be warranted, due not only to its scale, but its outright change in use.

Under a future 6-storey use (which would likely generate over 500 housing units), it would support a residual land value of nearly $21 million. This assumes no relaxation of commercial parking, but 100% of that commercial parking provided as a surface lot. If all parking (residential + commercial) were provided underground, the land value supported would fall to $13 million, and would still be viable.

Cadboro Bay

Analyses for 3 test sites in Cadboro Bay were completed for the following typologies and densities:

- 1.2 acre site with mixed-use, condo apartments over commercial, from 1.0 to 1.6 FSR
- 0.57 acre site with either mixed-use condo apartment over commercial, or 100% condo apartment, at a density range of 1.2 to 2.0 FSR
- 0.88 acre site with mixed-use with townhouses at 0.6 and 1.0 FSR

Table 6-15: Summary of Estimated Supportable Amenity Contributions through Provision of Bonus Density through Re-Zoning (CACs) or Pre-Zoning (density bonusing) – Cadboro Bay

CASE STUDY SITES	Site 7a	Site 7b	Site 8a	Site 8b	Site 9
Address	Penrhyn Street		Sinclair Rd		Scolton & Maynard
Area	Cadboro Bay		Cadboro Bay		Cadboro Bay
Site Size (sq.ft.)	51,118		24,628		38,416
Current Use	Commercial strip		Commercial strip		SF Homes
Current Zoning	C-14		RS-10		RS-10
Intended Rezoned Typology	3-4 storey mixed-use		3-4 storey apartment	3-4 storey mixed-use	Townhouse
Future NP Base Density	1.0		1.2	1.2	0.6
Future NP Max Density	1.6		1.2	1.2	1.0
Parking Ratio Residential (per unit)	1.0		1.0	1.0	
Parking Ratio Commercial (1 stall per X sq.ft.)	200		200	200	200
Parking type	Underground	Structured	underground	underground	garages
# Units at Future NP Base Density	34	34	28	22	13
# Units at Future NP Max Density	63	63	37	32	21
Avg. Unit Size (sq.ft.)	900	900	900	900	1,800
Unit Size Range (min-max sq.ft.)	N/A	N/A	N/A	N/A	N/A
% Distribution of Floor Area for Units by Type (bachelor, 1-bed, 2-bed, 3-bed)	N/A	N/A	N/A	N/A	N/A

Supported Land Values	Site 7a	Site 7b	Site 8a	Site 8b	Site 9
Estimated base value under current zoning*	$9,755,000	$9,755,000	$4,842,000	$4,842,000	$9,176,000
Est. Value at Designated Base Density	$2,291,000	$2,291,000	$5,886,000	$2,402,000	$3,534,000
Est. Value at Designated Max Density	$10,313,000	$11,942,000	$5,886,000	$2,402,000	$8,236,000
Est. Maximum Supported Land Value	$10,313,000	$11,942,000	$5,886,000	$4,842,000	$9,176,000
Associated Dev't Typology	4-storey mixed-use	4-storey mixed-use over structured parking	4-storey condo	Current zoning	Current Zoning

*includes closing costs and taxes

CAC and / or Density Bonus Potential (no inclusionary units)	Site 7a	Site 7b	Site 8a	Site 8b	Site 9
Estimated **CAC** @ 50% of lift to designated *max density*	$279,000	$1,093,000	$522,000	($1,220,000)	($470,000)
Per sq.ft.	$5	$19	$30	($71)	($24)
Per unit	$4,429	$17,349	$14,108	($38,125)	($22,381)
Estimated **CAC** @ 50% of lift to concept with *max supported land value*, if different from value at max density	n/a	n/a	n/a	n/a	n/a
Per sq.ft.	n/a	n/a	n/a	n/a	n/a
Per unit	n/a	n/a	n/a	n/a	n/a
Estimated **DB** @ 75% of lift from base density value to max supported value	$419,000	$1,640,000	n/a	n/a	n/a
Per sq.ft. (incremental)	$16	$63	n/a	n/a	n/a
Per unit (incremental)	$14,448.28	$56,551.72	n/a	n/a	n/a

Inclusionary Housing Provision	Site 7a	Site 7b	Site 8a	Site 8b	Site 9
Through Rezoning (CAC)					
# Units	0	2	0	n/a	n/a
as % of *total* units	0%	3%	0%	n/a	n/a
Through Pre-Zoned Density Bonus					
# units	0	3	n/a	n/a	n/a
as % of *incremental units over base density*	0%	9%	n/a	n/a	n/a

Site #7 Peppers Grocery Plaza

This site measures approximately 1.2 acres and is currently home to a grocery-anchored lower-density commercial strip centre of 15,000 square feet. The case study assumes that the strip centre is fully demolished, and replaced by a mixed-use project (residential over commercial) with approximately 15,000 square feet of ground floor commercial space and condominium apartments above. Pro forma analyses for the site test both underground and above-grade structure parking scenarios for the maximum envisioned future density.

Under base condition of 3-storeys (assumed 1.0 FSR), the project would not be viable; its supported land value is less than half of that under current zoning. To achieve a project at this density, condo prices would need to be higher than $1,200 per square foot, a price point that is not market achievable at this juncture.

At 1.6 FSR, a condo-over-retail project with underground parking could be viable at prevailing prices. A CAC charged at 50% of the value created by the bonus density would equate to $2 per square foot; if density bonus zoning were used, the lift bonus density payment would equate to approximately $8 per *incremental* square foot.

If parking were provided in an above-grade structure (vs. single level underground), this could create some cost savings, and provide an opportunity for either lower condominium prices, or a higher density bonus payment ($16 per square foot).

Site #8: Commercial Mixed Use at Sinclair Road

This site measures 24,628 square feet and is comprised of four individual parcels, 3 of which are zoned RS-10, and one of which is zoned C-4B. The intended future use is either stand-alone apartments, or apartments over a commercial podium.

Of the two (residential vs. mixed use), only the 100% residential project shows viability under current market conditions. When modelled 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. At prevailing market prices, the apartment project would yield a modest land lift and CAC potential of around $20 per square foot

Site #9: Scolton & Maynard

This site is a 5-lot assembly of single-family homes totaling 38,416 square feet. The intended future use for the site is townhouses, with a density range of 0.6 FSR up to 1.0 FSR. Assumed average unit sizes are 1,800 square feet.

At 0.6 FSR, a new townhouse project is not viable, even at price points at the upper end up what the market can currently support. If density were increased to 1.0 FSR, the project approaches viability, but still does not support a land value higher than that under current zoning. If density were increased to 1.2 FSR (26 townhomes, not shown in the table above), then the project can support a land residual higher than under current zoning, and could pay a CAC of around $22 per square foot.

6.4.9 ANALYSIS FOR "VILLAGES" – RENTAL SCENARIOS (CADBORO BAY)

Analyses of market rental viability were prepared for the Cadboro Bay subset of the Villages case study sites.

- Generally speaking, rental residential projects struggle to be viable when compared to market condominium projects.
- In Cadboro Bay, the density of an apartment project needs to be significantly increased in order to warrant consideration from a builder who would be looking to build, lease up, and sell the project.
- If densities were increased from 1.2 FSR to 2.0 (or higher) FSR, market rental projects can be made viable and still achieve target profit thresholds that would make a build and sell viable
- Further, at 2.0 FSR there could be the potential for a 5-10% inclusionary non-market rental component.
- When evaluated on a cash flow (IRR) basis, a market rental project could be made viable at 1.6-1.8 FSR and achieve an unlevered IRR of around 6.5-7.0%.

6.4.10 DISCUSSION – VILLAGES STUDY AREAS

- Of the 13 strata ownership development concepts tested across nine case study sites, five of the concepts were shown to be viable and have amenity contribution potential.
- Gorge Village and Four Corners case study sites do not show viability for either mixed use or 3-storey townhouse projects.

    - While this condition is not unique to these sites for the mixed-use typology (for reasons outlined previously), the townhouse project at 1.2 FSR failing to cross the viability threshold is less typical.
    - That outcome at this particular test site appears to be a symptom of relatively high land prices to assemble (>$7.3 million per acre), and an inability to charge commensurately high prices based on current upper market thresholds.
    - The 1.2 FSR project does come quite close to achieving viability however; it would only take a very small price increase, or some cost efficiencies in the development process, to push this project over the viability threshold.
- The 6-storey apartment at Four Corners shows viability and an ability to pay a small amenity contribution.
- While two of the three test sites in Feltham Village do not show current viability for redevelopment, at least one of the unviable projects (3-storey townhouse) shows a land residual that is only slightly below the estimated base value under current zoning. As with the 1.2 FSR townhouse project in Gorge Village, it would not take much movement on the revenue side (upwards) or the cost side (downwards) to tip this project into viability. Even a slightly expedited approvals timeline (~6 months) would save sufficient interest and other carrying costs to make this a viable project and open the potential for a small amenity contribution.
- The results of the Cadboro Bay case studies serve to underscore the key formula for achieving project viability under low density, high land cost conditions: very high condominium prices and apartment rental rates.
    - While there is evidence that these high price points are supportable in Cadboro Bay (hence the viability of 4-storey condos and 4-storey mixed-use)

6.4.11 ANALYSIS FOR "NEIGHBOURHOODS" – STRATA OWNERSHIP

Case study financial analyses were prepared for the 3 sites in Gordon Head, Cordova Bay and Cadboro Bay.

Gordon Head and Cordova Bay

Table 6-16: Summary of Estimated Supportable Amenity Contributions through Provision of Bonus Density through Re-Zoning (CACs) or Pre-Zoning (density bonusing) – Gordon Head and Cordova Bay

	Site 1a	Site 1b	Site 2
Address	4080 Gordon Head Rd.	4080 Gordon Head Rd.	4991 Del Monte
Area	Gordon Head	Gordon Head	Cordova Bay
Site Size (sq.ft.)	74,325	74,325	30,935
Current Use	SF Homes	SF Homes	SF Homes
Current Zoning	RS-10	RS-10	RS-12
Intended Rezoned Typology	4,6 storey mixed-se	3 storey townhouse	2.5 storey townhouse/plex/row
Future NP Base Density	1.8	1.2	1.0
Future NP Max Density	2.4	1.2	1.0
Parking Ratio Residential (per unit)	1.0	1.7	1.8
Parking Ratio Commercial (1 stall per X sq.ft.)	150	150	0
# Units at Future NP Base Density	107	107	107
# Units at Future NP Max Density	172	107	107
Avg. Unit Size	850	1850	1500
Unit Size Range (min-max)	N/A	N/A	N/A
% Distribution of Floor Area for Units by Type (bachelor, 1-bed, 2-bed, 3-bed)	N/A	N/A	N/A

Supported Land Values	Site 1a	Site 1b	Site 2
Estimated base value under current zoning*	$6,398,000	$6,448,000	$4,493,000
Est. Value at Designated Base Density	$4,946,000	$8,227,000	$4,662,000
Est. Value at Designated Max Density	$7,576,000	$8,227,000	$4,662,000
Est. Maximum Supported Land Value	$7,576,000	$8,227,000	$4,662,000
Associated Dev't Typology	6-storey	3-storey TH	2.5 storey TH

*includes closing costs and taxes

CAC and / or Density Bonus Potential (no inclusionary units)	Site 1a	Site 1b	Site 2
Estimated **CAC** @ 50% of lift to designated *max density*	$569,000	$889,000	$85,000
Per sq.ft.	$4	$17	$5
Per unit	$3,308	$8,308	$794
Estimated **CAC** @ 50% of lift to concept with *max supported land value*, if different from value at max density	n/a	n/a	n/a
Per sq.ft.	n/a	n/a	n/a
Per unit	n/a	n/a	n/a
Estimated **DB** @ 75% of lift from base density value to max supported value	$883,000	n/a	n/a
Per sq.ft. (incremental)	$20	n/a	n/a
Per unit (incremental)	$13,585	n/a	n/a

Site #1: 4080 Gordon Head Road

This is a large corner parcel (74,000 sq.ft.) along Gordon Head Road north of Feltham Road. It contains one older single-family home; more than 50% of the lot is currently vacant. The value under current zoning is nearly $3.8 million per acre. The envisioned future use is either 4 or 6-storey mixed-use.

At 4-storeys, the site cannot support a residual land value high enough to exceed the value under current zoning. At 6-storeys, unlike many other 6-storey mixed use scenarios tested at other sites, this one can supports a land residual that is higher than current zoning and is therefore a viable project. The difference here versus many of the other sites intended for future mixed-use, is the relatively lower as-is land value per acre. In this case, the 6-storey project could yield a CAC (at 50% of the lift in value) of $570,000, or $4 per square foot.

This site is also modelled for 3-storey townhouses at 1.2 FSR. The average unit sizes here would be relatively large (1,850), which aligns with market demand in that area. This use supports a land residual of over $8.2 million, higher than under a 6-storey mixed use scenario. This townhouse project would support a CAC payment of $890,000, or $17 per square foot.

Site #2: 4991-4999 Del Monte Ave (Cordova Bay)

This site in Cordova Bay, located just south of Claremont Avenue and backing on to the Cordova Bay United Church property, measures nearly 31,000 square feet and is home to large older single family homes. Its value under current zoning is nearly $5 million, or $6.3 million per acre. The intended future use is for townhouses or 'plex' style development.

Modelled at a future density of 1.0 FSR, the site would yield a viable project and be able to pay a modest CAC of $5 per square foot.

7.0 POLICY OPTION CONSIDERATIONS

7.1 KEY CONSIDERATIONS

There are many factors to consider when structuring CAC / density bonusing policy, and the conditions under which to require on-site affordable rental housing.

1. **Re-Zoning vs. Pre-Zoning**
   Pre-zoning could significantly increase the pace of new housing development and improve affordability for both market and non-market housing, as it will reduce approvals times and reduce developer risk including pricing risk, approvals risk, and financing risk. In short, the combination of greater certainty and shorter timelines can have notable positive impacts to pro forma costs, ultimately improving project viability and the ability to make amenity contributions. Developer risk all gets 'priced in' to a development pro forma in the form of carrying costs (taxes, overhead, interest), rezoning process costs, and contingency allowances to protect against cost and approvals uncertainties.

   Pre-zoning will, in most cases, cause an uplift in land value between the value as currently zoned and the value supported by a new base density. If the District elects to pre-zone certain areas in the interest of expediting development, increasing certainty, and reducing administrative burden, one of the trade-offs will be the foregone ability to 'capture' some portion of the increase in land value created by the change from current zoning to a new, higher base density. Not all that initial lift capture is foregone through pre-zoning however, due to:

   A. The ability to capture a higher proportion of incremental lift value through density bonusing (75%) vs. rezoning CACs (50%), warranted due to the shorter, more certain approvals pathway.
   B. The creation of additional lift between the new base and bonus densities through the reduction of costs (carrying, rezoning, contingencies).

2. **Single Rates vs. Varied Rates**
   Regardless of whether the District elects to create density bonus zoning or require rezoning with target CACs (or have some combination of the two in different areas), the target CAC / density bonus rates, and / or the IH requirements, do not necessarily have to be "one size fits all." Rates, requirements, and targets can vary across the District in a number of ways, including:
   - By geographic area (e.g., centres, corridors, neighbourhoods)
   - By project type (e.g., townhouses, apartments)
   - By project size (site size, number of units, or other).

   Having a single set of target rates and requirements (perhaps with some minor variations) across the District has the advantage of relative simplicity for both developers and District staff administration. However, there are two notable disadvantages:

   A. Some sites will inevitably have far greater financial room to make amenity contributions, including affordable housing units, than others. Under a system with a single set of rates or targets, none of that extra 'room' could be captured by the District in the form of an amenity contribution.

   B. Some projects, which may be marginally viable in the absence of an amenity contribution requirements, may become unviable if requirements set based on District-wide averages or trends are applied to them. If a single set of criteria is the chosen direction, then

mechanisms must be included to allow for such projects to be viable, likely through a negotiated approach.

3. Negotiation vs. Fixed Target Rates

Broadly speaking, there are three general policy directions that the District could take for obtaining amenity contributions and affordable housing units:

A. Negotiate an amenity contribution / affordable housing package from projects, on a case-by-case basis, as they come forward with rezonings for additional density. Under this approach, the District would:

- Review District and local area amenity needs, and how this project can best contribute towards them (i.e., cash contributions, built amenity, inclusionary units).
- Determine what financial room the proposed project has available to contribute towards those amenity requirements.
- Clearly establish criteria for which projects will and will not be considered 'candidates' for inclusionary units. This may be based on geographic area, project size, project type, or some combination.
- Establish explicit targets for what is required of an inclusionary affordable unit. This should include a percentage of units (or floor areas), types of units, mix of units, and maximum rental rates.
- Decide whether other on-site amenities are required, or if a cash contribution towards the funding of other amenities is more appropriate.
- Establish clear priorities and proportionate allocations of cash contributions to different amenity 'buckets.'

Note that this approach applies to CACs and IH obtained through rezoning only. It would not apply in any area that the District elects to pre-zone with density bonus zoning.

B. Set Fixed Target Rates and target IH provision:[31]

- Establish target fixed rates per square foot (or incremental square foot) of floor space, and a target requirement for provision of affordable units. The latter could be as a percentage of floor area or of units, and those percentages can be on total or incremental floor area, depending on whether set out within a rezoning or bonus density pre-zoning framework. The type of affordable housing needs to be made explicit in terms of mix, rents, etc., as noted above.
- Set a minimum project size threshold for inclusionary unit consideration.
- Prioritize allocation of cash contributions.
- Target rates and IH provision requirements can vary by project type and by area, with rates supported by economic analysis.

C. Hybrid approach:

a. A combination of negotiated CACs, fixed target rate CACs, and density bonus zoning. Negotiated site-by-site approaches may be used for more unusual, larger scale, or strategically located projects where it is in the District's interest to maintain flexibility for on-site amenity / housing provision. Meanwhile, target rate CACs (or density bonus zoning, if desired) can be used elsewhere. It is preferable to keep the conditions for negotiated CACs limited; the goal should be for the vast majority of projects to go through a more structured, transparent process.

[31] This approach applied to CACs and inclusionary units obtained through rezoning, as well as through density bonus zoning.

Advantages and disadvantages of each of the above approaches have been discussed in preceding sections of this document.

7.2 OTHER FACTORS TO CONSIDER

1. **Affordability Thresholds:** Inclusionary non-market housing policy needs to be explicit about the District's priorities. For instance, are the priorities delivery of the maximum number of units below market rents? Delivery of the maximum number of deeply subsidized units? Maximizing the number of non-market family-sized units? Other?

   Priorities will shape how developers bring projects forward for consideration and will impact project economics in different ways. The analyses prepared above where inclusionary non-market rental housing was included, looked at project economics based on a certain set of criteria (unit mix, unit sizes, rents). Changes to any one of these will change project economics, and thus the justifiable 'ask' of a proponent.

2. **Non-Market Housing provider preferences:** Non-market housing providers will typically prefer to own and operate affordable units in stand-alone buildings rather than units within a mixed market and non-market building, particularly if the building includes a small number of non-market units. This is particularly true if this is a condo ownership (vs. market rental) building. These preferences are driven by the following considerations:

   a. Management of a small number of units can increase operational costs to the point of impacting project viability.

   b. Location of units can significantly impact operations, with central locations highly preferable to non-profit housing providers, both for ease of operations and for tenant access to amenities and transit.

   c. The non-profit provider does not have direct control over the building and its ongoing operational decisions, including maintenance, capital reinvestment, and capital reserves. Costs may increase faster than rents over time which would reduce income from the units and potentially create problems with cash flow, refinancing, and unit maintenance. This is further exacerbated by increasing property insurance costs and increasing inflation.

3. **Inclusionary Units within Strata Buildings:** Requiring affordable rental housing units within strata projects can be problematic for the following reasons:

   a. The relatively small number of units delivered by any given project can prove inefficient from an operations standpoint, and may not appeal to many non-profit housing operators, especially if the units are acquired with a large mortgage.

   b. Affordable rental units could face unforeseen operating cost increases if a strata corporation increases maintenance fees or faces a special assessment. Over the longer term, this could affect the financial viability of operating the units, and may hinder the owner/operator's ability to qualify for financing or to reinvest in the units.

   c. It will create added complexity for longer term considerations such as major building renovations or upgrades, or outright building redevelopment.

   d. It will negate the ability for each of these projects to make contributions to any other types of required community amenities.

Requiring affordable rental housing units within otherwise **market rental projects** may be significantly less complex from an operations standpoint. However, with few exceptions, delivering 100% market rental projects is already challenging and is likely to become more-so in the near term due to:

- Increasing interest rates; and
- Ongoing construction cost escalation (materials and labour).

4. **Needs and preferences of development community:** Through focus groups and one-on-one interviews conducted for this project, it was apparent that the development community would much prefer to make cash contributions to fund specific priority amenities (including affordable housing), or in some cases to provide amenities on site (such as public meeting space, daycare space etc.), rather than provide a small number of non-market IH units. Some developers are also open to the idea of density transfer to fund non-market units; an example could be a developer pursuing multiple projects, and instead of providing non-market units in each, the equivalent number of units from each are 'transferred' into a single non-market project at another site.

5. **Administrative considerations**: The chosen route for amenity contributions and inclusionary non-market housing needs to consider the impact on City staff from approvals through to ongoing administration.

6. **Exceptions:** Each project is unique, and some projects may not be able to pay a target CAC rate or provide target levels of inclusionary units due to unique circumstances that impact either the revenue or cost sides of the pro forma. Any policy must therefore include a mechanism for approval of projects that cannot meet the target CAC / IH requirements.

7. **Exemptions:** Project economics can vary substantially depending on structure type, use mix, and tenure. The District will need to be explicit about what types of projects it will seek amenity contributions from (including affordable units), and which will be either wholly or partially exempt. The chosen exemptions should be guided in part by broader policy priorities, to ensure that this policy works to further and not hinder those other objectives.

8. **In-Stream Protection**: The introduction of new requirements should include a prescribed period for projects that are currently in the planning pipeline and consider a 'phase-in' approach for new target rates and requirements that would apply to new projects. The District should ensure that sufficient notice is given before the interim policy is replaced by a new permanent policy. This will give applicants who have already purchased land the opportunity to make an application under existing policies without having to factor in the financial impacts associated with increased affordable housing or CAC / density bonus contributions.

9. **Market Condition Adjustments and Updates**: As market conditions change (costs and revenues), the ability for projects to make amenity contributions will also change. The policy target rates and requirements should therefore be regularly reviewed and adjusted. This may include both annual rate reviews / adjustments, and more comprehensive reviews and recalibration over longer time intervals.
    a. Target rates and IH requirements may be reviewed annually and adjusted based on inflationary metrics such as local property values and construction costs.
    b. A more comprehensive review of rates, requirements and overall approaches may be aligned with other major initiatives such as the 4-year capital planning process, Development Cost Charge Bylaw updates, or pursuant to Council approval at an earlier date based on staff recommendations. Ideally, minor updates to the program are undertaken every 2-3 years and major updates are done every 5-years.

8.0 CONCLUSIONS AND RECOMMENDATIONS

8.1 KEY FINDINGS – FINANCIAL ANALYSIS

8.1.1 OVERALL

- Many sites and project types in the various study areas are not rezoning and redevelopment candidates yet, because:
    - The sites are more valuable under their existing zoning than as redevelopment sites under the uses/densities envisioned, and under current market conditions.
    - Other non-market factors beyond uses and densities are a net drain on the pro forma (e.g., parking requirements, approvals processes and timelines).

- Mixed-use projects struggle to be viable, and with few exceptions, cannot make amenity contributions either through rezoning or pre-zoned density bonusing. Mixed-use viability should be re-assessed if the District elects to change its commercial minimum parking requirements.

- Concrete apartment projects struggle to be viable at prevailing cost and revenue conditions. We would not expect to see concrete high-rise construction in Saanich for at least the next 5+ years. There may be exceptions for smaller concrete apartment projects in high-value locations that are able to command premium prices (e.g., Uptown-Douglas, Royal Oak) which are reflected in active residential concrete tower development applications.

- 6-storey apartments, along with townhouses (traditional and stacked) are the most commonly viable and financially attractive development typologies. Most 6-storey projects show an ability to make a considerable amenity contribution, either through re-zoning or pre-zoned density bonusing.

- It is financially feasible for some types of strata residential projects that are seeking bonus density to provide on-site affordable rental housing units at substantially below market rates, or in addition to contributing toward other amenities.
- The amount of affordable rental housing that can be provided, either through rezoning or within the framework of pre-zoned density bonusing, depends on:
    - The amount of bonus density provided
    - Required rents for affordable units.[32] The lower the required rents, the less affordable housing can be provided as an 'in-kind' amenity contribution
    - Permitted rental rate increases over time
    - Relationship between rents and operating costs over time
    - The unit sizes and mix of affordable units. Larger units generate lower per-square-foot rents; the larger the units, or the greater the proportion of larger vs. smaller units, the fewer units which can be provided as a contribution.

[32] All affordable rental units in these analyses are priced at 10% below CMHC median market rents for Saanich.

- At 10% below median CMHC market rents, each unit's value at completion is less than 60% of the cost to create that unit (excluding any profit allowance)
    - At rental rates of 10% below median CMHC market rents, the average price that a non-profit could afford to pay a developer to acquire and operate a completed unit is around $230,000.
    - The capital costs to deliver that unit are around $400,000, including land purchase, hard and soft development cost, and interest on construction financing.
    - Average non-market rents charged would need to increase by approximately 25%-35% for a non-profit to be able to purchase a unit at cost.[33] This would still place these units substantially below actual market rental rates.
    - If developers were required to deliver non-market rental units at a 10-20% discount to *actual market* rents (vs. a discount to CMHC market rents), the result would be a greater number of non-market units delivered.

Amongst the sites that are financially attractive for redevelopment under envisioned use and density conditions, the calculated supportable CACs / bonus density payments vary significantly area to area.

8.1.2 CENTRES AND CORRIDORS

- Target CAC rates range from around **$2 to over $50 per square foot** of bonus floor space
- Density bonus zoning rates range from **$20 to $120 per incremental square foot** of bonus floor space
- Below-market rental housing provision potential ranges from 3% to 14% of total units, and from 6% to 35% of incremental units in a density bonusing framework.
- **Shelbourne Valley Centre** and along the **McKenzie Avenue Corridor East and West**:
    - The most readily viable project type is 6-storey condominium apartments
    - 6-storey condos can support target rate CACs from **$13 / sq.ft. up to $65 / sq.ft.**
    - Stacked townhouses could support a CAC of **up to $18 / sq.ft.**
    - 6-storey condominium apartment projects can support non-market rental units at 10% below CMHC median market rents at between 5% and 10% of total units, or between 6% and 13% of incremental units under bonus density zoning.
    - 6-storey *market rental* apartment projects could, under certain conditions, support non-market inclusionary unit provision of under 5% of total units.
- Around **Tillicum Centre**, both at the Centre itself and at sites proximate to it (north of Highway 1):
    - The most readily viable project type is 6-storey condominium apartments
    - Supportable target CACs around **$8/sq.ft.**
    - No viability for concrete projects (8, 12 storeys)
    - There is no apparent viability for 6-storey condos on smaller sites (<1/3 acre) due to higher per-acre land costs

[33] This assumes 80/20 loan-to-value, a mortgage with 30-year amortization at 3.5%-4.0%, debt service coverage ratio of 1.1

- **Quadra-McKenzie Centre / Quadra Corridor north of McKenzie**
    - Relatively lower per-acre land values under current zoning vs. Shelbourne Valley or Tillicum Centre. While unit prices are around 10% lower here, the lower land values still result in higher land lifts and thus potential for amenity contributions.
    - At 6-storeys, case study sites **show $13-$54 /sq.ft. target CAC** rates supported
    - At 6-storeys, assuming density bonus pre-zoning, density bonus rates of **$62-$91 per *incremental* square foot** over base density is supported
    - If all the amenity contribution room is used for the provision of non-market rental units at 10% below CMHC median market rents, there could be an inclusionary unit requirement of:
        - Up to 10-14% of total units
        - 14%-35% of *incremental* units over a new base density.
- **McKenzie Corridor west of Quadra-McKenzie Centre**
    - Per-acre land values under current zoning range from $4.6 to $5.4 million. Achievable unit prices (apartments and townhouses) are slightly lower than at McKenzie Centre and points east, but slightly higher than at Tillicum Centre or other sites west of the Patricia Bay Highway.
    - Due to lower land prices, 4-storey condominium apartments may be viable at some locations
    - The land use which generates the highest amenity contribution potential is 6-storey condominium apartments
    - On a large (greater than 1 acre) test site east of Saanich Road and south of McKenzie Ave, a 4-storey project is able to support a target CAC rate of **$8 / sq.ft.**
        - A larger (6-storey) project on this site could support a target CAC rate of over $50 /sq.ft., or a density bonus rate of over $90 / sq.ft.
    - On a slightly smaller site (0.7 acres), a 6-storey project is shown to support a target CAC rate of $28 per square foot.
    - A townhouse project of up to 3-storeys is shown to support a target CAC rate of $5 per square foot (around $7,500 per unit), or $14 per incremental square foot through density bonus zoning up to 1.2 FSR.
    - There is evidence of viability for market rental at 6-storeys within this sub-area. If a developer is willing to proceed with a project based on a zero (or negative) profit on cost but an unlevered IRR of over 6%, or a yield on cost (year 1 NOI / cost) of around 5-6%, then such a project could offer up to 13% of units at non-market rents.
- **Royal Oak Centre**
    - 6-storey apartment showing support for up to **$49 per square foot target CAC rate**, and 6-storey mixed-use with marginal viability and target CAC potential of around $**4 per square foot**
    - Density bonus zoning of **$20-$86 per incremental square foot**
    - Non-market inclusionary rental housing potential around 13% of total units, or 16% of incremental bonus units over a 4-storey base density.

- Townhouse (3 storeys) showing a target CAC potential **of $9 / sq.ft.** ($16,000 for 1,800 sq.ft.)
- Viability of market rental at 6-storeys (returns 6.7% IRR), with an inclusionary unit potential up to 12% of total.

- **Uptown-Douglas Centre**
  - A range of supportable target CACs from **$16 / sq.ft. for 4-storey up to $53 /sq.ft. for 6-storey apartments (all larger sites)**
  - Density bonus zoning potential at the larger ((1.2 acre) 6-storey apartment site of over $100 per net incremental square foot over a new 4-storey base density.
  - Inclusionary non-market rental housing potential of up to 12% of total units

8.1.3 VILLAGES AND NEIGHBOURHOODS

- **Gorge Village**
  - High value of land under current zoning makes rezoning and redevelopment for either mixed use (up to 6-storeys) or townhouses (up to 3-storeys) financially unattractive at current market prices
- **Four Corners**
  - 6-storey condominium is shown to be viable with the ability to support a **$7 / sq.ft. target rate CAC.**
- **Feltham Village**
  - In areas with land values around $7 million per acre, a 2-3 storey townhouse project at a density of 1.2 FSR would be viable, with the ability to support a target CAC rate of **$8 / sq.ft. (approx. $13,000 per unit).**
- **Cadboro Bay**
  - The ability to charge premium prices for apartments and townhouses in this area allow lower density projects that do not work in other study areas to show viability in Cadboro Bay.
  - 1.6 FSR (3-4 storey) mixed use with condo units at $950 / sq.ft. shows marginal viability and an ability to support a $2/sq.ft. target rate CAC
  - Similarly, a 3-storey apartment at 1.2 FSR shows viability (again at $950/sq.ft. unit prices) with the ability to contribute up to **$16 per square foot in CACs**
  - Townhouses at 0.6 and 1.0 FSR are unviable, despite unit prices of nearly $1.1 million. An increase to 1.2 FSR would be required to make a luxury townhouse project viable given prevailing land prices.
  - Market rental projects charging an average of $3.50 per square foot per month would be viable at 1.6 FSR under 'build and hold' conditions, and 2.0 FSR for 'build and sell'.
  - At 2.0 FSR, a market rental project could potentially support non-market inclusionary rental units in the 5-10% of total units range.
- **Gordon Head Neighbourhood Site**
  - 6-storey apartments could be viable and contribute **CACs at around $4/sq.ft.**
  - 3-storey townhouses could be viable and contribute **CACs at around $17/sq.ft.**
- **Cordova Bay**
  - Townhouses / plexes are viable and could contribute target rate CACs around **$5 / sq.ft.**

8.2 RECOMMENDATIONS

There is a wide range of target rate CACs and / or density bonus rates payable by different projects across the District. Some of the factors that cause this variability include:

- A wide range of land values supported by current use and / or zoning (from under $4 million to over $9 million per acre)
- A range of achievable unit prices and lease rates for new apartments, townhouses, and commercial space
- Widely variable parcel sizes, ranging in this analysis from 10,000 square feet to over 2 acres

As such, we recommend moving forward with a hybrid approach that combines:

1. Negotiated CACs and affordable housing contributions on a site-by-site basis for projects over a given size threshold (for example Multi-phased developments or those with over 500 units). The threshold should be selected such that it would capture only a *minority* of development approvals and not be based on site area. The majority of approvals would instead go through a more formulaic amenity process. This will be developed further through policy work in subsequent phases;
2. Target rate CACs or density bonus zoning for most projects (below the negotiation threshold) up to the maximum density envisioned in the future planning areas (CCVs), and a negotiated additional CAC if a proposal exceeds that max density; and,
3. Some target rate CACs and /or density bonus zoning rate variation by geography.

8.2.1 APPROACH RECOMMENDATIONS FOR CENTRES AND CORRIDORS

For rezonings above a certain size threshold (perhaps 1 acre) in the centres and corridors, we believe it makes sense to proceed with a negotiated approach to CACs and affordable housing contributions on a site-by-site basis for a number of reasons:

- There is, as shown in the case study financial analyses, a variation in the amenity contribution and affordable housing supportable. Some rezonings may be able to support large contributions (e.g., >$50 / sq.ft. or inclusionary unit equivalent), while others may struggle to achieve a base level of viability (e.g., concrete construction, or larger projects with a mixture of wood frame and concrete product)
- More than 50% of pro formas that were prepared for rezonings in the centres and corridor sites were not shown to be viable rezoning / redevelopment candidates at this time, at least not under their envisioned future land uses and densities.
- Requirements for on-site affordable housing units within a rezoning in any centre or corridor would likely lead to negotiations around the provision of affordable housing units, regardless of whether there are target rates / contributions clearly laid out in policy. As the ability to 'carry' non-market units will vary significantly by project size (both in their initial provision and their ongoing management and operations) and depth of affordability targets, some projects will be too small to warrant them. That nuance would not be accounted for in a target rate / unit policy or with density bonus zoning that includes a percentage of unit / floor area contribution requirements.
- Any negotiations of on-site affordable housing would need to include a non-profit housing provider early in conversations to ensure that the proposed units fit their operations model.
- The Interim CAC policy currently exempts certain rental tenures from CACs with varying levels of reductions ranging from 50% to 100% of the full CAC rate. The District should consider keeping these reductions as a minimum in the development of the new CAC and IH policy and

program. In addition to these minimums, the District may consider adding an additional exemption for buildings with IH units as the IH units may be operated by a non-profit and/or the IH units may be nested within a rental building.

We recommend therefore that the District maintain a project size threshold in the centres and corridor sites below which a target fixed rate CAC (cash payment or built amenity) would be used as the basis for amenity contribution negotiation, without any IH requirements. Above this threshold, the District would negotiate for an amenity package that is most appropriate to that location and project, which may include on-site built amenities, cash CACs, on-site non-market rental housing units, or a combination. An appropriate IH target (assuming rents at 10% below CMHC median market for Saanich) would be 10% of total units. An additional benefit of negotiating affordable housing provision is the ability to vary the type and tenure of non-market housing that is required on a site-by-site basis.

Below the negotiated size threshold, we recommend instituting either fixed target rate CACs, bonus density zoning, or a combination of the two, based on the recommendations in the tables below. Note that target rate CACs would be charged on all floor area *beyond that permissible under current zoning* if no change in use, and on all floor area with a change in use. Density bonus rates would be charged on all floor area *above the base density in the bonus density zone*.

In addition, as the District of Saanich uses both FSRs and form-based land use approaches, it is important to consider the establishment of rates and targets that would be acceptable under form-based designations and frameworks.

Table 8-1: Target rate recommendations, Centres and Corridors

	Condominium Apartments (100% residential projects)	Condominium Apartments within mixed-use projects	Townhouses / Plex developments (1)	Current Interim CAC Policy Target Rates
Target CAC (2)	$10 per sq.ft. ($108 per sq.m) $10,900 per unit	$5 per sq.ft. ($108 per sq.m) [34] $3,200 per unit	$8 per sq.ft. ($86 per sq.m) $9,000 per unit	$3,000 - $5,000 per unit (<8 storeys) 50% - 75% of land lift (>8 storeys)
Density Bonus Rate with pre-zoning (3)	$40 per sq.ft. ($430 per sq.m) $29,700 per unit	$25 per sq.ft. ($323 per sq.m) $15,800 per unit	$14 per sq.ft. ($151 per sq.m) $21,500 per unit	n/a
Non-Market Inclusionary Units	n/a	n/a	n/a	n/a

(1) density bonus rate would apply only if base density is at least 1.0 FSR.

(2) on net additional floor area in excess of the maximum permissible under current zoning, except where total there is a conversion of land use from non-residential to residential, where the CAC target applies to all residential floor area.

(3) on net additional floor area in excess of that permissible under a new established base density

[34] With reduced parking requirements, many of the mixed-use projects currently shown as unviable will likely become viable. The reduced target CAC for apartment units in apartment projects is intended to reflect the slightly higher construction costs associated with building mixed-use.

With regards to IH units, the current recommendations are:

- Negotiate affordable housing provision within projects above the size threshold that triggers a negotiated CAC process
- Do not require inclusionary units within market condominium projects that are subject to fixed target rates or density bonus rates
- Consider adding an inclusionary below market requirement within market rental housing projects in higher density / amenity / transit sub-areas in the future, but do not include this requirement as part of the policy being put forward at this time.
    - If / when an inclusionary below market component is considered for market rental projects, also consider alternate unit price targets vs. the 10% discount to CMHC median market rents.
    - One path that the District could take would be to require below market units at a fixed % discount to actual market rents. This would ensure that the size of the discount vs. market rents in new units does not increase over time.
- If IH policy and program is applied, the definition of affordable housing needs to be clearly defined by the District. This work is currently underway in the District, and will align with this work as the project moves forward with policy development.
- The number of affordable housing units built through the program and the affordability levels of the unit should be tracked over time. This could be tracked against the District of Saanich's definition of affordability.
- One way to measure long term trends of affordable housing needs is through the review of the Housing Needs Report every five years which reports on the number of units needed based on population and household growth in the District of Saanich.

8.2.2 APPROACH RECOMMENDATIONS FOR VILLAGES AND NEIGHBOURHOODS

As with centres and corridors, there is variability in the ability of projects of different sizes and scales, in different areas, to contribute CACs and / or IH units. At this time, we recommend a single standardized target rate structure that would apply to all villages and neighbourhoods, with the same size / scale thresholds that apply to the corridors and centres, beyond which a negotiated CAC / inclusionary unit process would be more appropriate.

Table 8-2: Target rate recommendations, Villages and Neighbourhoods

	Condominium Apartments (100% residential projects)	Condominium Apartments within mixed-use projects	Townhouses / Plex developments (1)	Current Interim CAC Policy Target Rates
Target CAC (2)	$5-10 per square foot ($54-$108 per sq.m) $4,200 per unit	$5 per sq.ft. ($54 per sq.m) $3,300 per unit	$8 per sq.ft. ($86 per sq.m) $7,300 per unit	$3,000 - $5,000 per unit (<=4 storeys) $5,000 per unit (>4 to 6 storey max)

(1) density bonus rate would apply only if base density is at least 1.0 FSR.

(2) on net additional floor area in excess of the maximum permissible under current zoning, except where total there is a conversion of land use from non-residential to residential, where the CAC target applies to all residential floor area.

8.2.3 ALLOCATIONS AND USES OF CACS / DENSITY BONUS PAYMENTS

As the CAC and IH policy and program develops, the District should identify and determine amenity priorities for community and how the allocation of cash-in-lieu contributions should be directed.

The best practices across comparable communities, is that CAC and density bonus funds are directed to reserve funds earmarked for priority amenities to the community and council. In Langford, for example, the proportion of CAC and density bonus cash-in-lieu contributions that go towards the affordable housing reserve fund vary depending on the planning area. These comparables are outlined below.

Table 8-3: CAC and/or Density Bonusing Target Rates, Comparable Communities

	City of Victoria	City of North Vancouver	New Westminster	Richmond	Langford
CAC and/or Density Bonusing Target Rates	70% Victoria Housing Reserve Fund 30% community amenities	80% to Community Amenity Reserve Fund 20% to Affordable Housing Reserve Fund.	30% to affordable housing 10% to childcare 10% to public art 50% to general amenities	50% to childcare 38% to community beautification 12% to other amenities.	15% – 26% to affordable housing reserve fund (depending on area) 74% - 85% to general amenity reserve fund

Regardless of the allocation of payments, it is recommended that allocations be revisited frequently to ensure they are meeting and aligned with community priorities.

8.2.4 MARKET CONDITION ADJUSTMENTS AND UPDATES OF TARGET FIXED RATES

A standardized, transparent mechanism should be built directly into the CAC / IH program that outlines how and when target fixed rates / requirements are adjusted. This should include provision for periodic comprehensive reviews, as well as more frequent (likely annual) adjustments. The latter can be based on a customized inflation index that combines various factors of direct relevant to the construction of new market housing, such as unit prices, land prices, and construction costs.

Some municipalities incorporate an inflationary adjustment to improve certainty and transparency for CAC target fixed rate and density bonus rate updates. In the City of Vancouver, these updates are tied to annual construction inflation in addition to annual property value inflation. This implementation program maintains the CAC target rate for in-stream rezoning applications.

Another implementation tool that municipalities use when updating CAC target rates is to gradually phase in CAC rate increases over time. In the City of Surrey, the most recent CAC rate update was phased in over a two-year period.

Inflationary adjustments are an important tool to consider as market conditions change to ensure CAC rates are regularly being updated in a transparent way that continues to capture amenity contribution potential from developments. In addition, phasing in CAC rate updates gradually is one approach to allow in-stream applications to be exempt from any pending changes.

Overall, consistent updates are required to maintain CAC programs and keep targets and amenity requirements relevant. Ideally, this can be timed to coincide with other development fee and rate changes (i.e., DCC updates), and be every 2-3 years for minor updates and every 5-years with major updates. This would reduce developer uncertainty by coordinating changes to fixed development fees related to both CAC and DCC.