Mulholland Parker
Land Economists Ltd.

To: Jarret Matanowitsch,
Director of Planning and Building Services
District of Central Saanich

RE: Impact of Proposed Rezoning on Property Values

Mulholland Parker Land Economists Ltd. (MPLE) has been retained by the District of Central Saanich (the Client) to provide economic analysis of the District's proposed upzoning of certain properties in Saanichton and Brentwood. The task was to determine the effect of the proposed upzoning on property values, specifically whether they would increase or decrease and by what amount.

Specifically, MPLE was to identify the increase or decrease in land value from the upzoning and relate that as an absolute number for the specific sites as well as a more general estimate of the change in value on a per acre metric.

The sites identified by the District for study were:

- Four lots with OCP land use designations of Commercial Mixed-Use in Saanichton (Site 1) and,
- Four lots with OCP land use designations of Residential Multi-Family in Saanichton (Site 2).

Both Sites would be permitted under current Zoning to be developed as Small Scale Multi-Unit Housing (SSMUH) under new Provincial guidelines and the District has indicated a maximum density of 0.75 FSR

Site 1 in total is 28,847 square feet, or 0.65 acres in size. The assessed value for the four properties is $2.641 million for land and $1.148 million for improvements (a total value of $3.789 million). Modeled as SSMUH the land value supported is $3.202 million. The land is identified by the District for future use as mixed residential and commercial use from 2.5 to 3.0 FSR.

Site 2 in total is 28,326 square feet, or 0.66 acres in size. The assessed value for the four properties is $2.432 million for land and $1.207 million for improvements (a total value of $3.639 million). Modeled as SSMUH the land value supported is $3.265 million. The land is identified by the District for future use as residential use up to 2.0 FSR.

Methodology

For the financial analysis MPLE has used a standard developer proforma wherein estimates of revenues and costs are inputs and the remaining variable is the desired output. In typical proformas this output is usually profit, following a revenues minus costs equals profit formula.

For a residual land valuation, however, an assumption on developer's return needs to be included in order to leave the land value as the variable to solve for. For these analyses MPLE has determined the residual value based on the developer achieving an acceptable profit of 15%

on total project costs (calculated as a representative portion of overall project costs for the proposed development) for the strata component of the project. The residual values are the maximum supported land value a developer could pay for the site (under the density and conditions tested) while achieving an acceptable return for their project.

The residual land value determined from this analysis is then compared to the value of the site either as indicated from the assessed value or to the supported value if developed under current Zoning. The relatively high value of improvements suggest that redevelopment is not imminent, as approximately 1/3 of the total cost to acquire the sites would be improvements that would need to be demolished before redeveloping. MPLE has instead focused on the supported residual value that could be paid based on redevelopment as SSMUH for comparison to the upzoned uses being tested.

Results of Analysis

Please note that these analyses are being done during a time when development is facing significant difficulties with rising costs, uncertainty about the market, and a decline in the number of qualified purchasers for new residential construction. When market conditions improve,, it is likely the values for the upzoned lands will increase compared to SSMUH values.

Site 1 supports a value of $3.738 million when modelled as a 3.0 FSR mixed use building. This assumes a 5 to 6 storey building with retail at grade. Parking has been modelled as a parking structure, primarily above grade.

Site 2 supports a value of $3.805 million when modelled as a 2.0 FSR strata residential apartment building. This assumes a 3 to 4 storey building with a parking structure, primarily above grade.

	SSMUH	Mixed Use	Increase
Site 1	$3,201,812	$3,737,587	$535,775
	SSMUH	**Strata**	**Increase**
Site 2	$3,265,442	$3,804,679	$539,237

Both sites rise in value from the increase in density and changes in permitted uses as modelled in the analysis. However, as we note, the change to requiring underground parking could erode all of this increase in value in both sites.

Nonetheless, using the results from the analysis we can report that there is an expected increase in land value for the sites in the neighbourhood of $815,000 to $825,000 on a per acre basis (roughly $18.70 to $18.90 per square foot of land).

This is not unexpected. An increase in density will typically result in a higher bid price for a piece of land for development, assuming market conditions are favourable for development at that density. There are means of managing that increase in land value through policies that include

requirements for inclusionary housing, underground parking, or funding for amenities as part of the increased density that would be as of right.

I trust that this will be of use to the District and look forward to discussing the memo at your convenience.

Yours truly,

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