MEMORANDUM

DATE: August 17, 2022
TO: Paul Simon, Lead Planning and Development Services, City of Revelstoke
CC: Matt Thomson, Community Housing Lead, Urban Matters CCC
FROM: Justin Barer, Lead, Land Economics, Urban Systems
FILE: 0543.0088.02
SUBJECT: Summary of Financial Analyses for Select Areas in City of Revelstoke

1.0 INTRODUCTION

This summary memorandum outlines findings from financial analyses prepared to test development concept viability at various areas of Revelstoke. This work was prepared as part of the Revelstoke Housing Action Plan, to inform questions of rental housing viability (market and non-market) and policy discussions on long-range land use planning and strategic City-owned lands. Pro forma financial analyses were prepared for various areas of the City, including a test of affordable rental and ownership housing on the City-owned "Oscar Lands."

2.0 FINANCIAL ANALYSIS SUMMARY RESULTS

2.1 PHASED DEVELOPMENT ANALYSIS

First, financial analyses were prepared to analyse the viability of a phased master-planned neighbourhood, which would include a mixture of residential typologies (detached, duplexes, rowhouses, low-rise apartments), a small neighbourhood-oriented commercial area in a mixed-use form, and underground parking. The analysis assumed that lands would be serviced and then sold to one or more developers or builders, and would be built out over a period of approximately 7 years. Servicing costs (Class D estimate) were provided to USL by the City of Revelstoke and were current as of July 2021. It was assumed that all servicing would need to be completed prior to the sale of any lands to builders.

The findings from this analysis were as follows:

- Based on the assumed development concept, including shared underground parking, the projected revenues from the sale of serviced land parcels would be insufficient to cover the costs of up-front infrastructure.
- Viability may be achieved through some combination of additional density and reduction or elimination of underground parking
- The City should ensure that, within the context of enabling the emergence of a new neighbourhood, there is a financially-viable neighbourhood plan in place that would serve as a guide for future development proponents and a framework for development application review.

2.2 DOWNTOWN DEVELOPMENT ANALYSIS

A second set of financial analyses were prepared for a hypothetical half-acre lot within the Revelstoke downtown core, assuming C-1 zoning. The goal was to test the viability of mixed-use development at different densities, and the ability for development to make cash-in-lieu density bonusing contributions.

The findings from the financial analysis were as follows:

- At a base density of 24 units per acre, a project consisting of 100% market ownership condos would not be able to support a land value that is higher than the typical value of downtown C-1 parcels.
- At 61 units per acre, a project could support a residual land value that is higher than current land values, and have sufficient 'land lift' to create opportunity for cash-in-lieu density bonus payments of $8-$12 per incremental square foot (or $9,000 to $14,000 per incremental unit).
- At 81 units per acre, the same type of project would again be viable, and generate sufficient 'land lift' to create opportunity for density bonus payments of between $18 and $26 per incremental square foot.

The C-1 zone offers an opportunity to build a density bonusing structure that will achieve cash-in-lieu contributions through the creation of new market condominium housing downtown. However, we recommend conducting further financial analysis before settling on a reasonable rate structure. Small pro forma changes can have dramatic impacts on the degree of land lift, and thus the ability for a development to make density bonus payments.

2.3 OSCAR LANDS ANALYSIS

Financial analyses were prepared for a hypothetical apartment building of around 77,000 gross square feet (about 73 units of 900 square feet each on average), on a 38,610 square foot parcel of the City-owned Oscar Street lands. The financials were prepared under the following sets of conditions:

1. As a 100% strata apartment, with prices at about half of current downtown market prices
2. As a 100% rental apartment, with 40% of units rented at market rates and 60% rented at rates commensurate with low to moderate household incomes ($40,00 to $60,000 per annum)
3. As a 100% rental apartment, with 30% of units at market rents, 50% at rents set by the housing income limits (HILS) for Revelstoke, and 20% at deep subsidy shelter rates for 3-person households. This scenario also assumes equity investment by a third-party of $100,000 per unit (with no return requirements), and preferential financing for both construction and take-out.

Results of the analyses were as follows:

- The **non-market strata ownership** scenario, with units selling at $415 per square foot ($373,500 per unit) would not yield sufficient revenue to offset construction costs and development fees, even with free land and no developer profit.
    - If the project were offered a 50% DCC waiver and unit prices increased to $396,000 per unit, the project would be viable
    - Similarly, if the project were offered a 100% DCC waiver and prices were set at $387,000 per unit, the project would be viable.
    - If no DCC waiver were offered, prices would need to be pushed just over $400,000 per unit for a viable project.
    - All of the above scenarios assume no developer profit, free land, and the ability to construct units at just under $310,000 per unit all-in ($380 per square foot)
    - The contribution of city-owned land in service of delivering affordable home ownership units to those earning moderate to above moderate incomes would, while not directly achieving deeply

affordable homes, would nevertheless contribute toward improving the overall health of the housing system in Revelstoke

- By providing home that could be sold for $400,000 to $520,000 per unit, an opportunity for home ownership would be opened to those that would not otherwise have this opportunity.
- Some of those households may not have been retained within, or attracted to the community in the absence of those options
- Further, the movement of some of these households into these units will free up other housing stock, thus facilitating movement within the overall housing system.

- The **Market and non-market rental apartment** scenario (40% market, 60% non-market) assumes market rents of about $2,700 per month and non-market rents of about $1,035 per month.
  - Under a 'build-hold-operate' scenario, a project that mirrors the market strata ownership project in scale and cost would be considered borderline viable, insofar as it could pay its annual operating costs and mortgage payments.
  - This viability assumes a per-unit equity contribution of $90,000 (or $6.7 million in total), with no expectations of return on equity.
- The final market / non-market rental scenario, with 30% market, 50% non-market (at HILS rates) and 20% deep subsidy, with a $100,000 per unit equity contribution and favourable long-term financing, shows a potentially viable project. However, this initial modelling does not account for the potentially much higher operating costs for deep subsidy units.
- The above 3 scenarios show that, with the contribution of free land and a non-profit developer, both ownership and rental affordability can be delivered at scale on the Oscar Lands. It also shows that, even under those conditions, the costs of construction are such that the levels of affordability may not be as deep as perhaps assumed.
- Within the market and non-market scenarios, we see that one of the keys to delivering a viable project is up-front equity with low to no return expectations.

2.4 INFILL MULTIPLEX ANALYSIS

The final scenarios that were run tested a hypothetical single family infill lot that is purchased and converted into a plex style of housing (e.g., 4-plex). Only one pro forma was completed for this typology, modelling a 7,000 square foot 4-plex with 1,800 square foot units on a 9,000 square foot lot or lot assembly. Unit prices were assumed to be $900,000, while initial lot purchase price would likely be in the range of $1.0 to $1.2 million

Based on prevailing construction costs and developer return expectations, we found that a 4-plex project would support a land value of around $1 million, which would be considered marginally viable. If unit prices were higher (e.g., $1 million sales price per plex unit), then the project would be quite viable.

Overall, it appears that this type of infill development could be challenging to deliver, unless there is sufficient scale of development such that developers are willing to build with lower than usual return expectations, and if construction costs can be reduced through scale, standardization, and streamlined approvals.

Sincerely,

URBAN SYSTEMS LTD.

Justin Barer, M.Pl., RPP, MCIP
Lead – Land Economics

cc: Matt Thomson, Community Housing Lead, Urban Matters CCC

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