

GARNETT

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**So You're
Negotiating
a Taking in a
Declining
Residential
Market...**

Current Factors Affecting Residential Development Land Values in Greater Vancouver



LOWER GROSS
PROCEEDS



HIGHER
DEVELOPMENT COSTS



MUNICIPAL APPROVAL
UNCERTAINTY

The Basics: The Development Proforma

Gross Proceeds of a Project

Less: Development Costs

Less: Developer's Profit

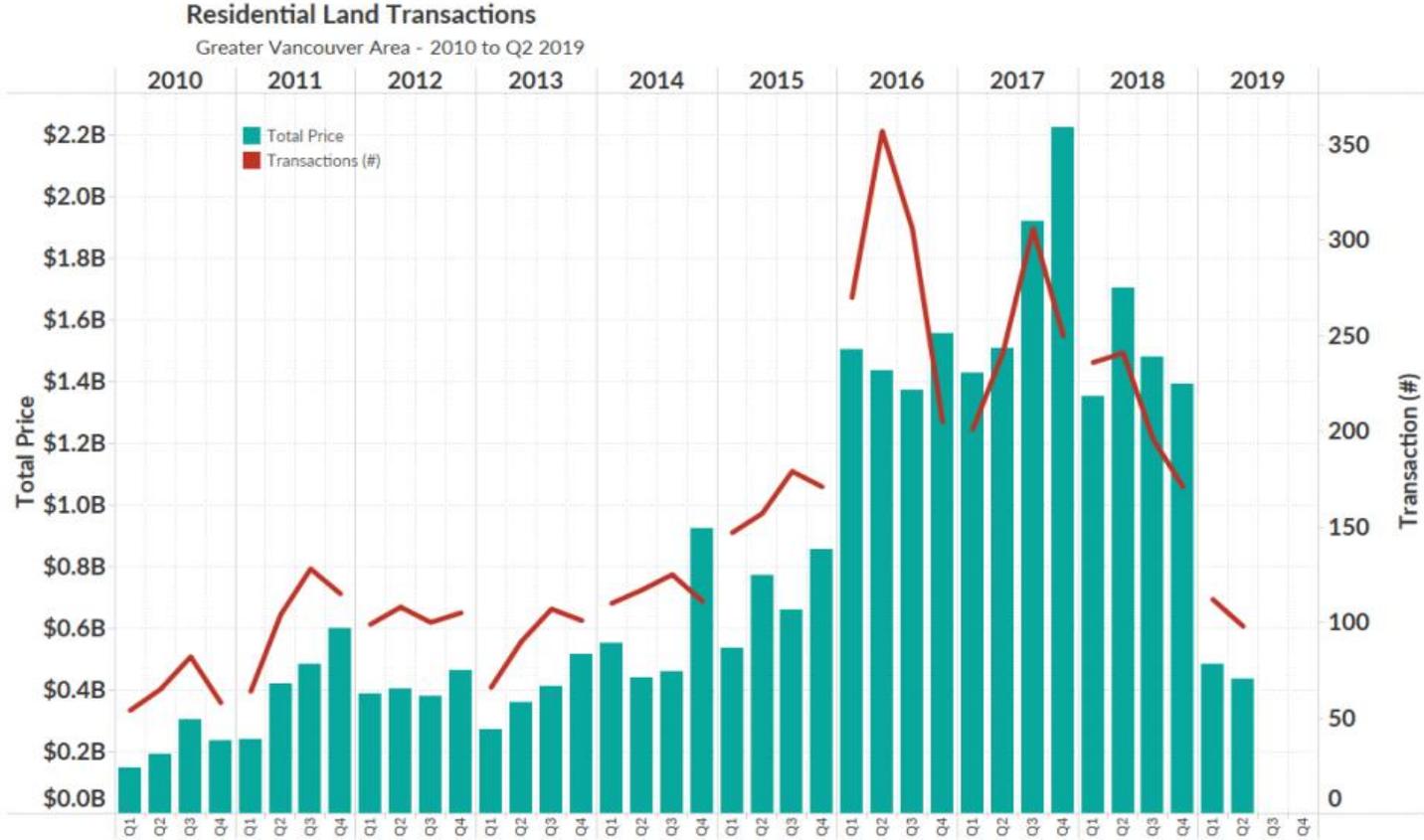
= Land Value

Lower End Unit Revenue

When end unit values are increasing, all else being equal, land values will rise.

Conversely, when end unit values fall, land values will fall.

Residential Development Land

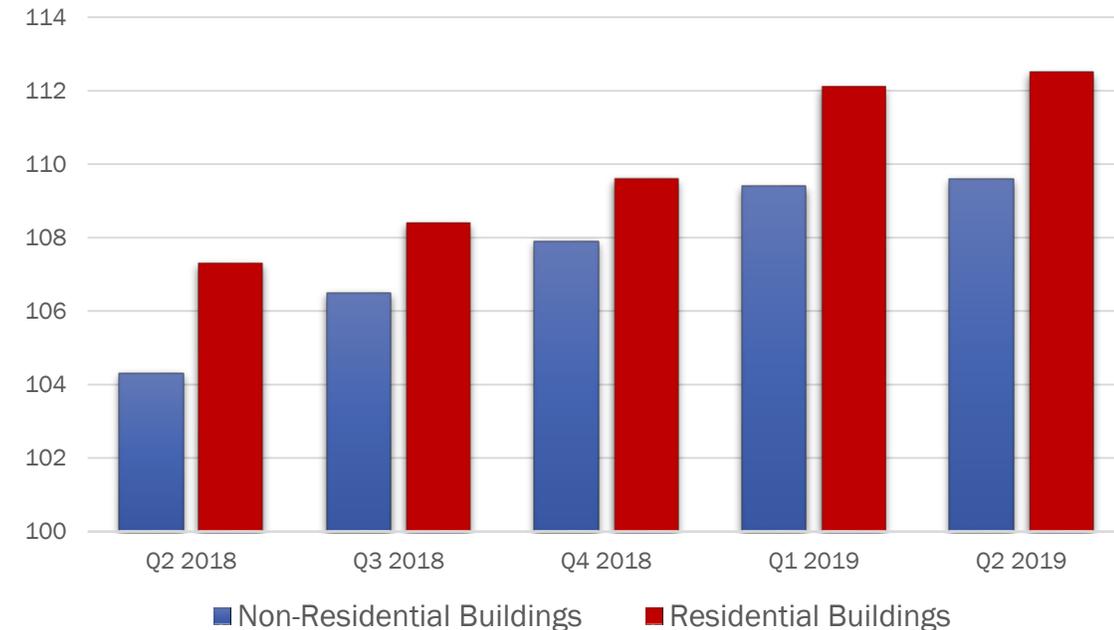


Source: Realnet

Rising Development Costs

- Construction costs increased in 2019.
 - 4.9% increase in residential costs and 5.1% increase in non-residential costs in the last year (Q2 2018 to Q2 2019).
 - US steel and aluminum tariffs – now lifted.
 - Limited labour pool – skilled labour hard to find.
- Recent reports that construction cost escalation is easing due to postponed projects and greater availability of labour.
- Development fees from municipalities (Development Cost Charges (DCCs), Community Amenity Contributions etc.).
 - Township of Langley recently increased their DCCs by 75% - 90%, first time since 2012.

Building Construction Price Index
Vancouver CMA



Source: Statistics Canada

Municipal Approval Uncertainty

- Longer development horizons due to longer entitlement processes.
 - Ex. City of Vancouver 2-3 years for project approval.
 - Developers will apply a risk premium to lands without municipal approvals.
- More strenuous municipal requirements for new developments, mostly inclusion of rental housing.
 - Ex. City of Burnaby's new Rental Housing Policy Framework (May 2019)
 - Requires 20% rental housing dedication for new residential projects.
 - 1:1 replacement for any lost rental units to a new development, at existing rents.
 - Density offset provided for projects that dedicate the rental housing component to below market rental housing (20% less than CMHC rates).
 - Applicable to all rezoning/development applications that have not reached Public Hearing, even applications in the advanced stages of the municipal approval process.

Municipal Approval Uncertainty

- Ex. City of Vancouver's Proposed Broadway Plan
 - Launched in 2019 and expected to be presented to City Council in late 2020.
 - Prioritizing new employment generating uses and affordable rental housing.
 - Typical of transit-oriented developments, Broadway Corridor has historically been speculated to see increases in density since 2012.
 - Moratorium on new rezoning applications resulting in a 'wait and see' approach among investors.
 - Market evidence demonstrates peak 2018 values along Broadway Corridor at $\pm\$550$ to $\pm\$600$ /buildable sq.ft., now at $\pm\$400$ - $\pm\$475$ /buildable sq.ft.
- Potential application rejection, even at advanced stages of the municipal approval process.

Examples of Unsuccessful Rezoning/ Development Applications

- District of North Vancouver City Council reversed their predecessors' decision and rejected Boffo's townhouse development in Edgemont Village at 4th Reading.
 - New City Council rejected on the basis that the Townhouses were not deemed affordable (\$1.5m/unit).
- City of White Rock's downzoning of the Lady Alexandria Project from 12 to 6 storeys after rezoning achieved for residential/retail building.
 - Lawsuit subsequently filed with Supreme Court of B.C. alleging the City breached an obligation of procedural fairness.
- Beedie's Keefer St. Chinatown development rejected by the Development Permit (DP) Board.
 - City staff, the Urban Design Panel and the Development Permit Advisory Panel all recommended issuing the permit.
 - Lawsuit subsequently filed in the Supreme Court of British Columbia seeking an order to set aside the DP Board's refusal and an order to grant the permit, or an order compelling the City "to specify precisely what changes must make so that a DP will be granted."



Developer's Profit

- In theory, all these risk factors should lead to a higher expectation of developer's profit.
- Higher risk = higher return.

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