

VIA EMAIL

16 July 2014

Andre Boel, RPP
Director of Planning
Town of Gibsons
474 South Fletcher Road, Box 340
Gibsons, B.C. V0N 1V0

Dear Mr. Boel:

Re: Review of Community Amenity Contributions and Review of Municipal Costs and Revenues for Proposed George Hotel and Residence, Gibsons

As you requested, I have completed a review of the proposed mixed use waterfront development project in Gibsons that is called the George Hotel and Residences. The developer is seeking rezoning and as part of the review of the application the Town of Gibsons has asked me to provide an opinion as to what would be a reasonable Community Amenity Contribution (CAC) given the nature of the project. The Town has also asked me to provide a high level review of potential municipal costs and revenues associated with the proposed rezoning to see if there is any significant risk that the development would impose a material financial burden on the Town.

As an input to my review, the developer has provided to me project information (mainly of a financial nature) that the developer considers confidential. The information was provided on the understanding that I would not include the confidential material in my written opinion. As agreed with the Town, I have drafted this letter so as to communicate my findings without disclosing anything confidential. The information provided to me by the developer is a financial analysis of the proposed development, dated 7 March 2014, prepared by Omicron on behalf of the owner, as well as some subsequent information provided by Omicron in telephone conversations and email. I understand that there was an earlier financial analysis prepared by GP Rollo & Associates. I was not given a copy of this, but I am advised by the Town that it is not consistent with the current development proposal and is probably not relevant.

1. REVIEW OF COMMUNITY AMENITY CONTRIBUTION

The Basis for Community Amenity Contributions in BC

In BC, there are two broad means of obtaining CACs from development projects that are seeking rezoning:

- Via a **density bonus bylaw**, in which a local government rezones property to provide for a base density, which can be developed without a CAC, and supplemental density which can be obtained in exchange for providing a prescribed amenity or affordable housing contribution. The Town is not using this approach for the George project, which is seeking rezoning into a Comprehensive Development district in which the allowable uses and density will be set to match the proposed development concept.
- Via **negotiations with a developer seeking rezoning** who provides a voluntary amenity contribution. The premise underlying such negotiations is that rezoning is discretionary and local governments should consider whether a proposed rezoning is creating a need for new amenities or impacts on the community that should be offset by a reasonable community benefit. This is the approach the Town is using for the George proposal.

There are different approaches commonly used in BC to gauge the nature and value of an appropriate CAC. One common approach (that is recommended by the Province) is to gauge whether the project will have any impacts on the surrounding area or community that could be ameliorated by a CAC, whether the project will put a load on existing amenities that should be addressed, or whether the project is in a unique position to provide community benefits that are appropriate under the circumstances. The Province recommends that municipalities do not simply seek a CAC on the premise that rezoning creates an increase in land value, although the Province does acknowledge that financial analysis can be a useful input to determining whether a target CAC is reasonable.

Proposed Development

The proposed development has these features:

- 40 residential units of which 4 are proposed as affordable units to comply with municipal policy.
- A hotel with 118 rooms, conference facilities, spa, pools, and other amenities.
- Marina.
- Retail and restaurant space.
- Underground parking.
- New public waterfront walkway along the shoreline.
- A new pier which will be partly publicly accessible (with the other part presumably private for the use of hotel and marina customers).
- Retail and restaurant space.

Proposed Amenity Contributions

The project proposes to include four affordable housing units.

The Town has advised us that the developer is proposing to make these units available as rentals for hotel staff, but the developer's financial analysis as provided to us indicates that the units will be sold. Based on the developer's financial analysis, there will be two units of 480 square feet priced at \$240,000 each and two units of 500 square feet priced at \$250,000 each. We understand that the Town has previously accepted units priced at \$240,000 to be considered affordable, so it may be appropriate to negotiate these prices down by a small amount, although it should be noted that the developer may respond by simply making the units a little smaller to achieve a price below \$240,000.

It is possible that the developer intends to sell the units, at the indicated price, to an investor who would then rent the units. If it is important to the Town that these be rental units, the Town should discuss this point with the developer and seek assurance that the units will be rentals.

Whether they are rental units or sold at/near \$240,000, it seems reasonable to us to conclude that these units can be considered affordable relative to the market price of the larger units in the project. Note that if the Town decides to not consider these units affordable, there is no financial "room" that could be freed up to support some other amenity. The unit pricing for these units is moderate because the units are small, not because the developer is assuming they will sell for a below-market price.

The project also proposes to contribute provide \$100,000 for improvements to Winegarden Park. We have not seen a concept plan for the Park, so we do not know if this amount is sufficient to make any significant change to the Park. We also do not know if the construction of the proposed development will have an impact on the Park. We recommend that the Town require the developer to make good any damage to the Park that is caused by construction and that any cost related to this should be in addition to the \$100,000 contribution for enhancements.

The inclusion of this as a cost in the developer's pro forma indicates a willingness and ability to provide \$100,000 for amenity that is not on the development site. Therefore, if there is another amenity project (of similar cost) that is more important to the Town (or if the full amount of the \$100,000 is not needed for Winegarden Park), then the Town should discuss this point with the developer.

The project also includes a new waterfront walkway and pier that are integral to the development of the hotel and marina. The walkway and part of the pier will be accessible to the public so, while they are not identified by the developer as a Community Amenity Contribution per se, the community will enjoy the benefit of this significant waterfront amenity.

Ability of the Project to Sustain a Community Amenity Contribution

We have reviewed the financial analysis of the proposed development, as supplied by the developer. We have conducted an independent review of the major assumptions in the developer's financial analysis and we have reached the following conclusions:

- The developer's estimate of selling prices for the residential units is reasonable and possibly on the high side.
- The assumed hotel rates are reasonable for peak season but may be on the high side for off-season.
- The assumed occupancy rate in the hotel is reasonable (based on the general performance of other high quality hotels, but we have not conducted a demand analysis).
- The assumed lease rates for commercial space are reasonable and possibly high.
- The developer's estimate of project costs is reasonable and possibly low.
- The developer has included a cost for the purchase of the land, based on a price that is consistent with current assessed value, so the developer has not built into the analysis any significant lift in land value to accrue to the existing owner. To the extent that the land value created by rezoning is a consideration in evaluating the ability of a project to provide a CAC, it is appropriate to use the current market value under existing zoning as the basis for determining whether the rezoning is creating a land value gain. The fact that the owner/developer may have acquired some or all of the land earlier, when land values were lower, is not relevant because the ability to pay for a CAC is derived from the creation of new land value above the existing value under existing zoning.
- The calculated developer's profit is reasonable for the residential component of the project and is modest for the hotel.

In summary, in our view the proposed development does not have any significant financial capacity for providing additional CAC, beyond the proposed affordable housing units, waterfront improvements, and \$100,000 for open space improvements already included in the proposal.

If the Town wants to seek additional benefits, we recommend focusing on any ways in which the design can be improved to address any concerns and ways to increase public access to waterfront portions of the project, rather than seeking any additional benefits that would add to project cost.

Impacts of the Project

We have not completed a detailed impact assessment of this project, but we have some high level observations.

The benefits of the project appear to include:

- New tourism infrastructure. By providing a high quality waterfront hotel, this project should draw new tourism dollars to the community. While some of the hotel's business would otherwise have been captured by other properties (i.e. a transfer of tourism dollars rather than new dollars), the creation of a much higher quality project should result in a net increase in the tourism sector of the local economy.

- As a result of the new spending, a net gain in local employment.
- Public access to the waterfront that would not be available if the site is developed under existing zoning.
- Public realm improvements (Park contribution, waterfront walkway, pier).

With only 40 residential units, the project is not likely to impose any significant impact on local amenities and infrastructure (e.g. community facilities, recreation facilities). Buyers will likely be affluent (and some may be only part-time residents) and the project includes some amenities that will be available to residents as well as hotel guests, so there is not likely to be much impact on the Town's existing amenities that would warrant an offset in the form of additional CACs.

Conclusions

We recommend not seeking further CACs from this project. The Town may want to refine the terms governing the four affordable housing units, seek ways to enhance public access to the waterfront, secure a commitment to address any impacts on the adjacent Winegarden Park, and discuss whether the Town prefers to spend the proposed \$100,000 on Winegarden Park improvements or some other amenity project of similar cost, but we do not see any compelling reason to seek a larger total package of public benefits associated with the rezoning.

2. REVIEW OF MUNICIPAL COSTS AND REVENUES

For this review, I consider the following factors:

- Municipal property that is included in the project.
- Servicing costs to be paid by the project.
- Property tax considerations.

Municipal Property

The development site includes the proposed closure (and acquisition by the developer) of a portion of the Winn Road right of way that extends from Gower Point Road toward the waterfront. The private lots being assembled for the development straddle the road, so the developer is proposing consolidating the road and the lots into a single development site.

The road allowance has an appraised value of \$425,000 (appraisal by D.R. Coell Associates for the Town). We are advised that the Town and the developer have not yet negotiated the terms of the road closure and ownership transfer.

The Town will not be taking any new road dedications as part of the development. However, the Town will be seeking a statutory right of way over the sea walk, for public access, being built along the waterfront edge of the site.

We assume that the Town will sell the road allowance to the developer for market value and then negotiate the statutory right of way for the pedestrian path at no cost. This aspect of the project would, therefore, be a net gain to the Town. There are restrictions on what the Town can use the sales proceeds for. According to the Community Charter, the funds are to be used to acquire other property that the Council considers will provide waterfront access that is of at least equal benefit to the public. So, it will be necessary for the Town to set these monies aside in a reserve, pending identification of an appropriate opportunity to acquire new waterfront access.

Servicing Costs

The developer's financial analysis for the project assumes payment of required Development Cost Charges¹ (DCCs), so the Town will receive the appropriate contribution to off-site infrastructure.

The Town has given the developer a detailed list of required servicing upgrades and improvements (in a letter dated 10 March 2014). The developer has not responded, but if the project funds the listed works then the municipality should not absorb any capital cost. In fact, the municipality will have a net capital benefit, as some of the works that will be funded by the development will benefit other properties or reduce the need for Town capital expenditures, including:

- Improvements to Gower Point Road along the frontage of the site (that would otherwise have to be funded by the Town) as well as improvements that extend beyond the frontage of the development site, which would also otherwise have to be funded by the Town.
- Upgrading the water line along Gower Point Road and beyond the frontage of the development site, which would otherwise have to be funded by the Town.
- A sanitary sewer lift station that would benefit other properties, which might otherwise be funded by the Town.

We understand that the developer has not yet responded to the Town's servicing requirements, so the Town should seek a response. Our conclusions would change if the developer does not provide the suggested works.

Property Tax

The proposed development will include a hotel component, a residential component, and a small commercial component embedded in the residential project.

Based on the financial information provided by the developer, the hotel is to be operated as a commercial hotel property, not a time-share. Accordingly, we have estimated property taxes assuming a hotel. Commercial properties of this type are valued, for assessment purposes, by estimating the future annual net operating income (from all sources including hotel rooms, food/beverage, and in this case the marina) and then capitalizing this based on the rate of return required by investors in this type of commercial income-producing asset. If the developer structures the property as a residential time-share, and if the property is therefore assessed based on residential value and taxed as a residential property, the property taxes would be different. We have based our estimate on the information provided, which indicates hotel operation.

The table below provides an estimate of the total market value of each component upon completion, an estimate of the annual property taxes based on current tax rates in Gibsons, and a comment on whether the project is likely to be a net fiscal gain or loss based on future municipal costs to serve the development. As indicated in the table and associated footnotes, we have included a range because we regard some of the developer's numbers as optimistic. Note that if the hotel property does not perform as well as estimated, the property tax revenues to the Town will be lower. However, commercial properties are almost always a net fiscal gain for local government, as they tend to consume less municipal services than residential properties and they are taxed at a higher rate. Even if the hotel performance is less than forecast, it is highly unlikely that the property will become a net fiscal cost (i.e. annual servicing costs exceed tax revenue) to the Town.

¹ Development Cost Charges are charges levied on new development to help pay the cost of community-wide infrastructure (water, sewer, roads, drainage, park land) needed to accommodate growth. DCCs apply to all development projects and the rates are prescribed in a municipal bylaw. The rates are not negotiable.

Component	Estimated Market Value ¹	Town of Gibson's 2014 Property Tax Rate (Municipal Portion Only)	Estimated Annual Municipal Taxes (Rounded) ²	Impact on Town Operating Costs
40 Units Multifamily Residential	\$23.1 million to \$25.7 million	\$2.1825 per \$1,000	\$50,000 to \$56,000	Multifamily units will probably be occupied by older, affluent residents some of whom will be part-time residents. Not likely to put a significant load on municipal services. Because these residences are relatively high value, this will likely have a better financial outcome for the municipality than typical apartment projects in the community.
5,460 square feet Commercial Space in Residential Project	\$1.5 million to \$1.8 million	\$6.1678 per \$1,000	\$9,000 to \$11,000	Commercial development tends to be a net fiscal gain because of the relatively high tax rate (6.1678 compared to 2.185 for residential) and tends to put a lower burden on municipal services than residential development. Likely a net fiscal gain for the Town.
Hotel (including marina)	\$40 million to \$45 million	\$6.1678 per \$1,000	\$247,000 to \$278,000	Same as above.
Total	\$64.6 million to \$72.5 million	n/a	\$306,000 to \$345,000	This project is likely to have a net positive fiscal impact on the Town.

Notes:

¹ The upper end of the range is based on the developer's estimates. The lower estimate reduces these figures by about 10% because we regard the developer's estimates as high.

² Does not include the school, regional district, or other non-municipal portions of total property tax.

Because some of the business at the hotel will likely be transferred from other existing hotel/motel properties in the area, it is possible that some of the commercial tax gain from the development will be offset by reduced taxes from existing properties if their values fall due to reduced income. However, if the transference of business is spread over multiple properties, it is possible that assessed values will not be sufficiently sensitive to small changes in net operating income to actually show a reduced assessed value. As well, some of the new hotel's business will be a net increase in total occupied room nights because this facility will provide a higher quality of accommodation and meeting space. So, on balance, the hotel will almost certainly make a net positive fiscal contribution to the Town.

Conclusions

Assuming the developer pays market value for the road allowance to be closed and assuming the developer provides the servicing upgrades the Town has proposed, this project will likely have a net positive fiscal impact on the Town, both in terms of capital funding and ongoing operations.

3. SUMMARY

The proposed project is providing the following benefits:

Affordable housing	4 units
Cash contribution to public open space (the developer proposes improvements to Winegarden Park but the municipality may prefer some other amenity at similar cost).	\$100,000
Other amenities	Publicly accessible waterfront walkway and pier.
Property tax revenue	Net fiscal gain (i.e. tax revenue will exceed municipal costs).
Servicing upgrades	In front of property and beyond.
DCCs and sewer lift station	Appropriate contributions to off-site servicing.

The project will almost certainly make a net positive fiscal contribution to the municipality. The project is providing affordable housing units and attractive waterfront amenities. In our view, the project does not have the financial capacity to provide a larger CAC package.

Yours truly,

CORIOLIS CONSULTING CORP.



Jay Wollenberg