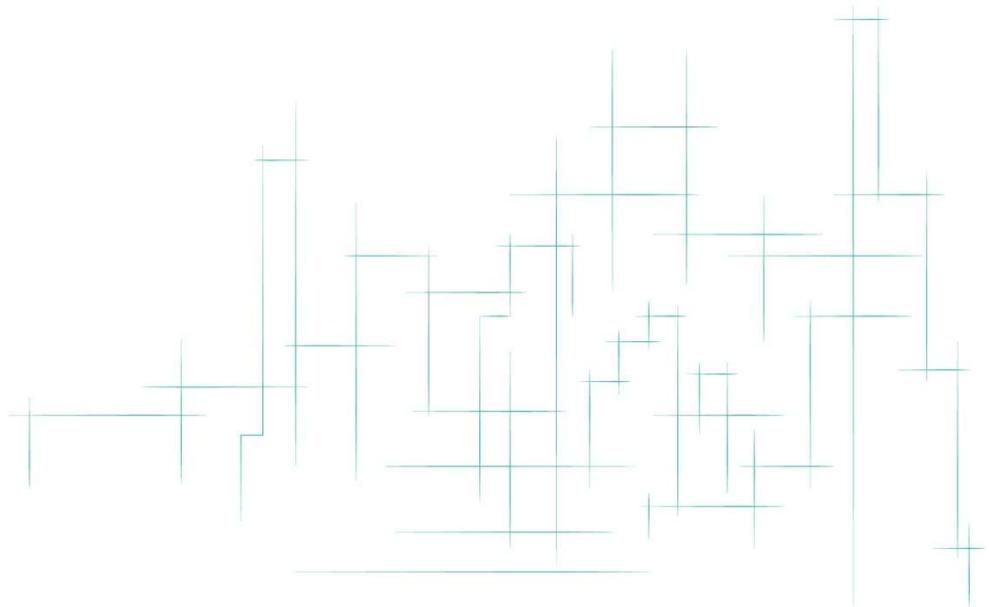


Market Research & Financial Analysis Report

For: Town of Gibsons

May 2024



THIS PAGE LEFT INTENTIONALLY BLANK

Table of Contents

1	Introduction	4
2	Long-term Trends.....	5
2.1	Population	5
2.2	Seniors	6
2.3	The Gibsons Housing Market.....	8
3	Recent Trends and Current Market Conditions.....	9
3.1	Inflation and Interest Rates	9
3.2	The Supply Side.....	11
3.3	The Demand Side.....	12
4	Residential Development Parameters	13
4.1	Unit Size	13
4.1.1	Size of Duplex Units	13
4.1.2	Townhome Size	14
4.1.3	Apartment Size.....	15
4.2	Prices	16
4.2.1	Duplex prices.....	16
4.2.2	Townhome Prices.....	17
4.2.3	Strata Apartment Prices.....	18
4.2.4	Rental Apartments	19
5	Land Lift and Density Bonusing.....	20
5.1	Unconditional Cost Charges (DCCs and ACCs).....	20
5.2	Conditional Density Rules.....	21
5.3	Flat Fee Versus Site Analysis.....	23
5.4	Setting Rates.....	23
5.5	Land Lift	24
5.6	Impact of CACs on Land Value.....	25

6 Methodology and Assumptions 26

6.1 Methodology 26

6.2 Development Scenarios..... 27

6.3 Assumptions 29

6.3.1 Built Form Assumptions 29

6.3.2 Cost Assumptions..... 31

6.3.3 Revenue Assumptions..... 35

7 Results..... 37

7.1 Residual Value and Land Lift Results 37

7.2 Recommendations..... 38

7.3 Affordable Housing..... 39

1 Introduction

Mulholland Parker Land Economists (MPLE) has been retained by the Town of Gibsons (the Town) to perform market research and financial analysis pertaining to residential and mixed-use development economics as part of the Town's current effort to review and revise its Official Community Plan (OCP) and Zoning Bylaw.

The aim of this research is to identify the impact of adjustments to permitted density on *residual land value* which is the land price that a developer could afford to pay for a property while still achieving a suitable level of project performance. Identifying the relationship between density and residual land value is essential for understanding the capacity of development to provide community amenities in exchange for density increases, otherwise known as "density bonusing".

With this objective in mind, MPLE provides the following work program:

- 1) Project kickoff: MPLE has met with Town staff to discuss the project's methodology, data requirements, deliverables, reporting, and timing. We have also reviewed the Town's Zoning Bylaw, Official Community Plan (OCP), Development Cost Charge Charges (DCC) Bylaw, Strategic Plan (2023 – 2027), Housing Strategy, and the Local Area Plans for Upper Gibsons, the Harbour Area, and Gospel Rock.
- 2) Market research: MPLE used online sources as well as interviews with local market experts such as realtors, developers, and builders to gain a nuanced understanding of local residential pricing, sizing, construction costs, and market trends.
- 3) Financial analysis: MPLE created a pro forma financial model looking at a wide selection of parallel hypothetical developments: these developments vary in terms of built form, location, density, and tenure (rental versus ownership).

Each scenario analyzed within this model uses the market research presented in this report to identify project costs, revenues, and timing. The model identifies for each scenario what a developer might afford to pay for the land in order to achieve a standard level of project performance. Land value defined in this way is called residual land value and is the correct basis for calculating appropriate density bonusing rates.

We use this model to identify appropriate density bonusing rates, which may differ by built form and location and also to answer other questions that may emerge during this process, such as estimating the impact of changes to view protection corridors.

2 Long-term Trends

2.1 Population

Figure 1: Average annual population growth over time in Gibsons and British Columbia¹

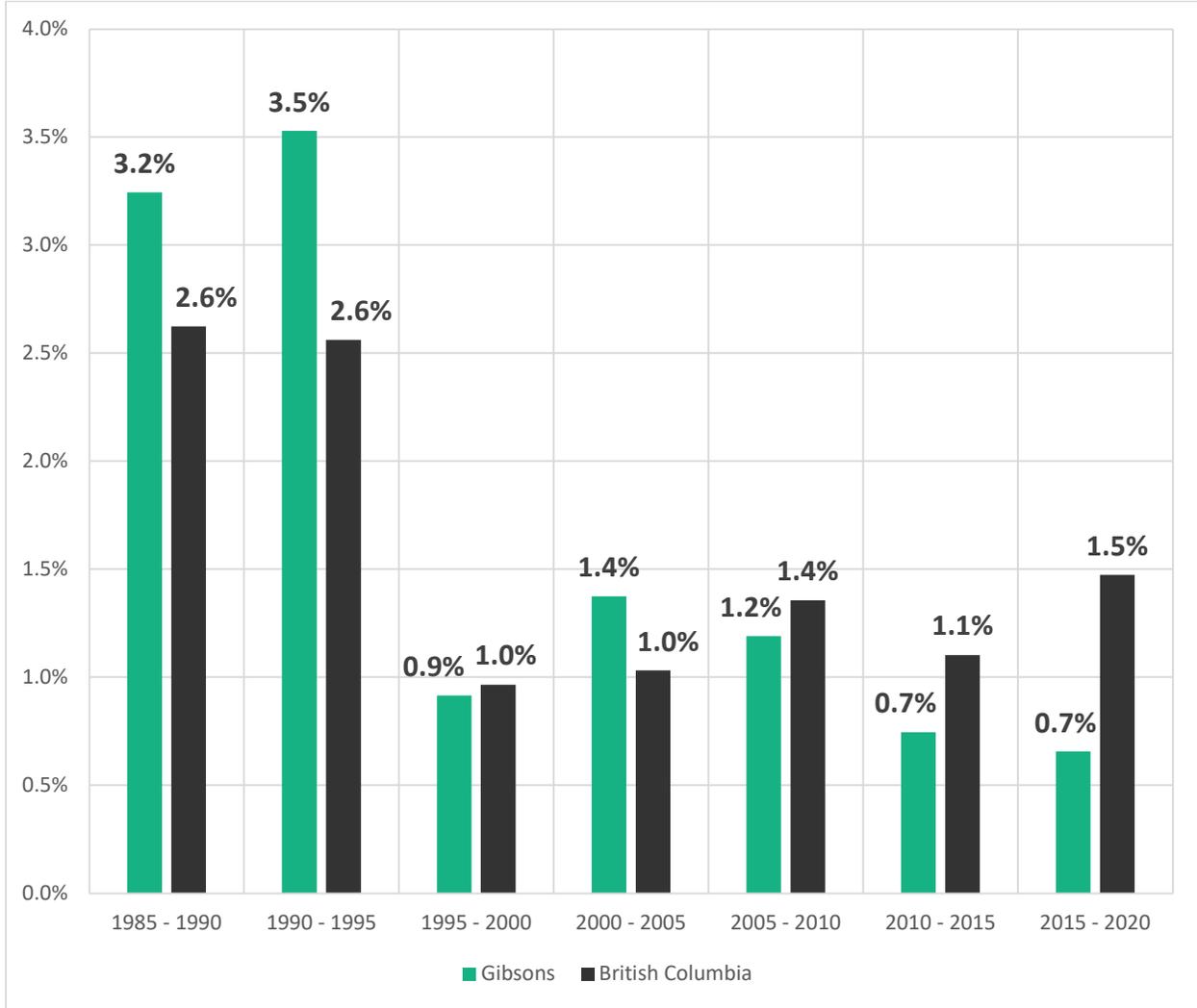


Table 1: Average annual population growth over time in Gibsons and British Columbia¹

Year	Gibsons	British Columbia
1985	2,675	2,883,367
1990	3,138	3,282,061
1995	3,732	3,724,500
2000	3,906	3,907,738
2005	4,182	4,113,487
2010	4,437	4,400,057
2015	4,605	4,648,055
2020	4,758	5,000,879

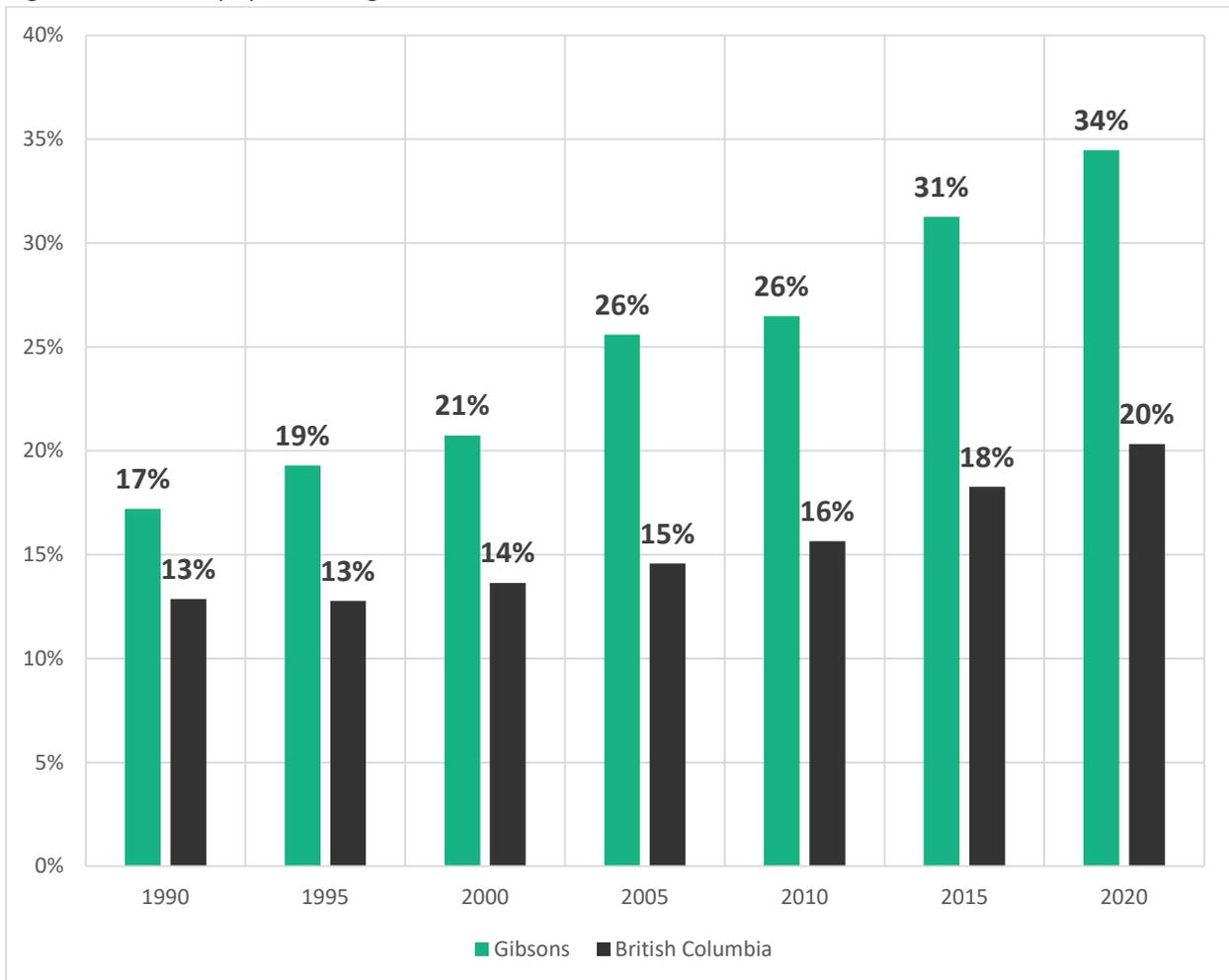
¹ Source: Statistics Canada (1986, 1991, 1996, 2001, 2006, 2011, 2016, & 2021). Census of Canada.

From 1985 to 2020, British Columbia grew in population from about 2.9 million to about 5.0 million, achieving overall growth of 73% over these 35 years or average annual growth of about 1.6%. During the same 35-year period, Gibsons grew in population from about 2,700 to almost 4,800, achieving overall growth of 78% or average annual growth of about 1.7%. The pace of growth in Gibsons has generally been slightly faster than the province as a whole.

Figure 1 above compares the paces of growth in Gibsons and the province during the last seven five-year census periods. The annual pace of growth in Gibsons has generally ranged from a low of 0.7% (achieved in the most recent 2000 – 2020 period) to a high of 3.5% (only achieved in the 1990 – 1995 period). Growth in Gibsons generally outpaced the province from 1985 – 2005 but has generally slowed down since 2005 with each census period seeing slower growth than the last both in absolute and relative terms. Population growth in Gibsons has fallen short of the provincial average consistently and increasingly since 2005.

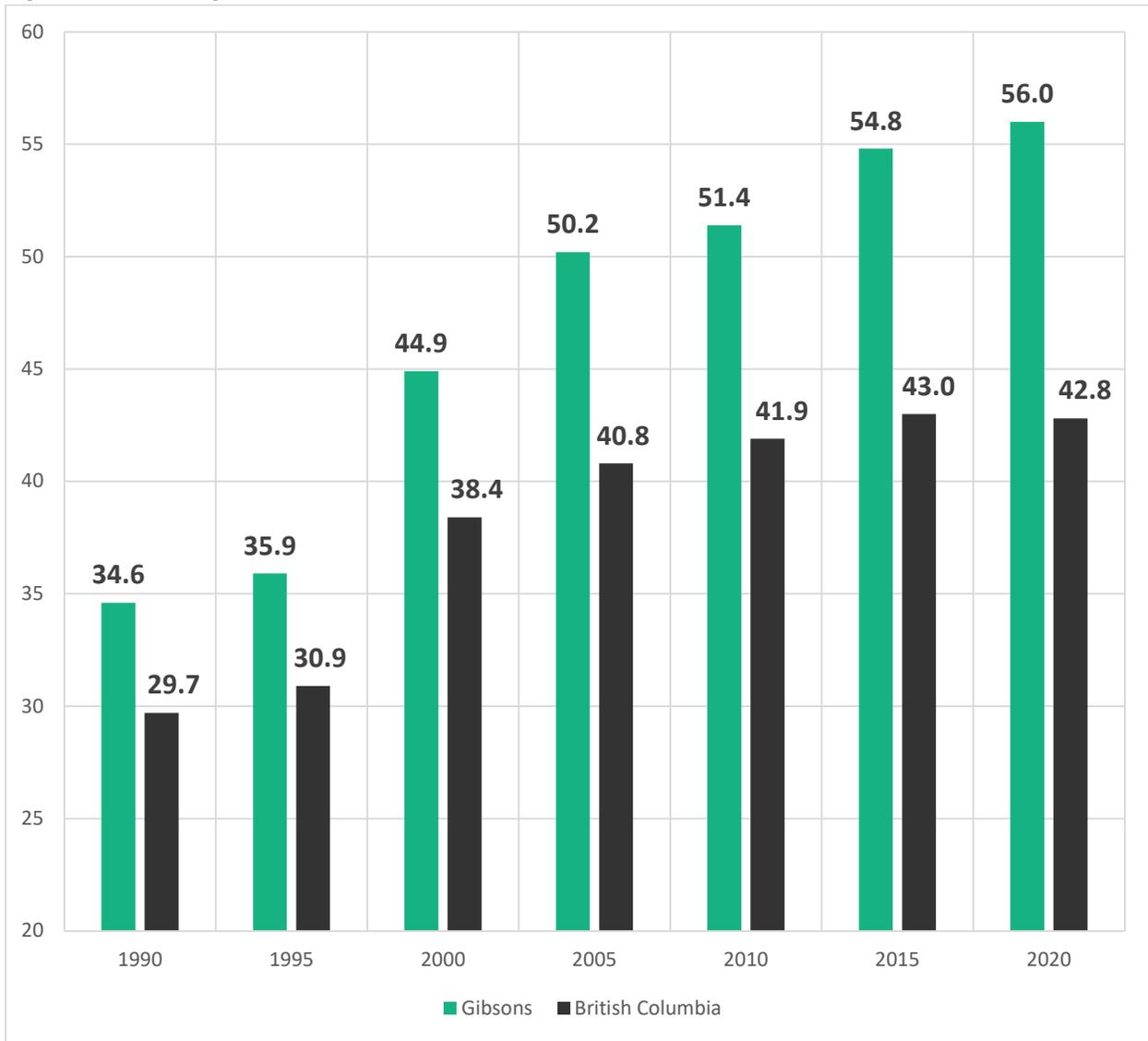
2.2 Seniors

Figure 2: Share of population aged 65+ over time in Gibsons and British Columbia²



² Source: Statistics Canada (1991, 1996, 2001, 2006, 2011, 2016, & 2021). Census of Canada.

Figure 3: Median age over time in Gibsons and British Columbia³



Figures 2 and 3 above show that like much of the developed world, British Columbia aged during the three decades from 1990 to 2020, with the share of population aged 65 or older increasing from 13% to 20% and the median age increasing from 30 to 43 years. Throughout this period, Gibsons had a more elderly population than the province as a whole but it also aged faster than the province, with its share of population aged 65 or older increasing from 17% to 34% and its median age increasing from 35 to 56.

In other words, not only is Gibsons generally a retirement destination within the province, but this status has solidified and intensified over time, possibly as a result of economic specialization and feedback loops: as seniors cluster increasingly in the region, the local economy caters more to their needs and less to those of younger demographics, making the region relatively more attractive to seniors and less attractive to younger demographics. Examples of this dynamic might include the presence of seniors-oriented housing and the relative lack of employment opportunities.

³ Source: Statistics Canada (1991, 1996, 2001, 2006, 2011, 2016, & 2021). Census of Canada.

2.3 The Gibsons Housing Market

Residential pricing and market dynamics on the Sunshine Coast are driven by the Lower Mainland's housing market, typically with some temporal lag: as prices stagnate or rise in Greater Vancouver, the same tends to follow on the Sunshine Coast. This is intuitive, because the Sunshine Coast housing market has always been dominated by purchasers who sell homes in the Lower Mainland to buy more affordable housing on the Sunshine Coast. This demographic has often included retirees and investors.

Of the Sunshine Coast's several sub-regions, Gibsons is the most desirable due to its proximity to the ferry and other services. According to realtors, prices for a given product in Gibsons are:

- 10% higher than in Sechelt
- 15% higher than in Halfmoon Bay
- 20% higher than in Pender Harbour.

Housing in Robert's Creek tends to be pricier than in Gibsons but this is due to the former's larger lots and bigger dwellings rather than geography: a given product in Gibsons would be pricier. Single family housing and more affordable multi-family housing in Gibsons tends to move quickly due to the Town's desirability.

Realtor and developer interviews suggest that a similar product in Lower Gibsons will achieve market pricing 5% - 10% greater than in Upper Gibsons due to better views and proximity to water and services, although in practice the quality of each individual unit's view is very important and varies considerably even within a neighbourhood or placement within a multi-unit building.

Like most of BC, Gibsons has experienced a chronic shortage of housing for many years which has gradually driven prices out of the financial reach of existing and prospective residents. Townhomes and apartments have been and remained in short supply, but face supply challenges described in Section 3.2.

The housing shortage in BC is province-wide and will only be solved at the provincial scale or at the national scale through significant increases in supply that overmatch Canada's population growth. The recent provincial housing reforms (discussed in more detail in Section 5) as well as federal Housing Strategy are all efforts in this direction.

3 Recent Trends and Current Market Conditions

MPLE has interviewed twenty local experts including realtors, developers, and builders. They expressed a range of opinions and perspectives on Gibsons’ housing market but were remarkably consistent in their belief that there is indeed a housing crisis throughout British Columbia and the Sunshine Coast is no exception. Housing prices are increasingly beyond the means of households with typical incomes due to a profound shortage of homes. This confirms the findings of the Sunshine Coast Regional District’s (SCRD’S) Regional Housing Needs Assessment published in 2020.

3.1 Inflation and Interest Rates

Figure 4: Monthly inflation in Vancouver from September 2019 – August 2024 (five years)⁴

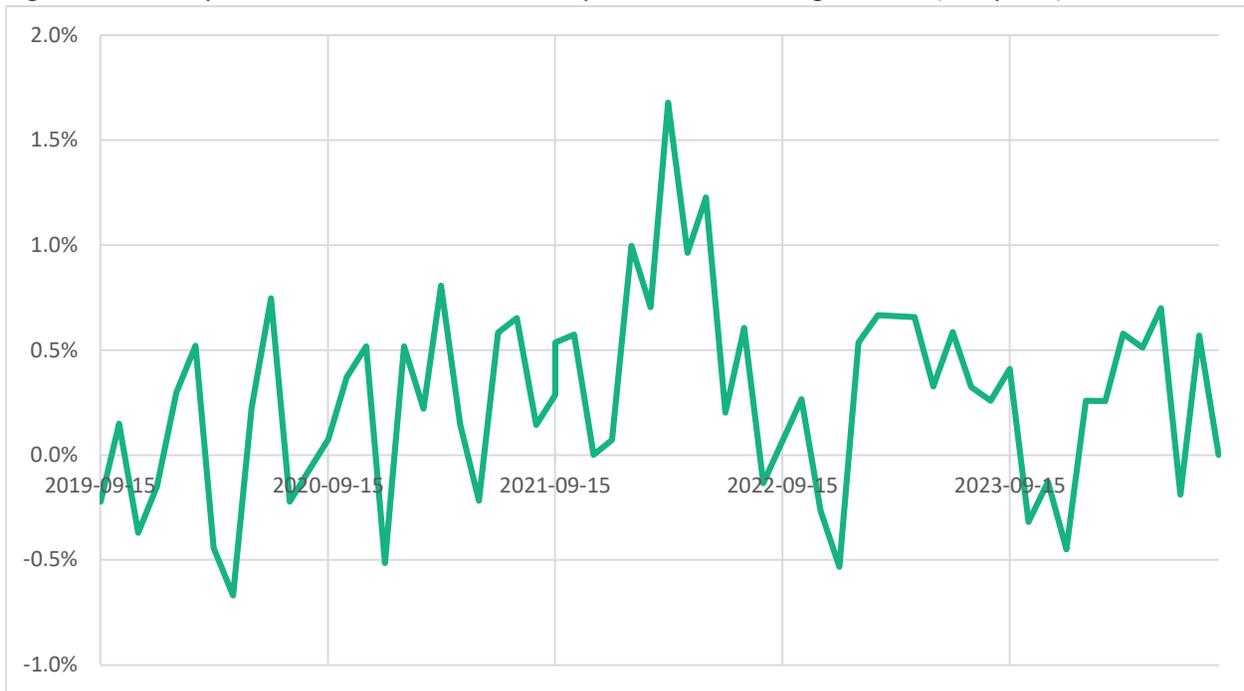


Figure 4 shows that considerable inflation occurred in the first half of 2022, more rapid than the several years before or since. Estimates of inflation in Vancouver (the geographically closest available reference) indicate 5.9% inflation in the first five months of 2022, compared to a long-term annual average of 3.9%. Rapid inflation has had profound impacts on Gibsons’ housing market – both direct and indirect – and the subject deserves some discussion and analysis.

This recent bout of inflation is due to recent historical forces:

- The COVID-19 Pandemic, the following Russian invasion of Ukraine, and subsequent conflict in the Middle East (all ongoing at the time of this report) caused worldwide logistical problems and shortages, increasing prices

⁴ Source: British Columbia (2024) Consumer Price Index. Retrieved from <https://www2.gov.bc.ca/gov/content/data/statistics/economy/consumer-price-index> in October 2024.

- Canadian consumer-facing sectors are also increasingly prone to monopoly or oligopoly (dominance of a sector by a small number of large companies). Examples include telecommunications, groceries, gas stations, and banks. Widespread price fixing between these large companies is suspected and occasionally discovered.⁵ This increases the price of consumer goods and services, and funnels funds to the shareholder class and corporate management elite
- Financial supports for households and industries during COVID also increased the money supply, fueling inflation.

The Bank of Canada – Canada’s arms-length monetary body – controls the Policy Interest Rate. This is the rate at which banks can borrow from the Bank of Canada as a lender of last resort. It therefore represents a “floor” for most borrowers in the economy. It is hard to acquire financing for less than this amount. Raising interest rates in this way is an attempt to stem inflation through two means:

- The “carrot”: household savings accrue to financial institutions who proceed to lend these funds. According to orthodox economic thought, at higher interest rates, financial institutions should be able to afford to offer higher interest rates to households who use these institutions for saving and should be incentivized to do so through competition. Unfortunately, Canada’s financial sector is dominated by a few large banks (oligopoly), and there is little evidence of higher interest rates being passed on to Canadian savers in recent months.⁶
- The “stick”: when interest rates increase, existing mortgages and other forms of debt become more expensive to carry, either immediately in the case of floating rate arrangements, or at the time of renewal in the case of fixed rate arrangements. This diverts household funds from other forms of spending to debt servicing, which decreases the money supply. Evidence suggests that this mechanism still works in Canada as inflation has slowed noticeably since May 2022, although both inflation and high debt costs represent hardship for households, so this treatment promises no short-term relief for most.

In the wake of recent inflation, the Bank of Canada – over several discrete increments – increased the Policy interest rate from 0.25% in February 2022 to 5% by mid-July of 2023, its highest value since 2001. This is the standard approach to fighting inflation and appears to be working as inflation has slowed considerably in the last two years.

Another way of reducing the money supply is by increasing tax rates, but this is an unpopular option that the federal government has largely avoided. The last meaningful revision of federal income tax rates occurred in 2016 and saw a corresponding decrease to some rates and increase to others (down from 22% to 20.5% on income from \$45,000 - \$91,000; and up from 29% to 33% on income above \$200,000). The use of taxation as an inflation-control mechanism has not occurred in the current COVID-

⁵ Two recent examples of officially identified price fixing include bread prices in Canada’s grocery stores (https://en.wikipedia.org/wiki/Bread_price-fixing_in_Canada) and fuel prices in British Columbia (https://docs.bcuc.com/documents/proceedings/2019/doc_54384_c1-2-allan-eliesen-submitting-report.pdf)

⁶ Evans, Pete & Patel, Nisha (2023, March 2). Interest rates have skyrocketed. So why hasn’t the rate on your savings account budged? *Canadian Broadcasting Corporation*. Retrieved from <https://www.cbc.ca/news/business/interest-rates-analysis-1.6764143>.

driven inflationary period.⁷ Consumption taxes – taxation on the portion of income not saved – represent an even more direct taxation-based method, also this approach would represent a radical departure from current economic orthodoxy.⁸

Inflation and resulting high interest rates in combination have a profound and challenging impact on the housing development industry as they make both construction and financing more expensive for developers while reducing households' capacity to pay for housing.

3.2 The Supply Side

Local experts interviewed by MPLE agreed universally that it is difficult to build multi-family housing in Gibsons today. Our interview subjects identified four principal factors that explain developers' current difficulties:

- 1) Land availability: Lower Gibsons has small property parcels which are expensive to assemble. The neighbourhood also relatively has little vacant land. Even if land assembly were possible, there are other complications related to view corridor limits that suppress building height, lower density land use designations and zoning (OCP and Zoning amendments would be needed), and geological issues related to aquifer protection that restrict multi-level underground parking structures.
- 2) High costs: Between the worldwide phenomenon of rapid inflation and a local shortage of labour on the Sunshine Coast, construction costs have doubled since 2021. In recent months construction costs have stabilized but not reduced. This is essentially a form of “sticky pricing”, a widespread phenomenon whereby economic actors are quick to increase prices but slow to reduce them.
- 3) High interest rates: as discussed in Section 3.1 above, high interest rates make it more expensive for developers to borrow money, reducing their financial liquidity and increasing overall costs.
- 4) Slow approvals: According to several interview subjects, the Town's development approvals process is slow. Acquiring development approvals can take three years or more, which is very punishing in an era of high interest rates as typically a developer acquires land using debt and must service this debt during the approvals process. On a large project, one year of debt can represent hundreds of thousands of dollars in additional costs.

Despite the approvals process being slower than they would prefer, many developers interviewed by MPLE reported that Gibsons is more user-friendly and easier to deal with than most peer municipalities; for normal developments that don't involve rezoning, developing in Gibsons is easy and straightforward.

MPLE would point out that the issue of slow approvals is likely to be significantly mitigated with the coming implementation of British Columbia's recently legislated land use reforms (Bills 44 and 46),

⁷ At the time of writing, the federal government has announced but not legislated or enacted a change to capital gains tax calculations, which are expected to come into force in June.

⁸ Klein, Ezra (2022, 1 October). There Is a Tax that Could Help with Inflation. *The New York Times*. Retrieved from <https://www.nytimes.com/2022/10/01/opinion/inflation-consumption-tax-rich.html>

which require municipal zoning bylaws to permit a level of density that accommodates twenty years of housing need according to a Housing Needs Assessment (HNA) methodology mandated in provincial policy⁹. Community amenities are to be financed through Amenity Cost Charges (ACCs) which will apply to all development rather than depending upon rezoning or bonus density, much like DCCs now. Increasing as-of-right density and divorcing amenity funding from the rezoning process is likely to accelerate development by eliminating the discretionary rezoning stage in many or even most cases.

3.3 The Demand Side

The COVID-19 Pandemic was expected to cool Canada's housing market. Instead, after an initial brief hiccup in the second quarter of 2020, the market set sales records across the country in 2020 and topped these records in 2021. Over the first 10 months of 2021 alone, more than 580,000 homes were bought and sold, surpassing the amount from the entire previous year, when a record 552,423 homes changed hands. Overall, the national MLS Home Price Index finished 2021 up a record 25 per cent from 2020.¹⁰ As one interviewed realtor observed, COVID accelerated many households' plans, inducing many to relocate promptly who might have otherwise waited several years. For realtors, it was three years of business condensed into one.

The COVID housing boom was geographically lopsided, with housing prices in urban centres stagnating while demand for housing in more peripheral areas soared. Gibsons was no exception to this general trend and saw a huge surge in demand from mid-2020 to early 2022. This demand came from across Canada, but particularly from the pricey and proximate Lower Mainland.

When the Bank of Canada increased interest rates by a factor of 20 (from 0.25% to 5%), residential price growth across Canada slowed, ceased, or even reversed depending on geography. Other factors contributing to the collapse in demand for homeownership include the removal of COVID-related financial supports, and increased mortgage lending requirements. According to realtors, housing prices in Gibsons peaked in early 2022 and have since stagnated or decreased. The pace of sales is also much slower than during the COVID housing boom. Many households are now unable to remortgage, which drives demand for more affordable units and rental, and drives supply of larger and more expensive housing that households can no longer afford.

According to realtors, in Gibsons today, there are twice the current listings compared to the same season a year earlier, which suggests a shift in bargaining power from sellers to buyers. Current asking prices are generally above market pricing, which is defined by purchaser willingness. Prices are not expected to increase as long as current market conditions persist, but they are unlikely to drop significantly because many sellers have the flexibility to wait, and because the underlying condition of widespread housing shortage persists. This market state may persist for some years unless it is disrupted by new construction triggered by provincial housing reforms and the Town's revised OCP.

⁹ This standardized HNA methodology had not yet been released at the time of the writing of this report.

¹⁰ Source: Drudi, C. (2022). Pivot Magazine: *Canada's housing market is breaking records at an alarming rate.*

4 Residential Development Parameters

This section summarizes the local unit size, price, and cost parameters indicated by MPLE’s market research as well as other comments of note from local realtors and developers. These inputs form the basis for the financial analysis presented in Sections 6 and 7. Per instructions from the Town, we seek in this exercise to understand the development economics of the following built forms:

- Small-scale multi-unit housing (SSMUH) of four or six units per lot
- Townhomes
- Apartments
- Mixed-use, which here includes live-work buildings.

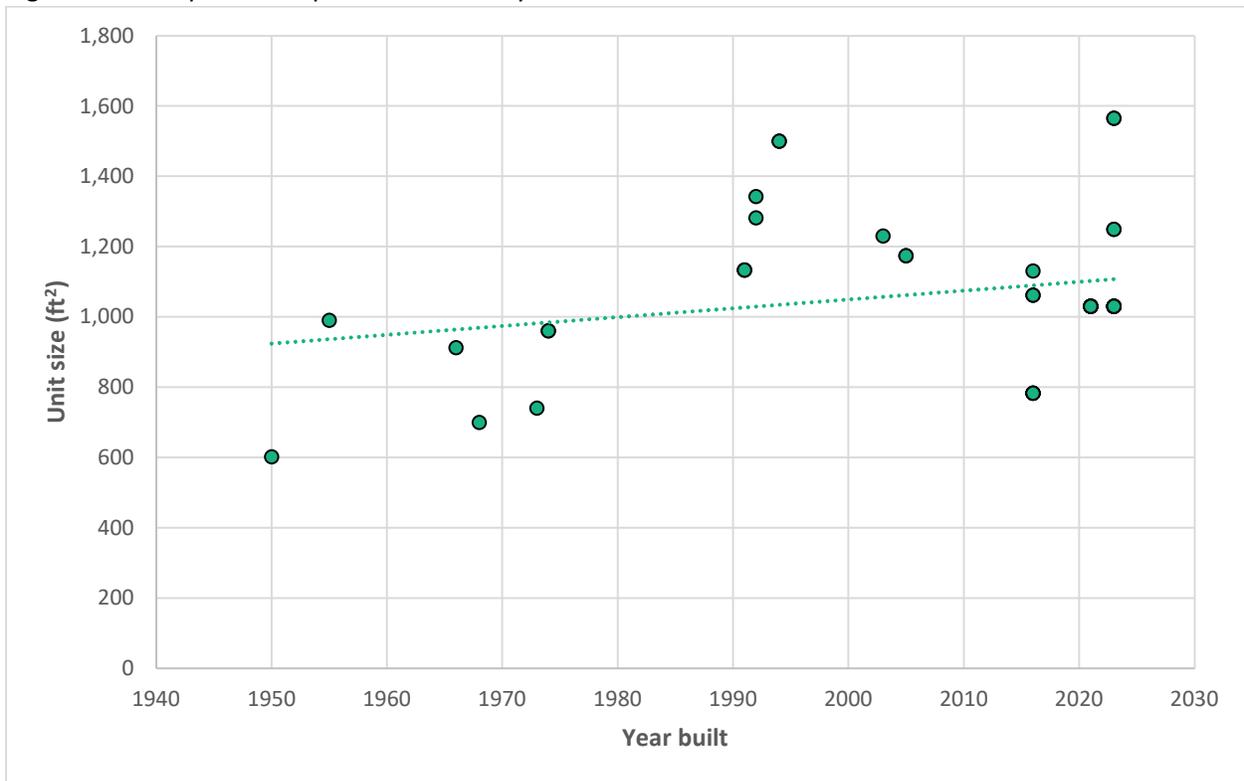
We therefore exclude single detached homes from the analysis although they comprise the bulk of Gibsons’ sales, listings, and housing supply.

The data presented in this section was provided to MPLE by the Town and comes from BC Assessment. It reflects all property sales that occurred in Gibsons during the 26-month period from 6 January 2022 to 5 March 2024, referred to henceforth as the BC Assessment data period.

4.1 Unit Size

4.1.1 Size of Duplex Units

Figure 5: Floorspace of duplex units versus year built¹¹



¹¹ Source: BC Assessment. Sales in Gibsons from 2022-01-06 to 2024-03-05.

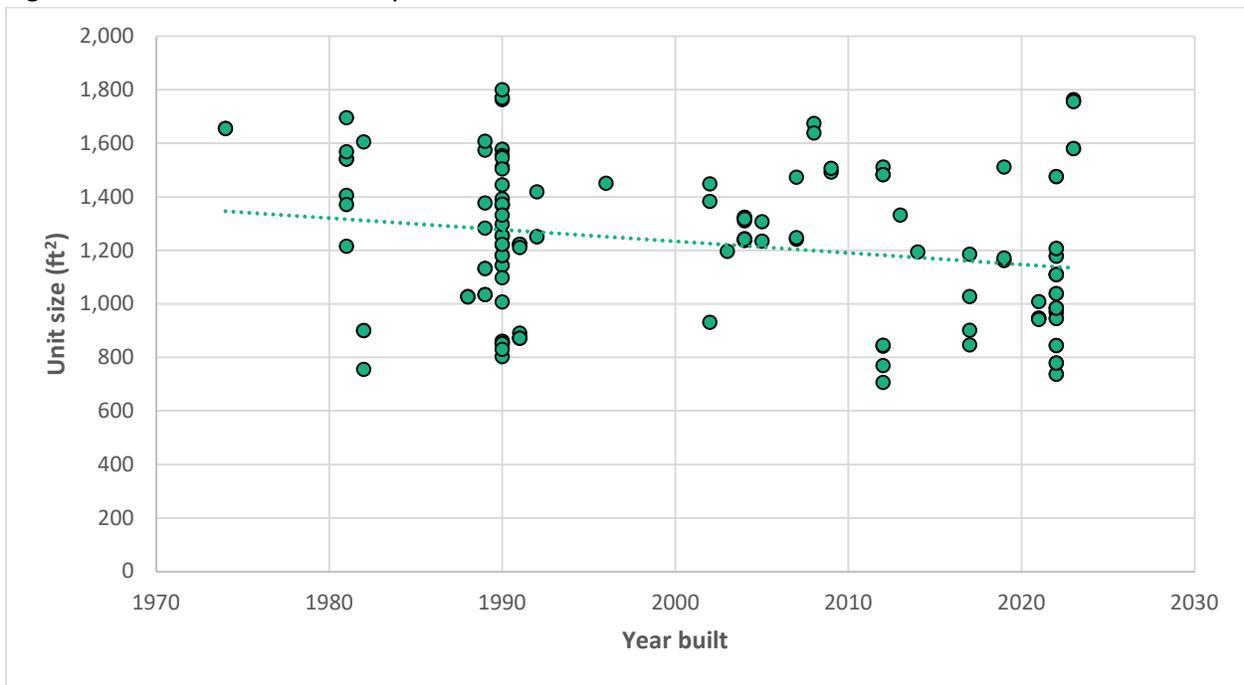
Figure 5 displays the year of construction and total floorspace of each duplex unit sold in Gibsons within the BC Assessment data period. The development economics of the duplex built form are not under analysis in this study, but the SSMUH built form – which will soon be permitted in a large portion of parcels thanks to recent land use reforms from the BC government (Bill 44) – is relatively untested in Gibsons and throughout BC, and can be best imagined today as a hybrid of the duplex and townhouse built forms, which makes duplex development parameters such as unit size and pricing worthwhile subjects of analysis for the purposes of this study.

Duplex units in Gibsons generally range in size from 700 ft² to 1,400 ft² with relatively few units above or below this range. Duplex units constructed in Gibsons have generally become larger over time, with an average among recently constructed homes of **about 1,115 ft²**.

The most desirable duplex units are “ranchers” with all floor space on the same level, or at least the kitchen and main bedroom on the ground floor. These units are in high demand because of their accessibility to seniors, who make up a large portion of Gibsons’ prospective purchasers.

4.1.2 Townhome Size

Figure 6: Townhome size versus year built¹²



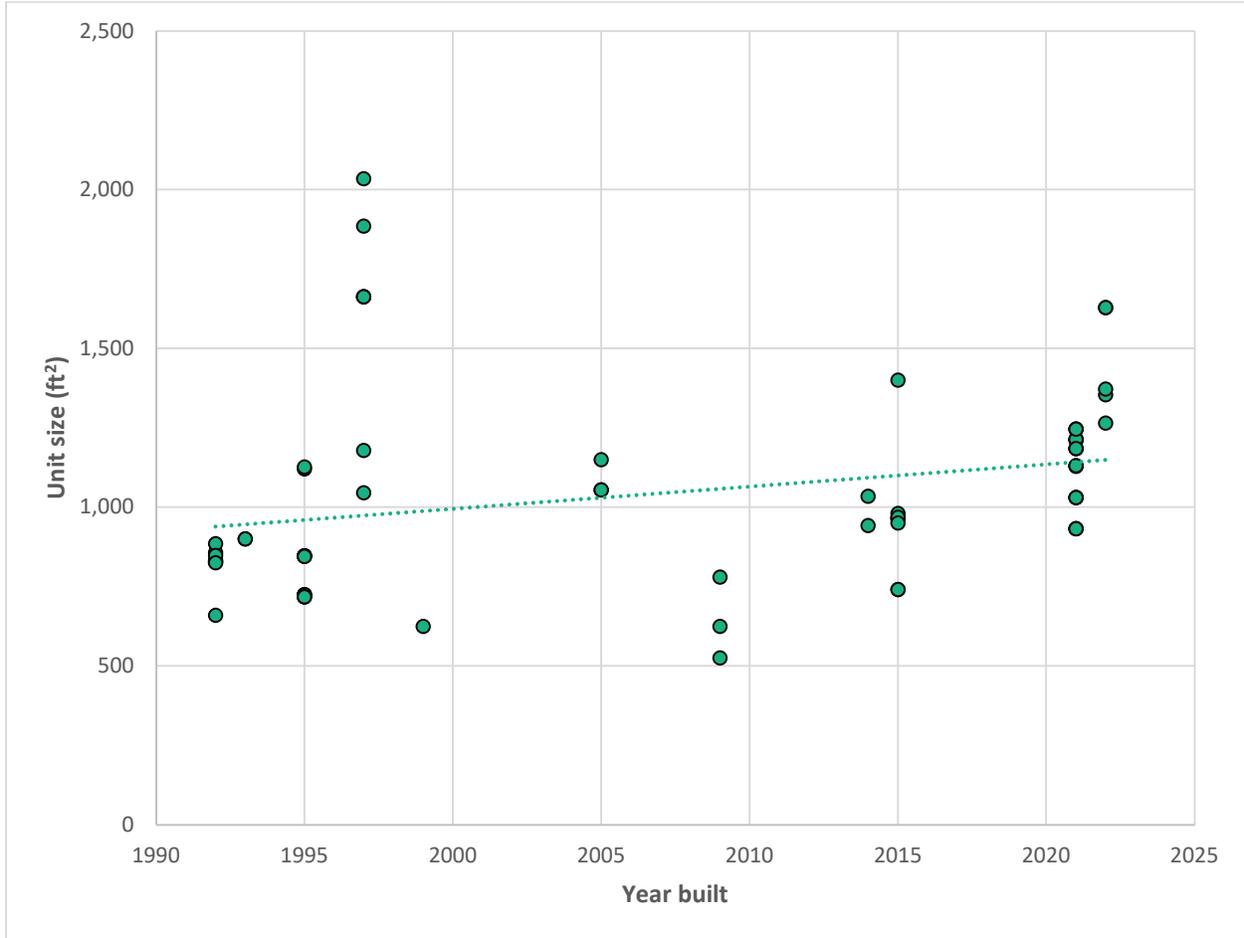
Townhomes in Gibsons generally range in size from 800 ft² to 1,600 ft² with relatively few units above or below this range. Like most other communities, townhomes constructed in Gibsons have generally become smaller over time, with an average among recently constructed units of about 1,125 ft². Realtor interviews suggest the ideal average size for new townhouse units would be about **1,250 ft²**

As with duplexes, the most desirable townhomes are ranchers.

¹² Source: BC Assessment. Sales in Gibsons from 2022-01-06 to 2024-03-05.

4.1.3 Apartment Size

Figure 7: Apartment size versus year built¹³



Strata apartments in Gibsons generally range in size from 500 ft² to 1,500 ft² with relatively few units above or below this range. The data presented in Figure 7 suggests that apartments in Gibsons have gotten slightly larger over time, which would be unusual for a community in BC. MPLE marks a distinct lack of smaller apartment units built in the last decade: the average size of recently constructed strata apartments is about 1,170 ft². Realtors believe that new apartments will continue to get smaller and therefore suggest that the ideal average size for new apartments would be about **1,000 ft²**.

Interviewed builders and developers suggest two explanations for Gibsons’ unusually large apartments:

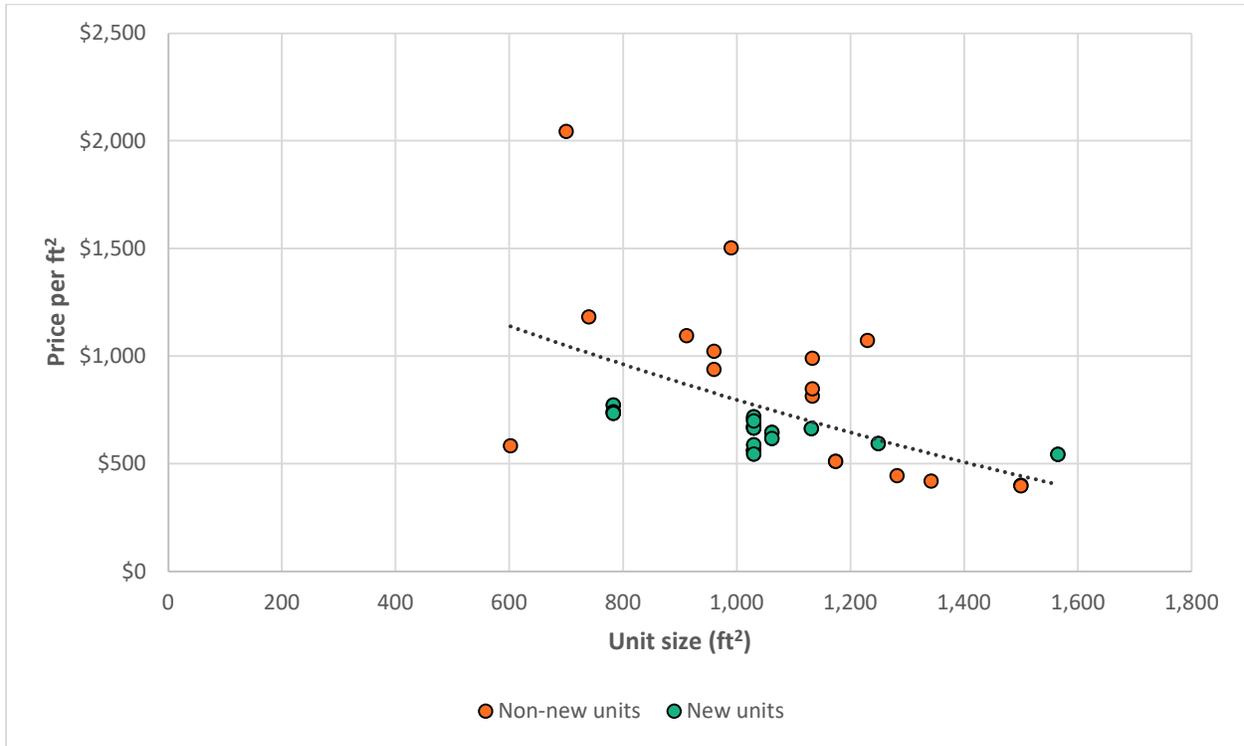
- **A demand-side explanation:** Smaller apartments are not desirable to households seeking to live in Gibsons, making this type of product unattractive to build.
- **A supply-side explanation:** Parking provision is challenging in Gibsons due to the aquifer protection constraints and the Town’s parking requirements are defined on a per-unit basis. The combination of these factors incentivizes larger units.

¹³ Source: BC Assessment. Sales in Gibsons from 2022-01-06 to 2024-03-05.

4.2 Prices

4.2.1 Duplex prices

Figure 8: Floorspace versus price per ft² among sold duplex units¹⁴



In general, there is a negative relationship between unit size and price per square foot: larger units cost more in total but less per unit of area. Gibsons’ housing market is no exception and exhibits this tendency like most communities.

Figure 8 distinguishes between units build since 2014 (“new units”) and units built before 2014 (“non-new units”).

In general, a newer unit typically sells for more than an older unit. However, the last two years of sales data in Gibsons tells a different story, with newer duplex units generally selling for less than older units. This is probably a function of geography; MPLE infers that more desirable areas were developed earlier than less desirable areas, which could explain the pattern observed above.

This data suggests that duplex units of all sizes and ages in Gibsons in the last two years have tended to sell for \$770,000 - \$790,000, although there are many exceptional units either above or below this typical range. This represents sales prices of \$645 - \$960 per ft².

The fact that duplex units of all sizes tend to command similar prices on a per-unit basis but not on a per-square foot basis suggests “price compression” due to an extremely price-sensitive buyer population.

¹⁴ Source: BC Assessment. Sales in Gibsons from 2022-01-06 to 2024-03-05.

4.2.2 Townhome Prices

Figure 9: Unit size versus price per ft² among sold townhomes¹⁵

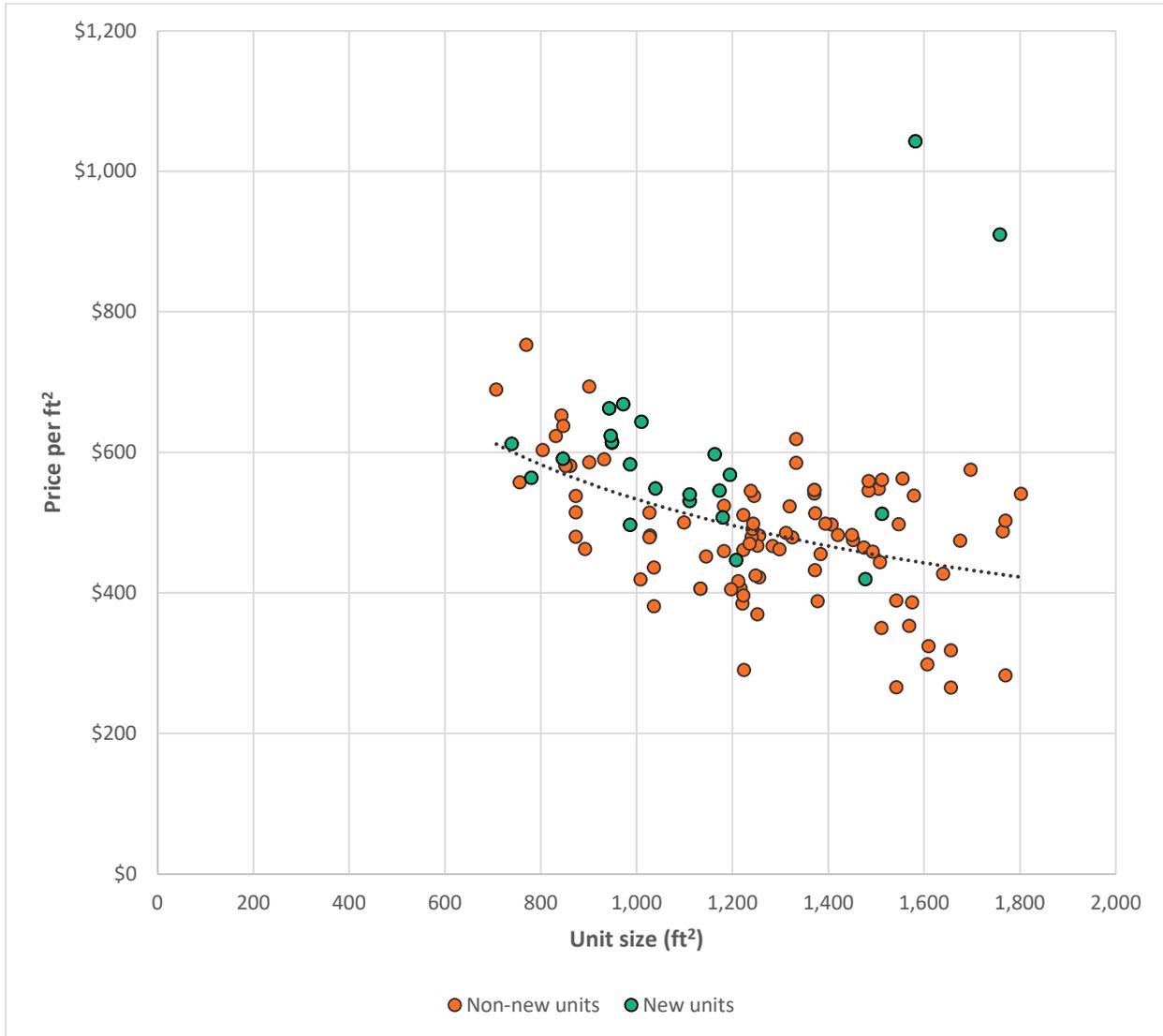


Figure 9 is much like Figure 8 but pertains to townhomes rather than duplex units. No dramatic difference in the price of newer units versus older units is present, although newer units tend to be smaller than older units.

Figure 9 suggests that the market price for a typical 1,125 ft² townhome is about **\$509 per ft² or about \$572,000 per unit**. Realtor interviews suggest that a somewhat higher price would be appropriate for brand new townhomes, but that in practice townhome prices vary considerably based on the number of storeys: units with fewer storeys are more desirable due to their greater utility to seniors.

Realtors suggest that there is unmet demand for townhomes large enough for families at an achievable price point: about 1,200 ft² for \$750,000 - \$850,000.

¹⁵ Source: BC Assessment. Sales in Gibsons from 2022-01-06 to 2024-03-05.

4.2.3 Strata Apartment Prices

Figure 10: Unit size versus price per ft² among sold apartments¹⁶

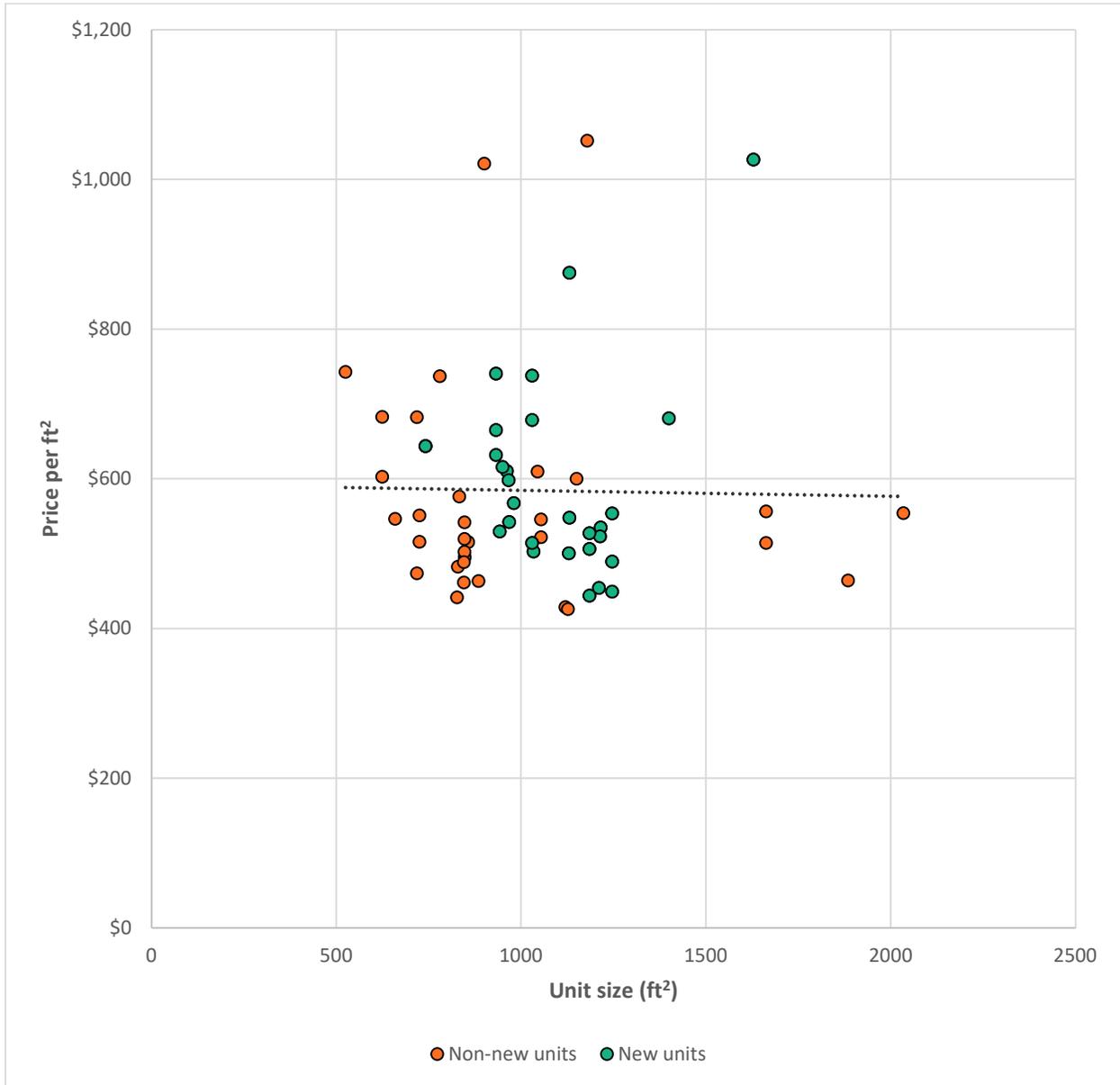


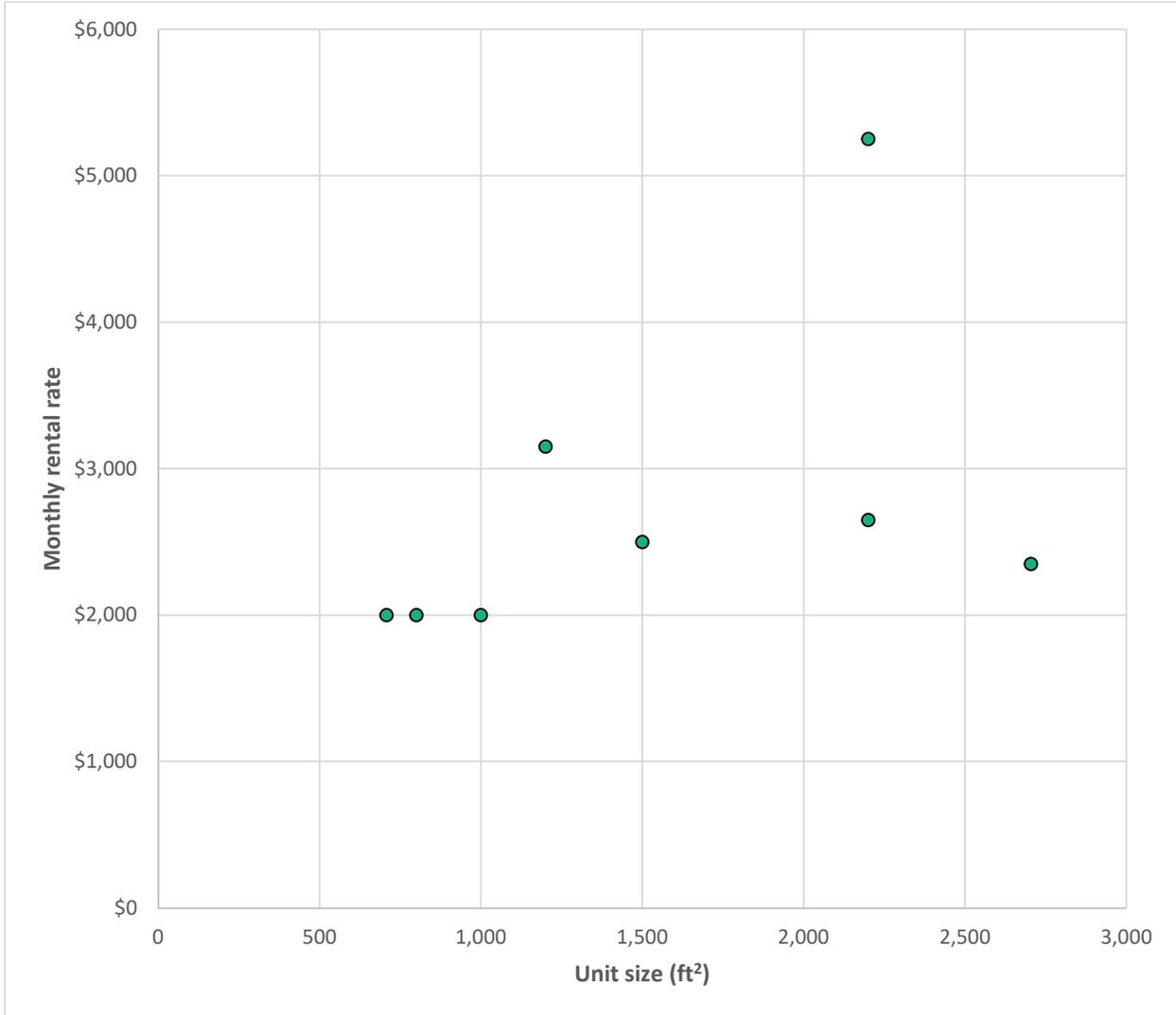
Figure 10 shows that there has been no strong relationship between apartment size and sales price per square foot in the last several years, with all units tending to sell for about \$600 per ft². There is a great deal of variety, with many units selling for more or less than this typical price. Realtor interviews suggest a price of about \$700 per ft² for brand new units, or \$700,000 for a new 1,000 ft² unit.

Developer interviews and financial analysis suggest that apartment developments in Gibsons struggle to be financially viable without excellent views to push the sales price well above the \$600 per ft² average demonstrated in Figure 10.

¹⁶ Source: BC Assessment. Sales in Gibsons from 2022-01-06 to 2024-03-05.

4.2.4 Rental Apartments

Figure 11: Unit size versus monthly rent per ft² among rental listings in May 2023



MPLE has reviewed all current rental listings in Gibsons. Our research as well as interviews with local realtors and developers all suggest that rental rates in Gibsons tend to range from **\$2,000 to \$3,000 per month** depending only minimally on unit size and type.

5 Land Lift and Density Bonusing

This section presents the underlying legal and economic basis for density bonusing methods. This type of community amenity financing is currently in flux because it is subject to several changes under the land use reforms recently legislated by the Province of British Columbia (Bill 46). In this section, MPLE presents the underlying legal basis for density bonusing under the enacted reforms and discusses the economic principles that drive its successful application.

5.1 Unconditional Cost Charges (DCCs and ACCs)

Most capital costs associated with development in BC are to be paid-for with cost charges which are calculated and applied to development on a per-area or per-unit basis. These charges apply to all eligible developments and are not discretionary or triggered by rezoning. These fall into two categories:

- Development cost charges (DCCs), which pay for capital costs for necessary infrastructure, including:¹⁷
 - Sewage,
 - Water,
 - Drainage,
 - Fire protection,
 - Police,
 - Certain highway facilities,
 - Solid waste and recycling facilities,
 - Park land, and
- Amenity cost charges (ACCs), which pay for capital costs for “facilities or features that provide social, cultural, heritage, recreational, or environmental benefits to a community, including, without limitation:
 - Community, youth, or seniors’ centres,
 - Recreational or athletic facilities,
 - Libraries,
 - Day care facilities, and
 - Public squares.”¹⁸

Because they apply to all eligible developments and are triggered neither by developer discretion nor rezoning, these funding mechanisms are unconditional: they do not depend on density and may not be estimated or evaluated using a land lift approach.

DCC and ACC rates are important inputs to a development pro forma model, but they are not themselves the subject or focus of this work due to their unconditional nature: land lift applies only to *conditional* contributions, as discussed below.

¹⁷ Local Government Act of British Columbia, Section 559.

¹⁸ Local Government Act of British Columbia, Section 570.1

5.2 Conditional Density Rules

Municipal governments in BC may allow additional density or other desired changes in land use entitlements in exchange for community amenities, which may be provided in-kind or as cash-in-lieu. Because this form of financing is wholly voluntary and subject to developer discretion, it is considered conditional. This form of financing may not pay for amenities or infrastructure already financed via ACCs.¹⁹

According to the recent land use reforms (Bills 44 and 46), all municipal zoning bylaws are required²⁰ to permit a level of density that accommodates twenty years of housing need according to a HNA methodology mandated in Victoria. This minimum density as defined by the HNA may not be subject to any conditional density rules, although conditional density rules may be established for density over and above the twenty-year requirement.²¹ In other words, the Town of Gibsons' Zoning Bylaw will soon be required to permit a certain level of residential density as-of-right, and may only seek voluntary contributions in exchange for conditional density above that 20-year threshold.

Because the provincial HNA methodology which is to determine the minimum residential density has only recently been enacted and has not yet been applied to Gibsons to determine a minimum as-of-right density level for each parcel – MPLE does not have sufficient information today to know which housing units will be eligible for conditional density rules and which will not. This study should therefore be viewed as a preliminary analysis which may be supplemented and finalized once more information is available.

Notwithstanding the new limitations described above, conditional density rules in BC are well-established and widely applied. Amenities and funds are typically obtained through two general approaches to conditional density:

1. Density bonusing, in which the zoning bylaw establishes the permissible density with and without a contribution and sets the amount and type of contribution required for additional density.

Since it is part of the zoning bylaw, bonus density is available as of right and is not up to Council discretion if the contribution requirements are met.

2. Community amenity contributions (CACs), in which a contribution is negotiated as part of the rezoning process; this remains a matter of Council discretion.

¹⁹ Local Government Act of British Columbia, Section 482 (2.1).

²⁰ Local Government Act of British Columbia, Section 481.7 (1).

²¹ Local Government Act of British Columbia, Section 481.8.

In British Columbia, density bonusing is expressly enabled in the Local Government Act (LGA):

Section 482

- (1) A zoning bylaw may:
- (a) establish different density regulations for a zone, one generally applicable for the zone and the other or others to apply if the applicable conditions under paragraph (b) are met, and
 - (b) establish conditions in accordance with subsection (2) that will entitle an owner to a higher density under paragraph (a).
- (2) The following are conditions that may be included under subsection (1) (b):
- (a) subject to subsection (2.1), conditions relating to the conservation or provision of amenities, including the number, kind and extent of amenities;
 - (b) conditions relating to the provision of affordable and special needs housing, as such housing is defined in the bylaw, including the number, kind and extent of the housing;
 - (c) a condition that the owner enter into a housing agreement under section 483 before a building permit is issued in relation to property to which the condition applies.²²

It is now accepted that the amenity contributions listed in Section 482.2 may take the form of cash as long as this cash is put towards said amenities.

Unlike density bonusing, CACs are not expressly enabled by the LGA but are considered part of the normal rezoning process. In other words, negotiation prior to rezoning is permissible by default and amenity contributions are part of this process. However, the Ministry of Community, Sport and Cultural Development has published a guide to CACs which reiterates that they should be voluntary and discretionary for both parties:

Local governments do not have legal authority to require applicants for rezoning to pay CACs. They must ensure that any CACs are obtained as part of a negotiation process. Local governments must also not commit to pass a rezoning bylaw on the condition that CACs are provided. Council and regional board members are legally required to remain open-minded on a proposed rezoning, until they have heard the public's perspectives at the public hearing.

It is important to keep in mind that zoning is intended to implement the community plan and should not be seen as a revenue source. Being perceived to be "selling zoning" can undermine public confidence in the community plan and the council/regional board's commitment to the plan.²³

²² Local Government Act of British Columbia.

²³ Ministry of Community, Sport and Cultural Development (2014). Community Amenity Contributions: Balancing community planning, public benefits and housing affordability. Retrieved on 2018/04/27 from http://www.cscd.gov.bc.ca/lgd/intergov_relations/library/CAC_Guide_Full.pdf

5.3 Flat Fee Versus Site Analysis

Despite the imperative to keep CACs flexible and open-ended for the reasons listed in the Ministry guide cited above, municipalities in BC have increasingly released schedules of CAC targets much like DCC rates. This “flat fee” approach has the advantage of:

- Improving transparency and fairness
- Increasing developer and investor confidence
- Reducing administrative costs for developers and governments
- Facilitating faster development
- Allowing public input regarding rates and requested amenities.

Because it is built into the zoning bylaw and needs to be formulaic, density bonusing almost always uses a flat fee approach, but not all municipalities approach CAC negotiations in this way. Many still rely on a project-by-project “site analysis” approach to CACs, in which each major rezoning application is analyzed to determine the contribution it can financially support. The site analysis approach is most appropriate for unusual or uncertain projects such as:

- Comprehensive developments
- Rezoning not anticipated in the OCP
- Large, phased projects.

But the site analysis approach is not preferred by developers or most municipalities because it:

- Creates uncertainty regarding project costs, reducing investor and developer confidence
- Is administratively challenging, which is difficult for small developers and inexperienced municipalities
- Tends to slow the development process
- Is perceived as less fair as it may result in different contribution rates for different applicants.

5.4 Setting Rates

There are two basic approaches to determining density bonus contribution rates or CAC negotiation targets:

1. Level of service: contribution rates or CAC targets are allocated to developments based on the pre-determined amenity requirements of the community or area.
2. Land lift: contribution rates or CAC targets are allocated to developments based on how much they are able to contribute, which is in turn based on the increase in the project’s land value that occurred or would occur due to increased density or change in use. This is discussed in more detail below.

Developers typically prefer the “level of service” approach because it is perceived as fairer and sometimes produces lower rates. However, since the level of service approach is not connected to developments’ ability to pay – instead being based on the community’s needs – it is possible for rates generated in this way to overburden developers. This is particularly true if affordable housing is included in the “level of service” since the scope and scale of Canada’s housing shortages makes this item effectively bottomless. Thus, a blended approach should be used: rates should be in line with the community’s needs (level of service approach), but not more than developments can support (land lift approach).

5.5 Land Lift

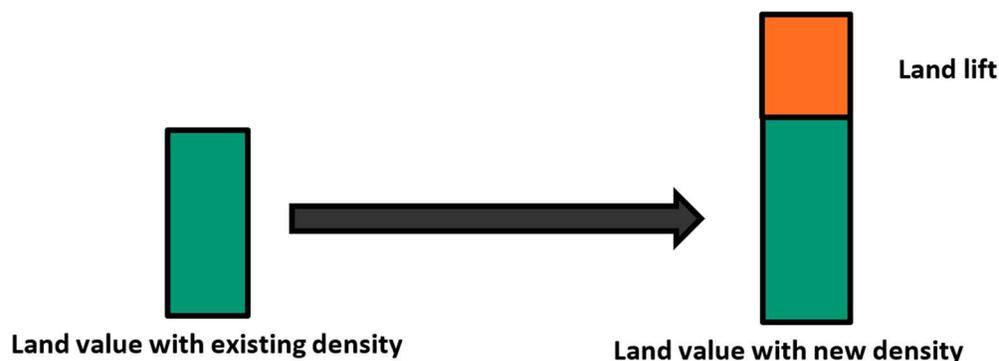
Because it results directly from the increase in density, the increase in land value from one density to another – called “land lift” – may be attributed to the rezoning or the bonus density and is therefore arguably the result of City policy rather than developer work.

The fact that permitting denser or more valuable projects on the same site tends to produce increases in land value is demonstrably true in the market, but the market is also fluid, flexible, and subject to speculation. For this reason, estimating the amount of land lift from a particular rezoning or density bonus through market research is impossible. A better approach to estimating land lift is theoretical: if costs and revenues are all set by the market and estimable, then assuming a constant profit margin – say 15% profit to costs – the corresponding value of the land that would produce that profit margin may be determined. How this “residual land value” changes with density reveals the land lift from a rezoning or density bonus.

When a parcel changes hands after rezoning, the purchaser might pay more than this theoretically derived amount or less, in which case they are likely to achieve a greater or narrower profit margin. In general, land values do rise and fall basically in line with these theoretical estimates.

An example of calculating land lift follows. Figure 12 reflects hypothetical residential development based on two densities: a base density permitted as-of-right under current zoning, and a revised density permitted after a rezoning or as conditional density within an established zone (density bonusing approach).

Figure 12: Land Value at Base Density versus Land Value at Rezoned Density



In the example above, with entitlements granting an increase in density there is a rise in the value that a developer could afford to pay for that same parcel of land. The bar on the left represents the base value for the land under current zoning or as-of-right density that a developer might pay based on current expectations of revenues and costs, as well as an allowance for developer profit. The bar on the right shows the base value for the land plus the increased value the developer could pay for the land with a higher density of development permitted, again based on current expectation of revenues and costs along with an allowance for profit.

It should be noted that this increase in land value is reflective of the change in permitted density or use. It is not a value that is representative of the native development rights carried under existing zoning, and as such the current property owner should not expect to achieve this value for their land on the right if they are assuming no costs or risks in trying to rezone their land or acquire conditional density.

5.6 Impact of CACs on Land Value

The revenue from a project is set by the market and out of the developer's control, so assuming a developer intends to achieve a given profit margin, if CACs are required for a rezoning or if a cash contribution is required for bonus density, then the developer must lower their costs elsewhere to maintain the project's profitability. Most costs are also set by the market and out of the developer's control, except for the price of land.

In other words, CACs or bonus density contributions should decrease the land's value, basically "dollar for dollar", rather than impacting profit margins or product prices. That is, if \$1 million of CACs were required from a project, this would have resulted in a \$1 million decrease in the land's value. In MPLE's experience this is exactly what occurs in jurisdictions with CACs or density bonusing, once the land market has time to adjust to the new policy framework.

Density bonus rates and CACs should not exceed the land lift for a given project, because that would increase the project's costs more than the added density increased the project's revenues. In other words, the land lift amount acts as a threshold above which CACs or density bonus payments are likely to negatively impact project viability. A developer would have no reason to use the CAC or density bonusing policy in that scenario because the added burden would be bigger than the added benefit.

In closing, land lift reflects the impact of changing density, and the land lift exists with or without CAC or density bonusing policies. In jurisdictions without such policies, or where those policies are avoided or not applied, the land lift still exists but is captured by the developer or the land vendor, or in most cases split between the two. CAC and density bonusing policies simply allow the public to access some share of the land lift so that the municipality achieves benefits from the added density.

Financial analysis allows land lift to be estimated so that CAC rates may be carefully set to avoid exceeding the land lift amount. MPLE typically recommends that municipalities seek 50% - 75% of the land lift amount to allow for:

- Site-specific variations in development economics
- Market shifts
- Analytics error
- Additional development incentives for property owners and developers.

6 Methodology and Assumptions

MPLE has developed a financial model analyzing the development economics of hypothetical sites under several scenarios of land use, location, tenure, and density. The purpose of this model is to determine the magnitude of amenity contributions that developments in Gibsons may support and how this amount varies by scenario.

6.1 Methodology

This analysis uses 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 revenue 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 determines the residual value based on the developer achieving acceptable project performance. The performance metric and target values used vary by land use as follows:

- For strata residential: profit of 15% on total project costs
- For rental residential: annual internal rate of return (IRR)²⁴ to total project costs of 5.5%
- For commercial: annual IRR to total project costs of 6.5%
- For projects containing a mix of the above: the project's costs and revenues are divided up and allocated to the different portions and each portion of the project supports a certain amount of land value by achieving its proper performance metric as defined above.

The residual value is 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. This means that a developer could pay the indicated value for the land, develop and sell or lease the finished product, and achieve the target performance metric. If by chance the land were bought for less than the indicated value, this would result in an increased profit for the developer and conversely if bought for more than the value indicated there would be less profit for the developer.

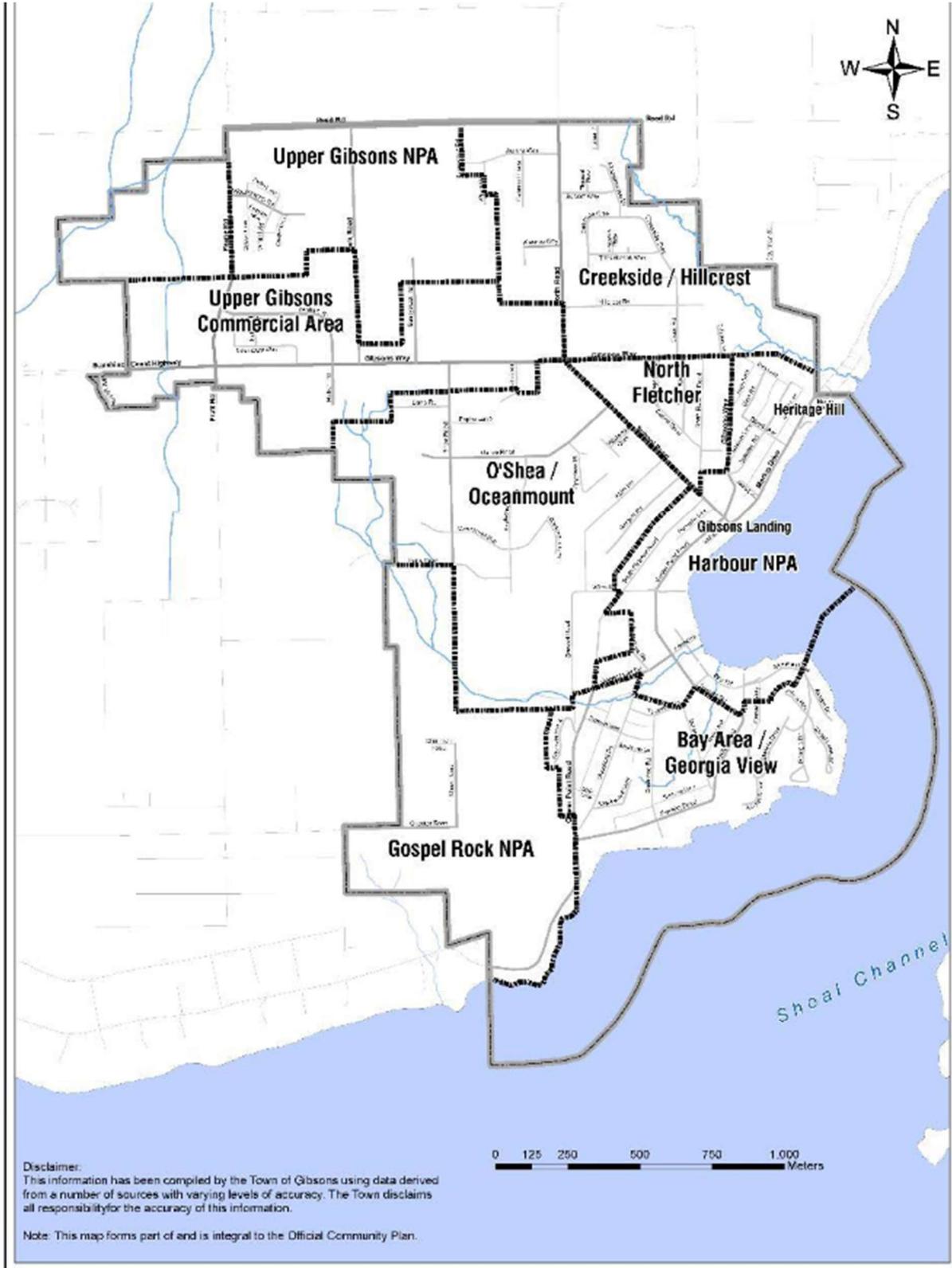
MPLE has calculated the magnitude of available amenity contributions by first determining the value of each hypothetical site in the "base" scenario – this is discussed in Sections 6.2 – and then calculating the total amount of community amenity contribution that that developer would be able to provide under higher-density scenarios while still supporting that same land value. In short, this method treats the total amenity contribution as the residual item by treating the land value under the base scenario as a fixed cost.

This methodology is equally applicable to density bonusing and CAC policy mechanisms.

²⁴ The internal rate of return (IRR) is the interest rate of a hypothetical asset that produces interest at the same pace as the project in question. A measure of project performance. A higher IRR represents faster profit, or greater profit over the same timeframe. IRR is a better measure of project viability than simple profit-to-cost for projects that generate revenue over a long timeframe because the former reflects the time value of money whereas the latter does not.

6.2 Development Scenarios

Figure 13: Neighbourhoods in Gibsons (from Gibsons' OCP)



MPLE has analyzed development scenarios that vary based on three parameters:

- Geography – we analyze development within two geographic areas as indicated in Figure 13 above:
 - Lower Gibsons – approximately the Harbour Neighbourhood and the Bay Area / Georgia View Neighbourhood
 - Upper Gibsons – approximately the rest of Gibsons.

Note that the principal impact of geography is increased sales prices and rental rates in Lower Gibsons due to better views and proximity to water and services. Our sense of price differences came from property listings and realtor interviews and is therefore somewhat vaguer than the clearly delineated neighbourhoods suggested in Figure 13

- Tenure – we analyze developments that are sold upon completion and developments that are held by the developer and rented for thirty years.
- Land use:
 - SSMUH 4-plex: 9,000 ft² of floor space on a 6,000 ft² parcel, divided into four 2,250 ft² units
 - SSMUH 6-plex: 9,000 ft² of floor space on a 6,000 ft² parcel, divided into six 1,500 ft² units
 - One acre of townhomes at 1.2 FSR (42 UPA), which corresponds to the 3M-3 land use zone
 - One acre of townhomes at 2.25 FSR (78 UPA), which corresponds to the RM-1, RM-2, and RM-5 land use zones because 75% lot coverage times three storeys yields a maximum FSR of 2.25
 - One acres of apartments at 2.25 FSR (83 UPA), which corresponds to the RM-1, RM-2, and RM-5 land use zones
 - One acre of apartments at 3.27 FSR (121 UPA), which is the maximum apartment density achievable under the following conditions:
 - Maximum site coverage of five sixths (83%)
 - Underground parking is impossible (Lower Gibsons)
 - Current parking requirements
 - One acre of apartments at 4.33 FSR (160 UPA), which is the maximum apartment or mixed-use density achievable under the following conditions:
 - Maximum site coverage of five sixths (83%)
 - Underground parking limited to one storey (some parts of Upper Gibsons)
 - Maximum building height of six storeys
 - Current parking requirements

- One acre of apartments at 5.0 FSR (185 UPA), which is the maximum apartment or mixed-use density achievable under the following conditions:
 - Maximum site coverage of five sixths (83%)
 - Maximum building height of six storeys
- One acre of mixed-use or live-work: commercial at grade with apartments above, at 2.25 FSR
- One acre of mixed-use or live-work: commercial at grade with apartments above, at 3.27 FSR
- One acre of mixed-use or live-work: commercial at grade with apartments above, at 4.33 FSR
- One acre of mixed-use or live-work: commercial at grade with apartments above, at 5.0 FSR.

Combining these parameters would yield 48 development scenarios, but not all densities of development are possible in Lower Gibsons due to the impracticality of underground parking due to aquifer protection constraints. This limits apartment density in Lower Gibsons to 3.27 FSR and mixed-use density in Lower Gibsons to 2.14 FSR. Since 2.14 FSR is below the “base density” of 2.25 FSR assumed in this analysis, MPLE does not model mixed-use or live-work development in Lower Gibsons, bringing the total number of scenarios to 36.

6.3 Assumptions

6.3.1 Built Form Assumptions

For purposes of financial analysis, MPLE has made the following assumptions regarding built form:

- SSMUH:
 - Three storeys
 - 4-plex: 2,250 ft² per unit
 - 6-plex: 1,500 ft² per unit
 - Parking at-grade and within buildings
- Townhomes:
 - Two storeys at 1.2 FSR or three storeys at 2.25 FSR
 - 1,250 ft² per unit²⁵
 - Parking at-grade and within buildings

²⁵ This is the average size suggested by realtor interviews and market data.

- Apartments:
 - Average unit size: 1,000 ft²²⁵
 - Building efficiency: 85%²⁶
 - Parking requirement: 1.5 stalls per unit²⁷
 - Parking style:
 - 2.25 FSR: 100% indoor structured
 - 3.27 FSR: 100% indoor structured
 - 4.33 FSR: 40% indoor structured & 60% underground
 - 5.0 FSR: 100% underground
 - Building height:
 - 2.25 FSR: 4 storeys
 - 3.27 FSR: 6 storeys
 - 4.33 FSR: 6 storeys
 - 5.0 FSR: 6 storeys
- Mixed-use or live-work:
 - 18,150 ft² of commercial floor space, which is half of the building floorplate
 - Average apartment size: 1,000 ft²²⁵
 - Residential building efficiency: 85%
 - Parking requirements:²⁷
 - 1.5 stalls per dwelling
 - One stall per 484 ft² (45 m²)
 - Parking style:
 - 2.25 FSR: 9% surface, 87% indoor structured, 4% underground
 - 3.27 FSR: 6% surface, 62% indoor structured, 32% underground
 - 4.33 FSR: 5% surface, 38% indoor structured, 57% underground
 - 5.0 FSR: 4% surface, 96% underground
 - Building height:
 - 2.25 FSR: 4 storeys
 - 3.27 FSR: 5 storeys
 - 4.33 FSR: 6 storeys
 - 5.0 FSR: 6 storeys.

²⁶ Building efficiency is the ratio of a buildings saleable or leasable floorspace to its gross floorspace.

²⁷ Per the Town's Zoning Bylaw

6.3.2 Cost Assumptions

For purposes of financial analysis, MPLE has made the following assumptions regarding project costs:

- Lands costs:
 - Land price as required to achieve performance targets defined in Section 6.1, pg. 26
 - Property transfer tax²⁸
 - Additional closing costs of \$50,000
- Hard costs:
 - Site servicing and geotechnical:
 - SSMUH (6,000 ft² sites): \$20,000
 - Other land uses (One acre sites): \$60,000
 - Servicing connections:
 - SSMUH 4-plex: \$7,000
 - SSMUH 6-plex: \$8,000
 - Townhomes: \$10,000
 - Apartments, mixed-use, or live-work with FSR 2.25: \$10,000
 - Apartments, mixed-use, or live-work with FSR 3.27: \$12,000
 - Apartments, mixed-use, or live-work with FSR 4.33: \$15,000
 - Apartments, mixed-use, or live-work with FSR 5.0: \$18,000
 - Building construction:²⁹
 - 2-storey ground-oriented multi-family³⁰: \$275 per ft²
 - 3-storey ground-oriented multi-family: \$295 per ft²
 - 4-storey apartments: \$315 per ft²
 - 6-storey apartments: \$335 per ft²
 - 4-storey mixed-use or live-work: \$335 per ft²
 - 5- or 6-storey mixed-use or live-work: \$345 per ft²
 - Parking construction:²⁹
 - Surface parking stall: \$6,100
 - Indoor structured parking stall: \$53,500
 - Underground parking stall: \$67,500

²⁸ Property transfer tax is defined here: <https://www2.gov.bc.ca/gov/content/taxes/property-taxes/property-transfer-tax>

²⁹ Building costs reflect the 2024 Altus Canadian Construction Cost Guide and analysis of the local market.

³⁰ Ground-oriented multi-family includes SSMUH and townhomes.

- Furniture, fixtures, and equipment:
 - Apartments, mixed-use, and live-work of up to 3.27 FSR: \$100,000
 - Apartments, mixed-use, and live-work of 4.33 – 5.0 FSR: \$150,000
- \$50,000 of landscaping, signage, and lighting costs for all apartment and mixed-use developments
- Tenant improvements of \$40 per ft² of commercial
- Hard cost contingency of 10% of all hard cost items above
- Soft costs:
 - Project management:
 - Townhomes: 1% of total project costs
 - Apartments, mixed-use, or live-work: 2% of total project costs
 - Architect fee: 1% of building construction costs, including contingency
 - Engineering fee: 1% of hard costs
 - Research and appraisal:
 - SSMUH: \$4,000
 - Townhomes: \$5,000
 - Apartments, mixed-use, or live-work: \$10,000
 - Surveying:
 - SSMUH: \$4,000
 - Townhomes: \$5,000
 - Apartments, mixed-use, or live-work: \$10,000
 - Accounting:
 - SSMUH: \$4,000
 - Townhomes: \$5,000
 - Apartments, mixed-use, or live-work: \$10,000
 - Legal costs:
 - \$1,000 per dwelling
 - \$50,000 for commercial component of mixed-use development
 - Insurance: hard costs times 0.15% plus 0.03% for each month of construction (see financing costs below)
 - Development permit fees:³¹ \$500 base fee, plus \$100 per dwelling, plus \$500 for commercial space, to a total maximum of \$10,000

³¹ Per the Town's Rates, Fees and Charges Bylaw

- Building permit fees:³²
 - \$100, plus
 - \$12 per \$1,000 of construction costs up to \$10,000, plus
 - \$8 per \$1,000 of construction costs from \$10,000 to \$50,000, plus
 - \$9 per \$1,000 of construction costs from \$50,000 to \$3 million, plus
 - \$6 per \$1,000 of construction costs from \$3 million to \$10 million, plus
 - \$7.25 per \$1,000 of construction costs above \$10 million.
- Development Cost Charges:³³
 - SSMUH and townhomes: \$28,566.99 per dwelling unit
 - Apartments: \$20,048.38 per dwelling unit
 - Commercial: \$13.60 per ft² of floor space plus \$1.06 per ft² of land area
- Utilities during construction:
 - SSMUH: \$2,000
 - Townhomes: \$5,000
 - Apartments, mixed-use, or live-work: \$10,000
- Property taxes during planning, construction, and sales phases
- Advertising and promotion:
 - Townhomes: 1% of value upon completion
 - Apartments, mixed-use, or live-work: 2% of value upon completion
- Lease commission: 20% of normalized annual commercial rent
- New home warranty: \$2,000 per dwelling
- Post-construction strata fee: \$2,000 per sold unit
- Post-construction customer service: \$2,000 per dwelling
- Corporate overhead:
 - Townhomes: 1% of total project costs
 - Apartments, mixed-use, or live-work: 2% of total project costs
- Miscellaneous soft costs: 2% of all soft cost items above
- Soft cost contingency: 10% of all soft cost items above

³² Per the Town's Rates, Fees and Charges Bylaw

³³ DCC data provided by the Town

- Financing costs:
 - Planning time:
 - SSMUH: 4 months
 - Other developments: 6 months

Note that this analysis is aimed at understanding as-of-right development within the context of density bonus zoning, and as such MPLE assumes that no rezoning or public consultation will be required for any scenario represented here.

- Construction time:
 - SSMUH: 8 months
 - Other developments: 12 months
- Interest rate: 7%
- Interest on equity:³⁴
 - Ground-oriented multi-family: none
 - Apartments, mixed-use, or live-work: 10%
- Loan to value ratio:³⁵
 - Land loan: 50%
 - Construction loan: 75%
- Takeout financing:³⁶
 - Debt service cost ratio:³⁷ 1.25
 - Amortization: 25 years.

³⁴ Represents the opportunity cost of the developer's investment.

³⁵ For projects or portions of projects producing products for sale (everything but rental and commercial), the magnitude of financing available is determined by the loan to value ratio, which is the ratio of the amount borrowed (loan) versus total project costs (value).

³⁶ For projects or portions of projects that are held as revenue-generating properties upon completion, the available financing – called “takeout financing” – is a mortgage against the project's normalized net income.

³⁷ The debt service cost ratio is the ratio of normalized net income to mortgage payments within a given duration.

6.3.3 Revenue Assumptions

For purposes of financial analysis, MPLE has made the following assumptions regarding project revenues, all based on local property sales and rental data as well as interviews with local experts. Local realtors and developers reported that Lower Gibsons commands a premium of 5% - 10% compared to Upper Gibsons due to the former's better views and proximity to water and services. MPLE has applied a 7.5% premium to strata product in Lower Gibsons and a 5% premium to rental rates in Lower Gibsons, since resale provides an additional incentive to home purchasers:

- Strata prices:
 - SSMUH 4-plex:
 - In Upper Gibsons: \$565 per ft² or about \$1.27 million per home
 - In Lower Gibsons: \$607 per ft² or about \$1.37 million per home
 - SSMUH 6-plex:
 - In Upper Gibsons: \$580 per ft² or \$870,000 per home
 - In Lower Gibsons: \$624 per ft² or about \$935,000 per home
 - 2-storey townhomes (1.2 FSR):
 - In Upper Gibsons: \$630 per ft² or about \$788,000 per home
 - In Lower Gibsons: \$677 per ft² or about \$847,000 per home
 - 3-storey townhomes (2.25 FSR):
 - In Upper Gibsons: \$600 per ft² or \$750,000 per home
 - In Lower Gibsons: \$645 per ft² or about \$806,000 per home
 - Apartments:
 - In Upper Gibsons: \$700 per ft² or \$700,000 per home
 - In Lower Gibsons: \$753 per ft² or about \$752,000 per home
 - Sales commission of 3% on all products above
- Rental apartments:
 - Rental rate:
 - SSMUH 4-plex:
 - In Upper Gibsons: \$1.29 per ft² per month or \$2,900 per month
 - In Lower Gibsons: \$1.35 per ft² per month or \$3,045 per month
 - SSMUH 6-plex:
 - In Upper Gibsons: \$1.83 per ft² per month or \$2,750 per month
 - In Lower Gibsons: \$1.93 per ft² per month or \$2,888 per month

- 2-storey townhomes (1.2 FSR):
 - In Upper Gibsons: \$2.08 per ft² per month or \$2,600 per month
 - In Lower Gibsons: \$2.18 per ft² per month or \$2,730 per month
 - 3-storey townhomes (2.25 FSR):
 - In Upper Gibsons: \$1.29 per ft² per month or \$2,476 per month
 - In Lower Gibsons: \$1.40 per ft² per month or \$2,600 per month
 - Apartments:
 - In Upper Gibsons: \$2.38 per ft² per month or \$2,380 per month
 - In Lower Gibsons: \$2.50 per ft² per month or \$2,500 per month
 - Vacancy rate:
 - First year: 5%
 - Second year: 2%
 - Ongoing: 1%
 - Operating costs equal to 30% of gross income
 - Periodic structural maintenance of \$7.5 per ft² every five years
 - Annual capitalization rates:³⁸
 - At present: 4%³⁹
 - At disposition, after 30 years of operation: 7%
 - Commercial:
 - Annual net rental rate: \$40 per ft²
 - Vacancy rate:
 - First year: 10%
 - Second year: 5%
 - Ongoing: 2%
 - Annual operating costs: \$12 per ft²
 - Structural reserve fund: 1% of revenue minus operating costs
 - Periodic structural maintenance of \$7.5 per ft² every five years
 - Annual capitalization rates:
 - At present: 5%³⁹
 - At disposition, after 30 years of operation: 10%.

³⁸ The capitalization rate of a revenue-generating asset is the amount of net revenue it produces in a given time-period (typically one year, as in this case), divided by the sale value of that asset. A lower capitalization rate indicates a higher sales price. Capitalization rates are therefore a measure of investor appetite.

³⁹ Source: Altus Canadian Cap Rate Guide for Q2 2023.

7 Results

7.1 Residual Value and Land Lift Results

Applying the methodology described in Section 6 produces the following results:

Table 2: Residual land value by scenario

Land use	Strata		Rental	
	Upper Gibsons	Lower Gibsons	Upper Gibsons	Lower Gibsons
SSMUH 4-plex	\$864,000	\$1,166,000	-\$580,000	-\$445,000
SSMUH 6-plex	\$887,000	\$1,197,000	\$490,000	\$675,000
Townhomes at 1.2 FSR	\$6,797,000	\$8,570,000	\$6,000,000	\$7,150,000
Townhomes at 2.25 FSR	\$7,950,000	\$11,075,000	\$7,400,000	\$9,500,000
Apartments at 2.25 FSR	-\$4,120,000	-\$1,355,000	-\$2,400,000	-\$400,000
Apartments at 3.27 FSR	-\$10,386,000	-\$6,505,000	-\$6,200,000	-\$3,300,000
Apartments at 4.33 FSR	-\$17,880,000	n/a	-\$10,100,000	n/a
Apartments at 5.0 FSR	-\$23,795,000	n/a	-\$13,100,000	n/a
Mixed-use at 2.25 FSR	-\$1,298,000	n/a	-\$230,000	n/a
Mixed-use at 3.27 FSR	-\$7,503,000	n/a	-\$4,310,000	n/a
Mixed-use at 4.33 FSR	-\$13,910,000	n/a	-\$7,650,000	n/a
Mixed-use at 5.0 FSR	-\$18,960,000	n/a	-\$10,450,000	n/a

Each cell of Table 2 shows the residual land value supported by its unique combination of geography, land use, and tenure. Note that these land values are not directly comparable because SSMUH developments take place on 6,000 ft² sites while other developments take place on one-acre sites. Negative entries indicate projects that are not financially viable under current market conditions and would require cash subsidies to become viable. Observe that:

- A given land use, density, and tenure of development is more lucrative in Lower Gibsons than in Upper Gibsons due to the former’s higher revenues, but higher density is achievable in Upper Gibsons due to reduced parking constraints relative to aquifer protection considerations.
- Apartments, mixed-use, and live-work development is not lucrative in Gibsons in today’s market by-and-large because costs have increased in recent years while revenues have slumped. The market is not ready for density bonusing for these land uses in the next few years.
- Under current market conditions, ownership outperforms rental in the ground-oriented categories (SSMUH and townhouse), but rental apartments outperform strata apartments (although they’re still not viable).

For purposes of estimating supportable density bonusing rates, we should look at each parcel's highest and best use, which means that use that supports the greatest land value. As such, density bonusing rates for SSMUH and townhomes should be based on strata rather than rental tenure. The supported rates are as follows:

- Increasing permitted SSMUH unit count from four to six units produces increased land value of:
 - \$23,000 in Upper Gibsons or \$11,500 per unit
 - \$30,500 in Lower Gibsons or \$15,250 per unit
- Increasing permitted townhouse density from 1.2 FSR to 2.25 FSR produces increased land value of:
 - In Upper Gibsons: \$1.15 million per acre which is \$25 per ft² or about \$31,500 per unit
 - In Lower Gibsons: \$2.51 million per acre which is \$55 per ft² or about \$68,500 per unit
- As mentioned, apartment and mixed-use development is not viable in Gibsons today. Moreover, it exhibits negative returns on density, making it unsuitable for density bonusing at present.

7.2 Recommendations

MPLE typically recommends that municipalities seek 50% - 75% of land lift for community amenities. Under the present challenging economic circumstances, we recommend 50% in this case, which produces the following rates:

- In Upper Gibsons:
 - \$5,750 per additional SSMUH unit above a 20-year base density
 - \$15,750 per unit of additional townhouse development above a 20-year base density
- In Lower Gibsons:
 - \$7,600 per additional SSMUH unit above a 20-year base density
 - \$34,250 of additional townhouse development above a 20-year base density.

Note that these rates would apply only to the additional density above the 20-year base density and not to all density in a development.

We further recommend **that the Town introduce this CAC charge gradually over a period of at least 2 years** – for example in the case of townhomes in Upper Gibsons \$10,000 per unit in the first year rising to \$15,750 per unit in the second year – so that the market may adjust to the newly anticipated costs: remember that density bonusing costs come from land lift and should ultimately be reflected in somewhat lower land prices, but that this only works if landowners and developers can anticipate them.

7.3 Affordable Housing

Density bonusing may take the form of cash – as assumed above – or may be delivered in-kind. One popular community amenity for municipalities to acquire through rezoning is affordable housing, and the Town of Gibsons has expressed interest in this objective.

For the purposes of this analysis, MPLE assumes that all affordable housing takes the form of rental units with a starting monthly rental rate of \$1,750, which represents 30% of the monthly income of a household with an annual income of \$70,000, which was identified as Gibsons' median household income in 2020 according to the 2021 Census of Canada. Note therefore that this represents a larger subsidy for larger units.

For each of the four key scenarios identified as suitable for density bonusing (those scenarios identified in Section 7.2 above), MPLE has calculated the share of additional units that could be required as affordable housing that would be equivalent to the cash contributions identified in Section 7.2.

In the case of SSMUH, we discovered that providing even one unit out of six as affordable housing would more than exhaust the land lift identified, making in-kind affordable housing provision an impractical option for this built form. Cash-in-lieu would be the only available option, using the recommended rates identified in Section 7.2 above.

In the case of townhomes, we discovered that:

- The recommended contribution rate of \$15,750 per unit of additional density in Upper Gibsons is equivalent to providing one ninth of all additional floorspace as affordable rental housing.
- The recommended contribution rate of \$34,250 per ft² of additional density in Lower Gibsons is equivalent to providing one fifth of all additional floorspace as affordable rental housing.

Note once again that these shares apply only to density above the 20-year base density required by law, and not to the project as a whole. So, for example, if a townhouse development in Upper Gibsons could accommodate 50 units as-of-right but may conditionally increase its density to 80 units, then it would be economically supportable to require it to provide three townhouse units as affordable housing because 80 units minus 50 units 30 units, of which one ninth is about three.

Note that this affordable housing requirement would be *instead of* rather than *in addition to* the cash contribution rates identified in Section 7.2 above. The Town could safely seek the cash amount or the in-kind affordable units, but not both. The Town could also split the contributions, requiring half of the cash identified above and half of the affordable housing identified above, for example.