
MEMORANDUM

DATE: 25 January 2017
TO: Kristina Bouris, City of Victoria
FROM: Blair Erb, Coriolis Consulting Corp.
RE: Financial Viability of 2 Storey Townhouse Development

The City of Victoria has initiated Neighbourhood Area Planning processes for the adjacent communities of Gonzales and Fairfield.

As input, the City retained Coriolis Consulting Corp. to analyze the financial viability of specific types of potential redevelopment projects in each community and identify the planning implications. We completed our work in the fall of 2016 and submitted a report on 5 December 2016 entitled “Financial Analysis of Urban Development Opportunities in the Fairfield and Gonzales Communities, Victoria BC”.

One of the development forms tested in our December report is 3 storey townhouse development on lots that are currently improved with older single family homes and designated Traditional Residential in the Official Community Plan. Our analysis indicated that the viability of redevelopment of single family lots depends on the size of the existing single family lots included in the overall development site assembly. Larger single family lots are financially more attractive for redevelopment because the existing value of the lots is lower per square foot of site area than smaller single family lots. In our December report, we estimated that single family lot sizes need to be a minimum of 8,000 square feet for 3 storey townhouse development to be financially attractive.

Since we submitted the report, the City has been carefully considering the opportunity for 2 storey townhouse development in the Gonzales neighbourhood. Therefore, the City asked us to analyze additional townhouse scenarios to determine:

- Whether 2 storey townhouse development (with no basement) is viable at a density of 0.6 FSR, assuming garage parking.
- Whether 2 storey townhouse development with underground parking is viable at a density of 0.6 FSR.
- Whether 2 storey townhouse development is viable if an additional basement area is permitted. In this scenario, the overall assumed density is 0.85 to 0.9 FSR including the basement. This includes 0.6 FSR above grade and 0.25 to 0.3 FSR for the basement (which is normally excluded from FSR calculations in Victoria). This scenario assumes garage parking.
- For any viable scenario, the minimum single family lot size that is likely financially attractive for 2 storey townhouse development.

For each scenario, we assume that the townhouse project can be designed to allow maximum average unit sizes in the range of about 1,600 to 1,800 square feet or so. This is consistent with typical unit sizes at newer townhouse projects in Victoria. This likely means that an existing single family lot would need to accommodate at least 4 or 5 new townhouse units (depending on lot size).

To address these questions, we analyzed the financial performance of each of the three different 2 storey townhouse scenarios on the two case study assemblies in Gonzales that were analyzed in in our December report:

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- Site 1 is located in the 100 block of Wildwood Avenue. It consists of two adjacent older single family homes with a combined site size of 11,160 square feet (about 5,580 square feet per lot).
 - Site 2 is located in the 1600 block of Earle Street. It consists of two adjacent older single family homes with a combined site size of 21,648 square feet (about 10,824 square feet per lot).

For each scenario, we used the same approach that we used in the December report, but we updated all of the assumptions about revenues, costs, and existing property values to reflect market conditions as of January 2017 as well as the new development typologies.

Our findings can be summarized as follows:

- The assembly with the smaller existing lots (on Wildwood Avenue) is not financially attractive for rezoning and redevelopment under any of the three different 2 storey townhouse scenarios. The existing single family homes are significantly more valuable than the land value supported by townhouse development.
- The assembly with the larger existing lots (on Earle Street) is not financially attractive for redevelopment under the two lower density townhouse scenarios (0.6 FSR with garage parking and 0.6 FSR with underground parking). The assumed density is too low to make townhouse development financially attractive. However, this case study assembly is financially attractive for rezoning and redevelopment to 2 storey plus basement townhouse development if the overall density is in the range of 0.85 to 0.90 FSR (including the basement area). The land value supported by 2 storey plus basement townhouse use is significantly higher than the value of the properties under single family use.

Our analysis indicates that financial viability of townhouse redevelopment improves as single family lot size increases (which is consistent with our findings in the December 2016 report).

We completed some sensitivity analysis to estimate the minimum lot size that will be attractive for redevelopment (assuming the property is improved with an older single family house). Our sensitivity analysis indicates that existing single family lot sizes need to be at least 8,500 square feet to 9,000 square feet (or larger) for 2 storey plus basement townhouse development to be financially attractive, assuming an overall density of 0.85 to 0.9 FSR (including the basement) and 5 townhouse units per existing lot.

Smaller single family lots are not financially attractive for townhouse development.