October 6, 2020

Dear Mayor Stewart and Councillors:

I am writing to you regarding the proposed rezoning application for 5055 Joyce Street, and in particular, staff's recommendation that no Community Amenity Contributions be collected with respect to this property.

I have attempted to analyze this proposal, and I will start with a couple of questions and my recommendation.

First, one should ask: Is this proposal a good deal for the City? The information provided in the staff report is not sufficient to say. The City, in waiving the Community Amenity Contribution, would receive only 10 vacancy-controlled units out of 360 units being constructed, and forego possibly several million of dollars in Community Amenity Contributions. The remaining 350 units will be market rental units: What do those 350 units do in assisting the City meet its goal of constructing "affordable housing".

I urge Council, before making this decision, to require staff to provide you with an estimated value of the Community Amenity Contribution as if there were no vacancy-controlled units in the project. Once you have that value, you can make the determination of whether you would rather have that money available for community amenities, which presumably, could include the construction of truly "affordable" rental units, or other worthwhile initiatives.

Now for the details:

Staff's recommendation is premised on the fact that the applicant has agreed that the rent on at least 10 of the suites will be pegged at 20% below the CMHC average market rents for the area, and vacancy controlled (i.e. rent increases limited to those permitted by the Residential Tenancy Act) for at least 60 years.

It should be noted that the units proposed to be rent-controlled will represent less than three per cent of all units in the building.

I have analyzed the potential impact of the rental concession on the capitalized value of the projects's gross revenues. It goes without saying that a proper analysis would look at the NOI impact, however it is difficult for the public to build a robust model on short notice. The Financial Assumptions are outlined at the end of this message.

Proposed Unit Mix	Total Units	Market	Below Market
Studio	15	15	0
1 Bedroom	217	217	0
2 Bedroom	93	93	0
3 Bedroom	35	25	10
	360	350	10
Implied CMHC Rent	"Below Market" Rent	Market Revenue	Below Market Revenue
1,098	878	16,463	-
1,313	1,050	284,813	-
1,868	1,494	173,678	-
2,103	1,682	52,563	16,820
	Total Monthly Rental Income	527,515	16,820
	Annualized	6,330,180	201,840
	Capitalization Rate	3.25%	5.25%
	Capitalized Value	194,774,769	3,844,571
	Total Value - Market + CMHC	198,619,341	
	Capitalized Value - No CMHC	202,537,846	

The impact on the annual revenue of the project, based on the preceding assumptions, is roughly $202,000 on $6.5 million in revenue, or about three percent, which is considered to be quite low. The difference in the capitalized value of the gross rental stream is $3.9mm, or about 2%, which is in the realm of a rounding error.

It should be noted that the 637 square metres of floor space required to be set aside by the developer for the vacancy-controlled units is about three percent of total floor space. The MIRHP Program requires at least twenty percent of floor space be devoted to “affordable housing”, as defined by the City.

By any measure, the developer is giving up next to nothing to receive this subsidy from the City. Staff may counter by saying there is an economic cost to being subject to a sixty year housing agreement, however the basis for that assertion is not clear. No appraiser I have spoken with has said the existence of a Housing Agreement binding a site to rental use for 60 years adversely impacts the market value of the property. If the Housing Agreement includes vacancy-controlled units, then appraisers advise that the market value is adjusted to reflect the revenue impact of those units, but no adjustment beyond that is required.

To reiterate, I recommend Council require staff to provide the estimated value of the Community Amenity Contribution before making this decision. Once you have that information you will be in a position to make a much better-informed decision, which is quite important given the diminished state of the City’s finances.

Yours truly,

Ian Crook

Notes Re Financial Assumptions:

As I was not able to locate the CMHC table staff was referencing in the Referral Report, the Below Market Rent has been grossed up by 1.25x to establish the Implied CMHC Market Rent. It would not be surprising to learn that the developer was able to achieve substantially higher rents upon completion, particularly on the upper floors of the building, given the superior views on offer. The capitalization rates used reflect what various market sources have indicated they think cap rates are for apartment buildings in Vancouver. The higher cap rate applied to the vacancy-controlled units reflects the adverse impact of vacancy control on a landlord's ability to freely increase rents. In order to maximize the adverse impact of the vacancy-controlled units, it was assumed only three bedroom units would be put into the vacancy-controlled pool.