An Analysis

 of the

 Highest and Best Use for Redevelopment

 Located at

 **1510 East Pender Street**

 **Vancouver, British Columbia**

 For

 1510 East Pender St Holdings Ltd

 As of

 December 6, 2019

 by

#  Ranjit Dhaliwal, DULE

 1885 E 43rd Ave

 Vancouver, British Columbia

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# **Definition of the Problem**

**Purpose of the Feasibility Report**

The purpose of this report is to identify the highest and best use for redevelopment of the fee simple interest in the subject property as at December 06, 2019. The subject property is at the end of its remaining economic life and is ripe for redevelopment

**Intended Use of the Report**

The intended use of the report is to provide the current owners with an identification of the highest and best use of the property. This analysis will help aid in directing and implementing the correct redevelopment strategy for the subject property and provide the most probable use that would maximize investment returns to the owners will mitigating risk.

**Civic Address**

1510 E Pender St, Vancouver B.C

**Legal Description**

|  |
| --- |
| Lot B (Explanatory Plan 9005) Block 6 of Block C District Lot 183 Plan 417  |

**Parcel Identifier**

015-292-177

**Present Registered Owner**

1510 East Pender Street Holdings Ltd, Incorp # BC0866762

1488 Semlin Drive, Vancouver B.C

**Past Sales History**

No sales have occurred in the prior 3 years as of Feb 06, 2016

**Real Property Rights Analyzed**

The Fee Simple as though unencumbered

**Encumbrances**

Mortgage – Blue Shore Financial #CA 4911603

Assignment of Rents- Blue Shore Financial #CA 4911604

**Effective Date of Report**

December 06, 2019

**Definition of Highest and Best Use**

An accepted Canadian definition of highest and best use is:

The likely use, selected from a number of available choices, to which an area of land or a building may be put to use, based on what is physically possible and in compliance with zoning and building regulations and which, at the time of an analysis, produces the most profitable present value of the land. (CUSAP)

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# **Scope**

The scope of this assignment included:

* an inspection of the interior and exterior of the property on November 28, 2019;
* a review of mapping provided by the City of Vancouver;
* a review of land use control information obtained from the City of Vancouver;
* a review of reliance documents described below;

Reliance Documents

Documents relied on for my analyses include:

* a title search print obtained from the Land Title Office
* a property inquiry obtained from the City of Vancouver;
* the following documents, as provided by Mrs. April Green of 1510 East Pender Holdings Ltd.:
* Altus Cost Guide
* CMHC Market Rent Report

Technical Investigations

I did not complete technical investigations such as:

* Engineering review of the structure, roof or mechanical systems;
* a technical review of the utility servicing;
* investigations into the bearing, percolation or other qualities of the soils;
* planning or engineering studies as necessary to examine the feasibility of alternate uses;
* an environmental review;
* an archaeological survey; or
* audits of financial reports and legal (lease and other) arrangements pertinent to the financial operation of the property, as reported by the owner and its agents.

Verification of Third-Party Information

The analysis set out in this report relied on written and verbal information obtained from a variety of sources I considered reliable. Unless otherwise stated herein, I did not verify client-supplied information, which I assumed to be correct. Any party wishing to rely on this report should confirm the source of any important information herein as well as the assumptions that underlie any significant conclusion. It is important to note that this extent of verification would not be suitable for an analysis expected to be used in arbitration or a board of court hearing

Hypothetical Assumptions and Extraordinary Limiting Conditions

The identification of the highest and best use of the property provided herein assumes a rentable area of 3,380± square feet. Verifying this estimate requires a survey by a professional surveyor.

# **Land Description and Analysis**

# Dimensions, Shape and Area

The subject property located at 1510 E Pender St is a rectangular shaped lot with a total area of 7,015 sqft. The dimensions of the property are: 57.5ft frontage both in the front and rear and 122 ft depth on the west and east side of the property. These dimensions were obtained from the registered site plan and were checked for accuracy during the site visit.

# Topography and Drainage

The subject property’s soil consists of a combination of stiff clay and clay shale soil. The load bearing characteristics of stiff clay are 150 kPa and would be the top layer of soil underneath the property. The layer underneath is clay shale and has a load bearing characteristic of 300 kPa. This information was obtained by reviewing the Peat Moss & Waterways Geotechnical Map of Vancouver and confirming the findings with a geotechnical engineer. Information on the soil bearing capacity was obtained from Part 9 of the 2012 BC Building Code Manual.

 Another important consideration in regards to soil conditions is that the subject property contains undisturbed soil underneath the property due to the building not having underground parking, this is ideal soil conditions for future development due to the fact that the excavation for any underground parking will be performed on undisturbed soil. There is also no evidence of settling anywhere on the subject property.

The subject property has a gentle slope that allows precipitation to runoff to the front of the property which is the north side of the lot. Precipitation runoff is facilitated by storm water catch basins that are located at the front of the property (north side), rear of the property in the back lane (south side) and the north-west side of the property. After a visual inspection there were no signs of flooding or ponding of water on the subject lot. The subject property has normal or average landscaping when compared to the rest of the neighbourhood. There are 6 tall trees with medium foliage located on City of Vancouver property that provide a nice aesthetic appeal to the property. There are also adequate amounts of permeable surface area surrounding the subject lot which helps with management of precipitation runoff.

# Services

The subject property has access to all of the various utilities that most residential properties have in the City of Vancouver which include storm sewer, sanitary sewer, water, hydro, natural gas, telephone and cable tv. The size of the utilities for the subject property are:

|  |  |
| --- | --- |
| Storm/Sewer (located at PL)  | 150MM |
| Water  | 40MM |

The subject property does not have the upgraded dual storm and sewer connection that was started in the late 1990’s by the City of Vancouver. This updated system has a separate pipe for storm and sanitary sewer and will be installed when the subject property is redeveloped. The subject property also doesn’t have a water meter that was recently implemented by the city. This water meter will also be installed when the subject property is redeveloped. Any expansion to city services will have to be applied for when the subject is redeveloped and would be performed when the city upgrades the current services.

Electrical service is a 400-amp service which is run underground and is located in the rear lane. Cable and telephone service are also in the rear lane and runs overhead from the service point to the subject property. Natural gas service is located at the front of the subject property and runs underground. The subject property has the same access to police, fire, ambulance and mail service as all other residential properties in the City of Vancouver. Mail service is from the front entrance of the building where there are individual mailboxes for all of the units in the building.

Current service providers for the subject property are:

|  |  |
| --- | --- |
| Storm/Sewer/Water | City of Vancouver |
| Natural Gas  | Fortis BC |
| Cable/Telephone  | Shaw/TELUS |
| Hydro  | BC Hydro  |
| Police | Vancouver Police Department |
| Fire  | Vancouver Fire Department |
| Ambulance  | BC Ambulance Service |

Essential life services that are provided by the City of Vancouver are free of charge except for BC Ambulance service which charges per use. These services are free of charge because they are paid for in advance by property taxes that are collected by the City of Vancouver. Hydro, natural gas, cable and telephone are all charged monthly. There are no user fees applied for any services for the subject property. Essential services are provided regardless of any specification of users and any monthly charges for utilities are billed according to use. The nearest fire hydrant is located 50 feet from the subject property and is located directly in front of the subject property on the other side of E Pender St.

# Right of Way and Easements

The subject property has no right of ways or easements registered on title at the Land Title Office. There is also no standard easement in the City of Vancouver except for the requirement of having a dedicated and open alleyway that is a width of 20 ft. Any rear lanes that are less than the required 20 ft will result in the City of Vancouver expropriating the difference needed to make the rear lane 20ft when the property is eventually redeveloped. Upon site inspection it was noted that the subject property has a paved 20 ft open rear lane and wouldn’t be affected.

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# Summary and Conclusion

The appeal and marketability of the subject property is quite attractive. It is currently zoned RM-4 which allows the development of a multi-unit building. The attractiveness of this property as a multi-unit building is achieved through its lot size and the FSR ratio that is allowed under both outright and conditional uses. Although the subject property is already a multi-unit building, current RM-4 zoning allows an outright floor space ratio of .75. Conditional uses which require approval from the Development Permit Board allow a higher floor space ratio of 1.45 max but require strict adherence to a number of conditions and are not guaranteed.

The subject property also conforms to neighbouring properties as a multi-unit residential use. However, the adjacent lots to the east of the subject property consist of smaller parcels which contain two-unit dwellings. The property located directly south of the subject property across the rear lane is similar to the subject property in both lot size and building size and is also a 6-unit building. This property also has several smaller parcels to the east of it that contain two family dwellings. The constraints on development of the subject property are based on the RM-4 guidelines that explicitly detail outright and conditional uses along with the requirements for these uses

#

# **Description of Improvements**

# Type, Class, and Architectural Style

Present improvements consist of a two-storey, wood-frame with slab on grade, purpose-built rental apartment building. The architectural style of the building is a two-storey traditional building with a flat roof. The development of the building features six suites: five one-bedroom units and one two-bedroom unit. The gross building area is estimated at 4,743 square feet, which result in a floor space ratio of 0.68. The rentable area is estimated at 3,380± square feet (Average unit size = 563 square feet). The observed quality of the building construction was considered good.

# Age and General Condition

The building was constructed in 1967. The main entrance to the building is located on the north side of the building, fronting on East Pender Street. The ground floor comprises a small entrance lobby, three one-bedroom suites, a laundry room, and a mechanical room. The second floor contains 2 one-bedroom suites, 1 two-bedroom suite and three separate storage rooms. Access between floors is provided by two stairwells. After review and inspection of the building, the overall condition of the building was considered good.

# Dimensions and Area

The dimensions and area of the subject building are:



# Design and Layout

The subject property has a total of 6 units with a suite mix of 5 one-bedroom units and 1 two-bedroom unit. The sqft of each floor is the same with the ground floor comprising of a small entrance lobby, three one-bedroom suites, a laundry room, and a mechanical room. The second floor contains 2 one-bedroom suites, 1 two-bedroom suite and three separate storage rooms. Access between floors is provided by two stairwells. All of the suites in the building are self-contained and include a four-piece bathroom, with a sink and vanity, a toilet and a bathtub with shower. Each unit has a kitchen that incorporates an electric range and oven, an apartment size refrigerator, wood cupboards and single compartment stainless steel sink.

# Summary and Conclusion

The subject property improvements are typical of what market occupants would expect from a multi-unit rental building. The overall condition of the property is considered poor, with extensive renovations being needed to maintain the building. Given the condition of the subject property, the owners are justified in wanting to identify a potential redevelopment strategy.

# **Zoning or Land Use Classification**

Zoning Bylaw

The zoning bylaw number is # 3575 and came into effect in 1962. Although the bylaw has a long history, it is constantly amended when changes or regulations are approved. The zoning bylaw when the subject property was built was also the bylaw # 3575 but it most likely had a different set of regulations and land controls at the time.

Designation

The subject property zoning designation is RM-4 multi-family residential which has an outright FSR of 0.60 for one and two-family dwellings and a maximum of 0.75 for any other uses. The RM-4 zoning also has a maximum conditional FSR of 1.45

Other Land Use Controls

Although the subject property currently has RM-4 zoning it is based under a larger community plan that was developed for the neighbourhood called the “Grandview-Woodland Community Plan”. The Grandview-Woodland Community plan was created and implemented in 2012 and does not hinder the development potential of the subject property or the RM-4 district schedule in the neighborhood. The community plan has a larger focus on future rezoning of single-family homes into RT zoned two family dwellings.

There are no other restrictive covenants or land use controls that affect the subject property or the RM-4 district schedule.

Permitted and Discretionary Uses

*\*\*Please Refer to Appendix 1.1 for the zoning excerpts from the RM-4 Zoning Bylaw*

The permitted uses under RM-4 Zoning are:

Outright Uses

* Multiple dwelling (5 or fewer dwelling units)
* One family dwelling
* Two-family dwelling
* Rooming house
* Multiple Conversion dwelling
* Accessory building
* Accessory Uses

Conditional Uses

* Agricultural
	+ Urban Farm
* Cultural & Recreational
	+ Club
	+ Community centre or neighbourhood house
	+ Library in conjunction with a community centre
	+ Park or Playground
* Multiple dwelling (6 or more units)
* One Family dwelling with secondary suite
* Seniors supported or Assisted living
* Institutional
	+ Ambulance station
	+ Childcare facility
	+ Church
	+ Hospital
	+ School
	+ Community care facility
	+ Group residence
* Retail
	+ Farmers market
	+ Grocery Store
	+ Public bike share
	+ Bed and breakfast

The above stated uses within the RM-4 district schedule are not impacted by any OCP or restrictive covenants. If any restrictive covenants do exist, they will be site specific and reflected on title. Conditional uses are subject to approval from the director of planning and/or Development Permit Board.

Basic Requirements/Conformity Analysis

 *\*\*Please refer to Appendix 1.2 for zoning excerpts for zoning conformity*

|  |  |  |  |
| --- | --- | --- | --- |
| Criteria | Bylaw Min/Max | Subject Data | Conforms Yes/No |
| Site Area  | Min 550m2 | 651m2 | Yes |
| Frontage  | Max 45.8m | 17.4m | Yes |
| Building Height  | Max 10.7m | 6.7m | Yes |
| Front Yard  | Min 6.1m | 7m | Yes |
| Side Yard  | Min 2.1m | 2.9m | Yes |
| Rear Yard  | Min 10.7m | \*\*8.22m | Yes |
| FSR  | Max 1.45 | .90 | Yes |
| Site Coverage  | .65 | .42 | N/A |

*\*\*minimum rear setback is 10.7m except for where the property abuts a rear lane. Then it is 10.7m – width from PL to center of rear lane (10ft)*

Statement as to Conformity

After conducting a conformity analysis on the subject property, it was determined that the subject property represents a legal conforming use, based on all current and applicable zoning regulations in the RM-4 zoning district.

Trends and Policies

The City of Vancouver is currently experiencing a housing supply and affordability problem. These issues of have been caused by demand that is outstripping supply, which in turn leads to significant appreciation in both price and market rents. The City of Vancouver is known for having lots of regulation and restriction in regards to zoning changes, development approvals and urban planning. More recently, the City of Vancouver has been trying to tackle urban growth by amending current community plans and focusing on creating zoning changes along arterial roads and transit hubs. The most recent significant zoning changes have been the Cambie Corridor Plan which was enacted in May of 2011 and the Norquay Community Plan which was enacted April of 2012. Both community plans rezoned a majority of single family zoned lots into RM zoning. This is similar to what is slowly occurring in the Grandview-Woodland Community Plan, where municipal officials plan on rezoning a majority of the remaining single-family homes but the difference is that the new zoning will be RT zoning (two-family).

This zoning change in the Grandview-Woodland Community Plan doesn’t affect the subject property because it is already zoned RM-4. The RM-4 zoning allows the redevelopment of the subject property into a multiple unit building that can be either a rental apartment building or a strata building depending on “rate of change” rental protection policies. The City of Vancouver does have incentive programs available to encourage purpose-built rentals like: STIR (Short Term Incentives for Rentals) and Rental 100. In these programs, the City of Vancouver waives a majority of municipal fees and expedites the permit approval process for purpose built rental development projects.

The City of Vancouver actively regulates the use of specific zonings and enforces the zoning bylaws through fines and other punitive measures. If a property is being used for something that isn’t in accordance with zoning bylaws, the City of Vancouver has the authority and ability to shut the premises down and force the owner to bring the property into compliance with all applicable bylaws.

Conclusion

Zoning and land use controls directly impact every member of a municipality, whether they are directly involved or not. Potential zoning changes in transition areas can create a windfall profit for otherwise non-suspecting owners and creates development opportunities for public and private developers and construction companies. The municipality also enjoys the benefits of zoning and development through collecting fees

and enhancing the quality of public spaces and community amenities. Zoning also plays a significant role in how the growth of a city is controlled, regulated and planned. It’s evident that the population in Vancouver will continue to increase, meeting that demand for space requires careful and strategic planning from municipal urban planners who try to balance the need and demand for space with social goals like affordable housing and environmental sustainability. In the end, zoning and land use controls and planned growth strategies serve each stakeholder in the process with an opportunity to act in their own best self interest which ironically results in a mutual exchange of benefits for all parties involved.

# **Highest and Best Use Analysis**

#

Theory and Principle of Highest and Best Use

In real estate appraisal theory, the definition of Highest and Best use can be defined as the most likely and reasonable probable use of vacant land or improved property that takes into consideration the 4 criteria that determine the ideal use of the property. These 4 criteria are tested sequentially and are listed in order:

1. Legally Permissible:
	1. In order for a specific use to be considered, it must be allowed by local zoning regulations and land use controls.
2. Physically Possible:
	1. In order for a specific use to be considered, the land must exhibit the physical possibility of allowing the intended use. Physical constraints like lot size, shape, access to utilities and topography can limit or hinder uses that are legally permissible.
3. Financially Feasible:
	1. In order for a specific use to be considered, the intended use must provide all stakeholders with a sufficient rate of return on investment. An intended use may not achieve returns for a variety of reasons like: risk, cost of construction, weak demand, availability of capital, interest rates.
4. Maximally Productive:
	1. In order to determine the highest and best use of any alternative uses, the use that produces the highest residual land value after subtracting and discounting all costs and associated risks, is the highest and best use.

Its important to note that the application of these 4 criteria follow in sequentially order and all uses that are being considered must filter through or pass the preceding criteria

The analysis and eventual classification of highest and best use is determined by several appraisal and economic principles that collectively create and maintain this value. When these principles are in proper accordance they result in the highest and best use of land. These principles are:

1. Supply:
	1. Property values usually react inversely with changes in supply. Any increase in the supply of housing without an equal increase in demand, will cause a “shift” of the supply curve and result in a lower equilibrium price for any quantity demanded. It is also observed that as price increases, so does the quantity supplied which will eventually result in an equilibrium price with prices flattening.
2. Demand:
	1. Since supply is fixed in the short run in regards to real property, it can be concluded that demand dictates price movements in the short run. This lag time in supply entering the market combined with an increase in demand causes upward pressure in real property values. The two underlying factors of value which are desire and effective purchasing power create the increase in demand.
3. Conformity:
	1. The principle of conformity states that real property value is created and sustained when its underlying characteristics conform to the present demands of its market. The value impacting characteristics of conformity can be explained by the principle of progression which states that a lower priced property will be worth more in a high-priced neighbourhood and the principle of regression which states that a high-priced property will be worth less in a lower priced neighbourhood.
4. Surplus Productivity:
	1. The principle of surplus productivity represents the net income or value attributable to land once all costs related to the other agents of production have been paid and accounted for. This remaining value is used to determine what the highest and best use is for a piece of land when comparing multiple potential uses.

These appraisal and economic principles all contribute to the process of determining the highest and best use of land. These principles create and maintain the value of real property and help the appraiser explain how value is determined.

Highest and Best Use of the Site

In order to determine the highest and best use of the site, a logical and sequential framework needs to be applied to the subject property. The 4 tests of highest and best use will be applied in sequential order along with testing potential uses against the economic and appraisal principles that create highest and best use.

**Legally Permissible Use**

As mentioned in the Zoning and Land Use section, the legally permissible uses for the subject property according to the RM-4 zoning schedule are:

 **Outright Uses**

1. Single family & two-family dwelling
2. Multiple unit dwelling

*Maximum FSR for single family and two-family dwellings is .60 and .75 for multiple unit dwellings*

**Conditional Uses**

1. Multiple unit dwelling (more than 6 units)
2. Seniors supported or Assisted living
3. Cultural & Recreational
4. Agricultural Use
5. Institutional Uses
6. Retail Uses

Maximum FSR for any conditional use is 1.45 and must meet the following requirements:

* All required parking spaces shall be provided underground or within the building envelope.
* Useable on-site space shall be provided
* Minimum of 20% of total units within the building shall consist of 2 or more bedrooms except for purpose built seniors housing
* Site coverage shall not exceed 65%

When determining the legally permissible use of land for the subject property, there is a large range of potential uses that are allowed at first glance. However, at this point it is important to note that although this analysis is for the highest and best use of the site as vacant, there are regulations in place in the City of Vancouver that restrict the form of redevelopment if the existing use is a multiple dwelling rental building.

*\*\*Please refer to 3.2.D.W “Multiple Dwelling consisting of 6 more units” from the zoning excerpts in the Appendix*

**Rental Housing Stock Official Development Plan**

The City of Vancouver adopted a bylaw in 2007 called the “Rental Housing Stock Official Development Plan”. This bylaw pertains to certain zoning districts which include RM-4 zoned lots similar to the subject property. More recently, a new bylaw was also added in 2015 called the “Tenant Protection and Relocation Policy”. This bylaw states a “rate of change” of **1 to 1** for any building that has 6 or more units and requires any demolition or change of use that would affect any current rental units. The subject property is currently in use as a 6-unit rental building, therefore it would be affected by this bylaw. Although the analysis treats the site as vacant, these bylaws can’t be circumvented.

*\*\*(As of November 22,2017, the rate of change rental replacement requirements will now be applied to buildings of 3 or more units instead of 6 or more)*

As a result of these bylaws, the legally permissible use of the subject property must consist of an income producing rental building that provides a minimum of 6 rental units in the building. In addition, the prospective use will have to be applied for as a “Conditional Approval” and follow conditional use guidelines.

The possibility of future zoning changes was also examined by reviewing the Grandview-Woodland Community Plan which guides future growth over the next 30 years and by reviewing any past re-zoning applications or decisions. After reviewing the community plan and re-zoning applications it was noted that there isn’t any indication that the subject property’s RM-4 zoning will be changed to a different zoning in the near future

**Physically Possibility of Use**

The test of physically possibility relates to all on-site characteristics of the subject property which could hinder or restrict development. These restrictions can be topography, utility services, shape, size, slope, accessibility and environmental restrictions. Each possibility is explained as follows:

1. Topography:
	* + The topography of the subject site consists of a flat even lot with a slight slope towards the northwest. There is adequate drainage and no signs of pooling or uneven areas within the site
2. Utilities:
	* + The subject site has all required utilities, including gas, water, electricity, sewer and TV/Telephone. Water and sanitary sewer are located at the front of the property and electricity and TV/Telephone are located in the rear lane.
3. Shape:
	* + The subject site is a rectangular shaped lot
4. Accessibility:
	* + The subject site fronts onto E Pender with Maclean Dr abutting the west corner with both roads fully paved and accessible. The rear lane of the subject property is also fully paved with a width of 20 ft.
5. Environmental:
	* + The subject site has no environmental contamination and has adequate soil bearing capacity with a combination of undisturbed clay shale and stiff clay as soil material.
6. Size:
	* + The subject site has a 57.5 ft frontage and 122 ft of depth. Total lot size is 7,105 sqft.

After analyzing all site-specific physical characteristics, it was observed that no characteristics would impede any potential use that is legally permissible except for the size of the subject property. Due to the “rate of change” requirement which requires a minimum of 6 rental units and having to conform to conditional use regulations, the objective now becomes a land use maximization process in order to obtain the maximum building square footage and floorplate under conditional use zoning criteria. These restrictions and regulations which relate to FSR, site coverage, setbacks and parking requirements will ultimately dictate the most probable use given the site area.

In order to better determine the most physically possible use due to the lot size, a building envelope analysis was performed with an emphasis on determining the BSFmax (building square foot max) under given zoning criteria and land use controls described in the RM-4 zoning schedule.

Building Envelope Analysis:



Under the regulations for conditional uses in the RM-4 zoning district, it was established that the highest and best use of the subject property given the physical constraints of the size of the lot are a 3 storey 10,049 sqft residential use building with one level of underground parking. Below is a conformity table providing greater detail.

|  |  |  |  |
| --- | --- | --- | --- |
| Criteria | Subject Property | Bylaw Min/Max | Conforms Yes/No |
| Site Area  | 651m2 | Min 550m2 | Yes |
| Frontage  | 17.52m | Max 45.8m | Yes |
| Building Height  | 10.05m | Max 10.7m | Yes |
| Front Yard  | 6.1m | Min 6.1m | Yes |
| Side Yard  | 2.1m | Min 2.1m | Yes |
| Rear Yard  | \*\*7.62m | \*\*Min 10.7m | Yes |
| FSR @1.45 | 10,101 | 10,171 | Yes |
| Site Coverage  | .48 | .65 | Yes |

*\*\*minimum rear setback is 10.7m except for where the property abuts a rear lane. Then it is 10.7m – width from PL to center of rear lane (10ft)*

**Financially Feasible Use**

After identifying the most legally permissible and physical possible use of the subject property, it was determined that the highest and best use of the property is a 3-floor residential building with a total of 10,050 sqft and 1 level of underground parking consisting of a minimum of 6 market rate rental units. In order to identify what use would be the most financially feasible, we first need to examine the rental incentive programs that the City of Vancouver offers.

**Secured Market Rental Housing Policy (Rental 100)**

The City of Vancouver has a rental incentive program called “Rental 100” that provides several benefits for purpose built secured market rental buildings. These incentives include parking requirement reductions, Development Cost Levy (DCL) Waivers, increased density and concurrent permit processing. After Reviewing the Rental 100 regulations for the subject property, the following incentives could be applied:

|  |  |  |
| --- | --- | --- |
|  | Rental 100 | Market Rental |
| Parking Requirement  | 6 spaces | 1 space per unit |
| DCL Fee  | Waived | $8.66 per sqft |
| Increased Density  | N/A | N/A |
| Permit Process  | 6-7 months | 13 months |

*\*\*Parking requirement under Rental 100 is 1 space per 125m2 of gross area minus 20% if the property is located within two blocks of a major intersection served by transit. See Appendix 1.3 for excerpt*

Under the Rental 100 program, the owner enters into a rental housing agreement with the City which secures the rental units for 60 years or the life of the building. Maximum unit sizes and maximum rents are also determined and are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Size | Secured Max 1st year Rent | Non-Secured Market Rent  |
| Studio | 450 sqft | $1360 | $998 |
| One Bedroom | 600 sqft | $1747 | $1103 |
| Two Bedroom | 830 sqft | $2308 | $1459 |
| Three Bedroom | 1,044 sqft | $3030 | $1667 |

*\*\*See Appendix 1.4 for Rental 100 1st year max rent excerpts*

*\*\*See Appendix 1.5 for Rental 100 average max unit size*

*\*\*See Appendix 1.6 for CHMC Zone 8 2018 average market rents*

*\*\*Family units (2 bedroom or more) must be 25% of unit mix*

Optimal unit mix for both types of use:

Secured Market Rental Housing Use

|  |  |  |
| --- | --- | --- |
| 5 | 450 sqft Studio  | 2,250 sqft |
| 7 | 600 sqft One Bedroom | 4,200 sqft  |
| 3 | 830 sqft Two Bedroom | 2,490 sqft  |
| 1 | 1,044 sqft Three Bedroom | 1,044 sqft  |
| **16** |  | **9,984 sqft Total** |

\*\* 2 bed & 3 bed units meet minimum 25% of unit’s criteria under Rental 100

Non-Secured Market Rental Housing Use

|  |  |  |
| --- | --- | --- |
| 13 | 450 sqft Studio | 5,850 sqft |
| 7 | 600 sqft One Bedroom | 4,200 sqft |
| **20** |  | **10,050 sqft Total** |

Net Operating Income Calculation

In order to determine which use results in the highest financial feasibility, net operating income needs to be calculated for both the secured market rental use and the non-secured rental housing use. However, after reviewing current market rents according to CMHC it was observed that the max 1st year rents under the Rental 100 program are significantly higher that current rents. As a result, in determining NOI for both uses we will use current CMHC market rents instead. In order to truly identify a difference in NOI between the two types of uses and since there is no restriction for non-secured rental uses, we made the unit mix for the non-secured market rental use a combination of studio and one-bedroom units which provides the highest possible effective gross income.



After calculating net operating income, it is evident that both uses produce an adequate net operating income. However, the non-secured market use produces a slightly higher NOI

**Maximally Productive Use**

When analyzing the maximally productive use, it is understood that the use that provides the highest residual value to land is considered the highest and best use. Currently we have two competing uses which are both income producing but consist of two different approaches. In order to determine the use that is considered the highest and best use of the property, we will apply an approach that identifies any difference in value by comparing the income produced by each use and its relative cost to construct.

Both uses consist of developing a 3-storey rental building of approximately 10,000 sqft with one use being developed under the City of Vancouver’s “Secured Market Housing Policy (Rental 100)” and the other use being a purpose-built rental building built without any incentives and also no restrictions in regards to unit mix and market rents. Since both uses are extremely similar except for revenue and cost, in order to identify any advantages or disadvantages we will base our analysis on a financial metric called Yield on Cost





The yield on cost analysis shows that the secured market rental use provides the higher residual or return to the investor due to the savings from the incentives under the Rental 100 program. After the first year of occupancy both uses must adhere to the Residential Tenancy Act in regards to rental growth rates and the max rent restriction under the Rental 100 program is higher than the current achievable rents for the area so there was no loss in revenue from under market rents. The only difference in revenue was from the unit mixes which resulted in the non-secured market use providing a slightly higher net operating income

**Conclusion**

After applying the 4 criteria of highest and best use to the subject property along with the economic and appraisal principles that support the use, it was determined that the highest and best use of the subject property is a: residential use secured market rental apartment building likely with a wood frame 3 storey building with 1 level underground parking consisting of 16 units with a total of 9,984 sqft of living space over 50% of the site area and 6 underground parking stalls.