ATTACHMENT C
MEMO FROM ROLLO & ASSOCIATES (2021-OCT-15)

ROLLO LTD + ASSOCIATES

October 15, 2021

Lisa Brinkman

Re: Response to Questions Raised by Council

G. P. Rollo & Associates (GPRA) has been asked to prepare responses to questions from Nanaimo City Council and an e-mail submission form the Nanaimo Development Group on the following topics as they relate to our CAC updates for the City:

1. CAC Policy and housing affordability
2. CAC Policy and property tax matters
3. CAC Rate based on increase in number of units or total number of units
4. CAC Rate based on FAR or per unit
5. Ad hoc negotiations versus flat rates

Question 1: CACs and Housing Affordability

As we explain in our report to the City Dated July 7 2020 under section 2.4 Land Lift our economic analysis is focused on the changes in land value a developer can afford that are associated with a change in permissions granted by the City, generally through a rezoning process. The underlying principal is that land only carries the value inherent with development permitted under current zoning and any amount a developer pays over and above that is speculative value based on an assumption that they will be granted a rezoning. Conversely, there is an economic value a developer can afford to pay for a site were the zoning already in place to develop as they have proposed in the rezoning application. The difference between these two values is the "Land Lift" and this is what is being identified as potential monies for amenities, generally recommended to be less than 100% of this value, although some communities to target 80% or 90% of this lift.

The fundamental principal around this analysis is that given time for the market to adjust to new charges the most likely place that there will be room to make adjustments is in the bid price for land for future development. The argument frequently made by the development community is that increased fees and charges get directly passed on to end users/purchasers but this is counter-intuitive. In the free market developers and realtors seek to maximize revenues to increase profits to their maximum potential. The reality is that developers and realtors will sell housing for the maximum that the market will bear. Were City fees and charges to be reduced by 20% tomorrow developers would not immediately reduce pricing to reflect these reduced costs. The only time they would do so would be when demand drops below their supply and the timing they have planned on with their financiers. Again – developers in the free market would not being doing their job if they sold market units for less than the maximum value they can get on the open market. If there is too short a time between the development community being made aware of fee and charge increases (i.e. if new rates were applied to in-stream applications) and developments going to market they would be forced into making up the

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increased cost by taking a lower profit unless they can achieve savings elsewhere. It is our firmly held opinion that there is little to no opportunity to pass these increased costs onto purchasers except in an overheated market where demand far outstrips supply.

Question 2: CAC Policy and Property Taxes

GPRA concurs that property taxes over the long term provide a more sustainable and much larger source of revenues than CACs that could be applied to public amenities. However, senior levels of government have indicated that density bonusing and voluntary community amenity contributions are an acceptable means to secure monies for public goods, although there should be clear indication from jurisdictions as to what sort of a municipal assist factor can be expected from property taxes toward amenities.

Question 3: CAC Rate based on increase in number of units or total number of units

The discussion in Council used the terminology or "gross and net" to describe how rates differed when looking at being calculated on the total number of units (gross) or the increase in permitted units (net increase). Typically the terms gross and net are used to describe the differences between the total built area (gross buildable area/GBA) and the usable/saleable/leasable area (net area) and can be confusing if used to describe the total number of units versus the incremental number of units.

This being said our analysis can derive a suggested flat fee for either total numbers of units or the increased number of units. The underlying analysis is focused on the total cash contribution being sought in the case study examples. The rate is simply which number we use to arrive at the fee, total or incremental. From there it is a matter of ensuring that the rates are then applied appropriately going forward. The tables below provide an example of how this would work:

			Units		CACs by Unit	
	Lift	50% Share	Total	Incremental	Total	Incremental
Single Family	$32,000	$16,000	2	1	$8,000	$16,000
Townhouse	$75,000	$37,500	5	4	$7,500	$9,375
Apartment	$1,780,000	$890,000	178	153	$5,000	$5,817

By Total Units	Units	CAC/Unit	CAC
Single Family	2	$8,000	$16,000
Townhouse	5	$7,500	$37,500
Apartment	178	$5,000	$890,000

By Incremental	Incremental Units	CAC/Incremental Unit	CAC
Single Family	1	$16,000	$16,000
Townhouse	4	$9,375	$37,500
Apartment	153	$5,817	$889,999

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When we take the target CAC in the example and divide it by the incremental number of units the flat fee increases as we are collecting the same amount of money but spread over fewer units.

Question 4: CAC Rate based on FAR or Per Unit

This is perhaps misstated as being based on FAR, when what is actually being proposed is having CAC rates based on floor area rather than numbers of units. GPRA acknowledges that using a rate using floor area rather than units can have many benefits, including avoiding discouragement of smaller units as they have less square footage to absorb the cost of a CAC if it applied on a per unit basis. There may also be other factors which make CACs by unit more practical, especially with single detached homes, but from an analytical perspective it really makes little difference for us deriving a rate. We would again take the case studies and look at the total CAC being sought in representative examples and rather than divide that amount by units we would divide by floor area. This can be done based on total floor area or incremental floor area equally as easily, but again it is critical that whichever is chosen that there be consistency in how the rate would be applied in the future.

Question 5: Ad hoc negotiations versus flat rates

There may have been some confusion in Council around language that would typically be applied to this, but my read was that there were questions posed about whether the City should do ad hoc negotiations and analysis for every rezoning or use the set rates of flat fees as a guide for negotiations with developers. The reality is that the City always has the right and in fact a responsibility to negotiate on every CAC they seek, the question is around the resources and time required to complete an ad hoc analysis of every rezoning. The only jurisdiction we are aware of that really does this is City of Vancouver which has permanent staff dedicated to running proforma analysis internally for all applications except for standard application in areas where they have set fees. Doing so results in increased costs for the Planning Department and developers and generally slows application approvals down considerably, with approvals for complex rezonings in Vancouver taking up to 5 years or more to get third reading.

The City of Victoria employs a hybrid approach wherein they have set fees for most of the City and then requires a third party financial analysis that is paid for by the developer to recommend a CAC from their analysis, with the City being the actual client and defining the terms of reference for the analysis. They also allow for developers to opt for a third party analysis when they feel that it would result in a more reasonable contribution or when their application has unusual elements that would be impossible to account for in setting flat rates for CACs A similar approach is also used by the City of Delta and by White Rock and periodically by numerous other communities for large or atypical rezonings.

The reality is that flat fees are intended to leave money on the table for ease and simplicity and to try and ensure that the fees do not adversely affect developments, but it is preferrable to spending the resources required to go on a case by case basis.

I trust that these responses included above will answer the City's questions.

Yours truly,

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