



WELCOME to the WEBINAR

Where do Housing Costs Come From: A Developer's Inside Peek

1:00-2:30pm PDT Thursday, November 28, 2013



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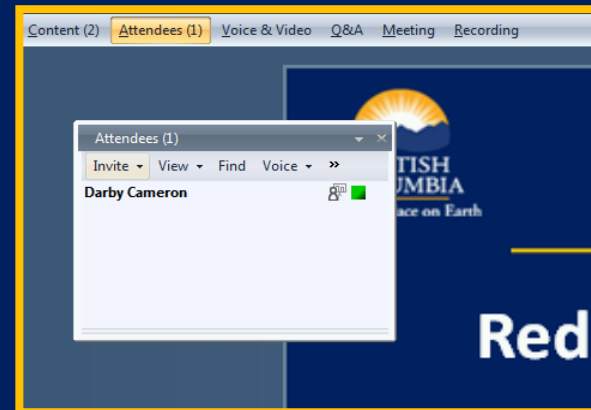
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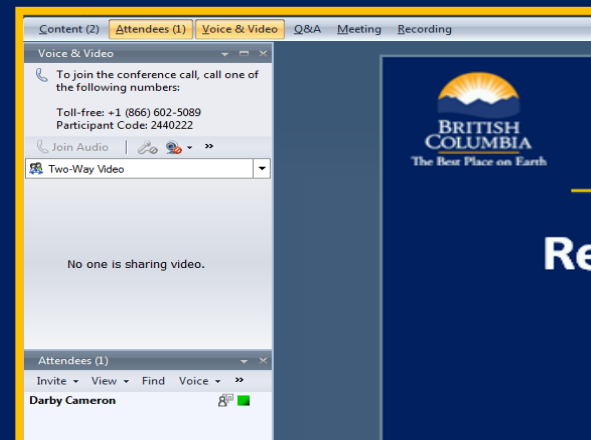


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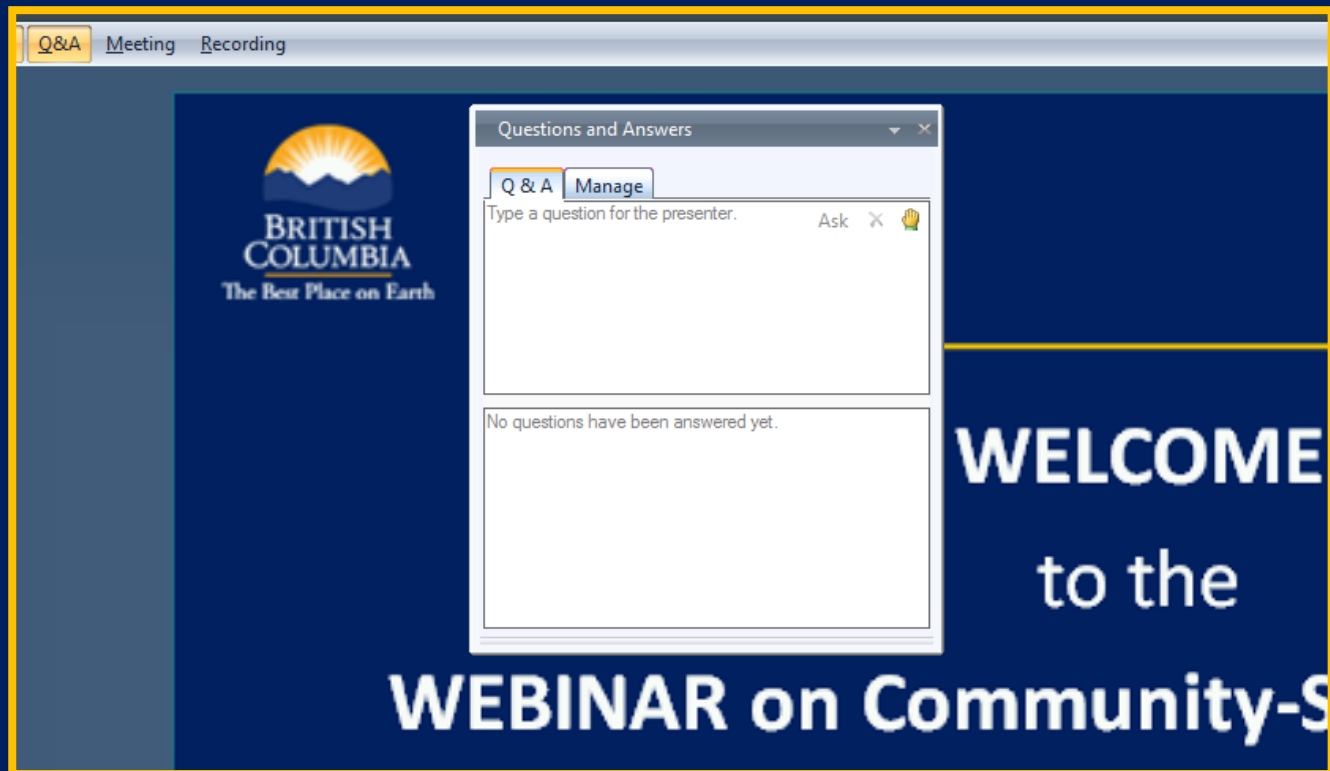
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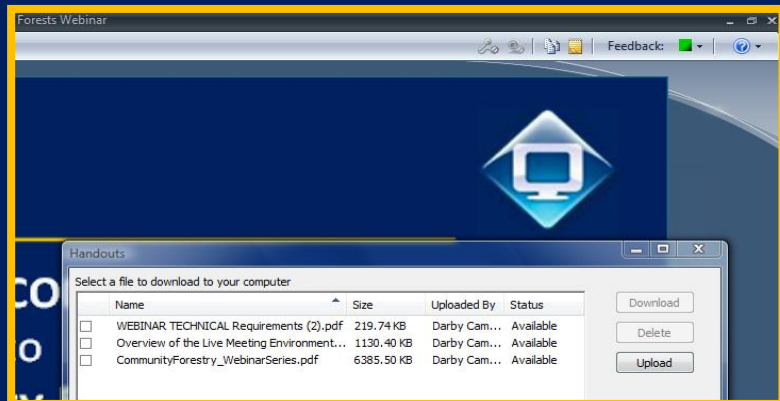
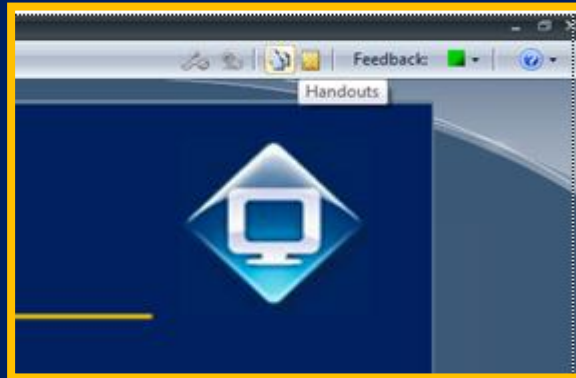


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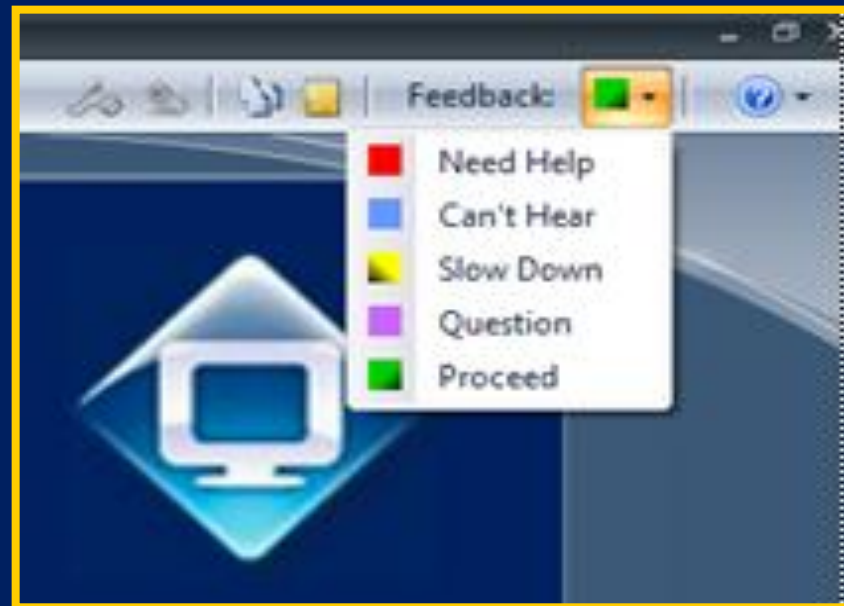
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Where do Housing Costs Come From: A Developer's Inside Peek

Webinar 2: Thursday November 28, 2013

Time: 1:00 – 2:30 p.m. Pacific Time



Future Webinars

Three-part Series

Drivers Affecting Housing Affordability

Webinar 1. October 23, 2013

Where do Housing Costs Come From: A Developer's Inside Peek

Webinar 2. November 28, 2013

Secondary Suites: What Works, What Doesn't?

Webinar 3. January 30, 2014



Quick Poll



Justin Barer and Gerry Mulholland

- G.P. Rollo & Associates Ltd., Richmond, BC
- Land Economists and Development Strategists
- **Gerry**, Vice President and Senior Land Economist
- **Justin**, Planner, Real Estate Development Analyst





Where do Housing Costs Come From?

**Components of a Market Housing
Project**

Overview

How is affordability defined?

- Income levels
- Lending criteria
- Housing products available

If housing spending is capped based on the above, what affects the pricing of new construction?

1. Land
2. Profit/Return on Investment
3. Hard Costs
4. Soft Costs

1 Land

1.1 Where is the Site?

- What are the range of prices that a particular type of land is trading for in a given market?
- Are prices of land in this location being driven up by speculation?
 - If so, can the municipality act to reduce speculative bids? (more on this later)
- Are lots in the area small? Large? Easy to assemble?

1 Land

1.2 What is the Designation / Zoning of the Site?

- OCP/NCP (future use)
- Zoning
 - Density allowance (and how it is defined)
 - Building Form & character
 - Other (to be addressed in 'civic requirements' below)

1 Land

1.3 Who Owns the Site?

- Ownership of the site and the mandate / interests of the site owner(s) can be a significant driver of unit end price.
 - Private land owner
 - Municipal ownership
 - Institutional ownership
 - First Nations Reserve land (general, locatee)
 - *First Nations Land Management Act*

2 Profit / Return on Investment

- Back to who is developing?
- Build & Sell vs. Build & Hold
 - **Build & sell** develop products for purchase and focus on profit as a measure of return
 - **Build & hold** develop products for rent (both commercial & residential) and focus on a variety of measure for return based on a long-term perspective
- In either case, a developer needs to realize a return on their investment they feel is commensurate with their risk and efforts to consider pursuing a project

3 Hard Costs

3.1 Materials

- Wood Frame
- Concrete
- 6-storey Wood Frame
- Wood Frame over concrete
- Wood highrises?
(Michael Green TED Talk)



3 Hard Costs

3.2 Site Conditions

- What are the environmental conditions of the site?
- Soils?
- Grading?
- Terrain?

3 Hard Costs

3.3 On-Site Improvements

- Fill
- Remediation
- Services
- On-site amenities

3 Hard Costs

3.4 Design

- Efficiency
- Finish
- Target Market
- Sustainability Features

4 Soft Costs

4.1 Soft Development Costs

- Project Management
- Architecture Fees
- Engineering Fees
- Other consulting fees (market, financial, marketing)
- Appraisals & Surveys
- Legal & Accounting
- Insurance

4 Soft Costs

4.2 Financing & Interest

- Land Purchase financing
- Interim Financing
- Takeout Financing
- Fees & Charges

4 Soft Costs

4.3 Civic Requirements & Process

- Parking Requirements (max vs. min)
- Setbacks, heights, angles, & other zoning-related matters
- District Energy
- Property Taxes during construction
- Planning & approvals *time*
- Civic Fees
 - Rezoning
 - Redesignation
 - Building permit
 - Development Cost Charges (civic & regional)
- Community Amenity Contributions (CACs)
 - Will they apply?
 - How much are they? Negotiated? Flat fee? Percentage?

5 Thank You! Questions?

Justin Barer, M.Pl

Associate, Planner

604-895-7659

justin.barer@rolloassociates.com

Gerry Mulholland, DULE

Vice President

604-277-1291

gerry@rolloassociates.com

ROLLO
+ ASSOCIATES
Land Economists – Development Strategists



Michael Geller

- President of the Geller Group
- Vancouver-based architect, planner, real estate consultant and property developer
- Four decades' experience in the public, private and institutional sectors
- Adjunct faculty at SFU



Affordable Market Housing

Looking at the numbers

**pro-formas for rental or ownership
stacked townhouses and apartments**

Prepared by
Michael Geller & Associates Limited
November 2013

What are stacked townhouses?



**A townhouse stacked above one or more townhouses,
each with its own entrance at grade**

Project Description

Family oriented stacked townhouses

Project size is usually a function of the site area times the floor space ratio (sometimes called a floor area ratio)

Site area	55,466 sq ft.
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Permitted Floor Space Ratio	1.5
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Gross Floor Area	83,200
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# of floors	4
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# of suites	64
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32 2 bed @1,115 sf (945 sf net of stairs)

32 3 bed @1,480 sf (1,255 sf net of stairs)

Leaseable area vs. buildable area

When determining a project pro-forma it is important to calculate both total building area and saleable/leaseable area

Buildable area	83,200 sq.ft.
Leaseable Floor Area (70,400 net of stairs)	83,200 sq.ft.
Building efficiency*	100%
Parking stalls (64 leasable, 16 visitors)	80

*NOTE:

typical apartment building might be **85% efficient** since can't sell or lease corridors, stairs, etc.

Project Costs

3 key components:

LAND

Land (often measured per square foot of building area)

(approx. 83,200sq.ft at \$40)

\$3,328,000

HARD COSTS

Hard Costs (construction costs generally consist of on-site and off-site costs; various ways of measurement but often a cost/sq.ft. calculated on area above grade)

Building (83,200 sf @\$140/ft)

\$11,648,000

Off-site cost allowance (roads, sewer, etc)

300,000

Note: rental building costs generally include portion of GST since not offset

Project Costs (continued)

Soft Costs

Professional fees (arch, engineers, 5% to 7%)	\$836k
Municipal fees/ (permits, inspections, hook-ups,)	\$200k
DCC's Municipal/Regional	
Community Amenity Contributions	???
Other (insurance, legal, surveys, taxes, etc)	\$100k
Project management/overhead (3%)	\$400k
Lease-up marketing allowance (\$2,750/suite)	\$176k
Contingencies (5% of hard and soft costs)	
Financing (say 5% x 1/2 costs x construction period on 75%)	
Total soft costs	\$3,179,000
Total Project Costs	18,155,000
Cost per Gross Square foot	\$218
Cost per suite	\$283,672

Project revenues

Rental revenue per square foot GFA	\$1.40
Ave rent/month 2 bedroom	\$1,560
Ave rent/month 3 bedroom	\$2,075
Rental revenue per annum	\$1,397,760
Parking \$35 per stall/month	\$26,880
Total gross revenue	\$1,424,640
Vacancy allowance (2% of gross revenue	\$28,500
 Effective Gross Revenue (EGR)	 \$1,396,140

Operating costs and return

Total operating expenses (maintenance, repairs, taxes, management, etc. usually calculated as a % of EGR (30%) \$418,840

Net Operating Income \$977,300

The return is determined by dividing net operating income by the total costs:

Total Costs (Land, Hard, Soft) \$18,155,000

Break-even Return or capitalization rate (%) 5.38%

Note: Equity required from developer \$3M to \$4.5M



4 storey wood frame apartment condominiums

Site area	55,466 sq. ft.
Permitted Floor Space Ratio	1.5
Gross Floor Area	83,200 sq.ft.
Net saleable Area (85% of gross)	70,720 sq.ft.
50 1 bed @ 550 to 625 sq.ft.	
50 2 bed @775 to 850 sq.ft	

Revenues:	70,720 @\$335 =	\$23,691,000
Less commissions @ 3%	=	\$710,000
Net revenues:		\$22,981,000

4 storey wood frame condominium apartments

Land (often measured per square foot of building area)
(approx. 83,200sq.ft at \$40) \$3,328,000

Hard Costs (construction costs for a condominium likely
to be higher than for rental project)

Building (83,200 sf @\$160/ft) \$13,312,000

Off-site cost allowance (roads, sewer, water,
etc.) \$300,000

Soft Costs

Professional fees (arch, engineers, 5% to 7%) \$825k

Municipal fees/ (permits, inspections, hook-ups,) \$200k

DCC's Municipal (likely to apply to condominium)

DCCs Regional (\$590 to \$1,082 unit)

Community Amenity Contributions TBD

Other (insurance, legal, surveys, taxes, etc) \$150k

HPO fees \$100k

Project management/overhead (3%) \$500k

Marketing costs (materials, advertising, etc.)

2% to 4% of revenues \$460 - \$920k

Contingencies (5% of hard and soft costs) \$850k

Financing (5% x 1/2 costs x construction period plus sales period)
for 75% of the costs; + provision for interest on mezzanine \$\$\$

Total soft costs	\$3,360,000
Total Project Costs	\$20,000,000
Cost per Gross Square foot	\$240
Cost per Net Square foot	\$282
Cost per suite	\$200,000
Net Revenues	\$22,981,000
Less Costs	\$20,000,000
Profit	\$2,981,000
As percentage of cost	14.9%

Summary and conclusions

- In order to assess the financial viability of affordable rental or ownership projects, need to review total land, hard and soft costs and revenues;
- For rental projects, also need to look at annual operating costs;
- Rental projects are likely to be viable if capitalization rate is 4.5% or higher
- Condominium projects need to demonstrate a profit around 15% to 17.5% of costs
- While developers may accept lower profit margin, the bank usually wants to see this level of profit to finance!

David Freeman

- Assistant Development and Engineering Director/Real Estate Manager
- City of Kamloops





City of Kamloops

Where do Housing Costs Come From? Local Government's Contribution.

November 28, 2013



Presentation

- Where do Housing Costs Come From? – **Local Government's Contribution.**
- David W. Freeman, Assistant Development and Engineering Services Director.
City of Kamloops



Local Government's Contribution

Our impact on project costs

- Time
 - **“Time is money ... & opportunity”**
 - application processing timelines
- **Fees**
 - permits, application, service connections, road closures, parkland, inspections, security, off-site works, Building Permit ,DCCs.



Development's "Municipal" Rule

Anytime there is a **change** there is a regulation.

Anytime there is a **regulation** there is a permit.

Anytime there is a **permit** there is a process.
(more permits = more processing time)

Anytime there is a **process** there is a **fee**.

- Helping **you** build a better/**sustainable** community



Paying the Cost to Regulate Change

- Municipal governments are the **gatekeepers** of change to the built form.
- People/**voters**/taxpayers are wary of change. They want to **participate** in the change. Change is controlled through **regulation**.
- Our **authority** to regulate and charge fees
 - Part 21 LGA – Building
 - Part 26 LGA – Planning and Land Use



Magnitude of the Regulation

Participants in the Development Process

- **Federal** – DFO, Canada Post, 1st Nations, RCMP
- **Provincial** – WMA (Contaminated Site Regs). Land Title Act for subdivision, BC Building Code, RAR, MOTI, Provincial Fire Code, ALR, Local Health Authority.
- **Municipal** – OCP, Rezoning (CD), DP, DVP, Geotech, Heritage, Subdivision, Parkland.
- Private utilities and railways.



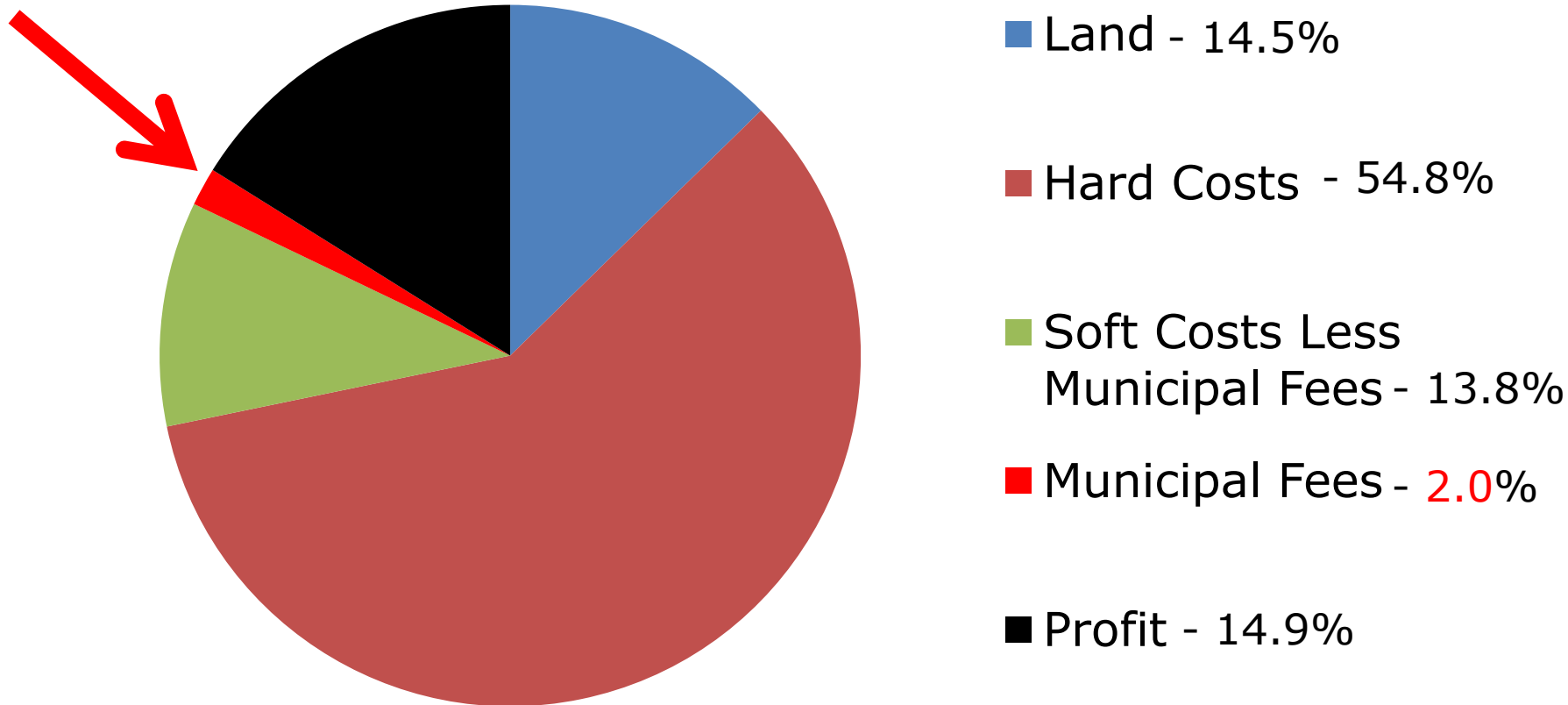
Permits, Processes and Fees

- Process – to ensure **equity** among clients
 - **Who** is the Client
 - » Developer / Builder
 - » Purchaser (s)/user
 - » Taxpayer/neighborhood
- **Price point** doesn't impact works or process.
- Internal Process - Building Permit – **manpower.**
- External Process – OCP or rezoning/DP - **stakeholder participation.**



What Politicians/Neighbors See

Total Project Value - \$22,981,000



DCC\$ – Development Co\$t Charge\$

- **Demon Construction Costs** -
 - a method to recover costs associated with providing infrastructure required for growth. Non-taxpayer funded.
- Sec 933 of LGA provides for DCCs.
- UBCM **best practices** guide recommends review every 2 years and **stakeholder participation** (Homebuilders or UDI). City of Kamloops package 117 pages double sided.



DCCs Continued

- Exemptions/reductions available for **not for profit housing**, units under 312 sq.ft and for profit affordable rental (933.1 LGA) .
- Can be charged on square footage, benefitting **smaller units** = more affordable units.
- DCC **credits** available for demolition or construction of DCC off-site works – intersection upgrades.
- **Assist factors** – taxpayer funded. Lobbying.



Conclusion

- Local Government constantly **balancing** between taxation and user fees. Charges and Fees Bylaw approved by Council.
- **Municipal obligation** - efficiency, transparency, certainty - “no changing of the goal posts”, recognize the role of the **lender**.
- **Our Developer expectations** – meet the staff, do your homework, retain professionals, engage the neighborhood.



THANK YOU



Questions?



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Resources



Presenter Links

Justin Barer and Gerry Mulholland

Rollo & Associates Ltd., Land Economists

www.rolloassociates.com

Michael Geller

SFU Centre for Sustainable Community Development

Geller Group

www.michaelgeller.ca

www.gellersworldtravel.blogspot.com

David Freeman

City of Kamloops

www.kamloops.ca

Resources



Partner Links

BC Housing: www.bchousing.org

BC Real Estate Association: www.bcrea.bc.ca

Canadian Home Builders' Association BC: www.chbabc.org and
www.withinyourmeans.ca

Union of BC Municipalities: www.ubcm.ca

Urban Development Institute Pacific Region: www.udi.bc.ca

BC Ministry of Community, Sport and Cultural Development – Local
Government Department: www.cscd.gov.bc.ca/lgd/

BC Ministry Responsible for Housing: www.housing.gov.bc.ca

RuralBC www.ruralbc.gov.bc.ca/individuals/housing

Contacts



Justin Barer

604-895-7659

justin.barer@rolloassociates.com

Gerry Mulholland

604-277-1291

gerry@rolloassociates.com

Michael Geller

geller@sfu.ca

David Freeman

Dfreeman@kamloops.ca



THANK YOU

for your participation in this webinar