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INPUT

LAND AND REAL ESTATE ISSUES IN BRITISH COLUMBIA

The Development Process

The Real Estate Institute of British Columbia

INPUT

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The Real Estate Institute of British Columbia

PRESIDENT'S MESSAGE

DANIEL JOHN, RI
REIBC PRESIDENT

Welcome to this Fall 2018 edition of *Input*. This is my first opportunity to reach out to you since taking over as president of the Board of Governors in July. It has been a busy few months for the board and staff and it is exciting to see progress on the new 2018–2019 strategic initiatives.

Perhaps our greatest strength as an organization is the diversity of our membership. A review of our recent membership additions underscores how fortunate we are to have members join from throughout the real estate industry. Continued diligence in ensuring we provide rewarding learning and networking experiences will be fundamental as we grow and strengthen our RI community.

Over the past few months, staff have organized a number of successful member events at several locations throughout the province. We have been really pleased with the response, interest, and attendance that was generated by these endeavors. In addition to providing networking and educational opportunities to our members in their communities, these events also help to raise the profile of the Real Estate Institute of BC and to highlight the diverse professional interests of our members.

Preparations are underway for the 2018 President's Luncheon being held December 6, 2018. Last year we set a record for attendance. This year we are honoured to have another incredible panel of speakers: Stephanie Allen of Catalyst Community Developments Society, Mandy Hansen of Insight Specialty Consulting, and Jennifer Johnstone of Central City Foundation. They will be discussing the value, risk, and return of building inclusive communities. This conversation will offer a different perspective of dealing with the issues of real estate development and affordability and shine a light on how these organizations contribute to building sustainable, vibrant cities—how they do it, why they do it, and who they do it for! I am excited to see all of you there.

It will be a privilege working with this year's Board of Governors and I know that we are committed to serving you well over the year ahead.

INPUT | THE DEVELOPMENT PROCESS

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COVER: Pacific Centre Family Services Association's Centre for Wellbeing. Photography by Andrew Doran.

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FROM THE EO'S DESK

BRENDA SOUTHAM
EXECUTIVE OFFICER
AND EDITOR-IN-CHIEF

This edition about development was contrived from the questionnaires that we sent out about webinars, asking for topics. But when we started contacting people about creating such a webinar we found that the topic was too large to deal with, so we started working on this edition of *Input* instead. Almost one year later, here it is.

I need to thank David Podmore, who sat through a couple of meetings with me (painful, I'm sure) explaining the steps in the development process. Once we completed that task, he helped me organize these steps into discrete articles. Thank you so much, David. Your assistance with this was amazing. Thank you also to all the authors who took the time to write about their specific topics. All but one of the articles are written by RIs, and once again I am reminded of the talent that we have within our own membership.

David Podmore, RI, starts the process off by discussing the opportunity, due diligence, and the product to get to the pro forma. Perry Staniscia, RI, discusses the financial feasibility assessment, insurance, and development plan, and Jeffrey Simpson, RI, then talks about community consultation, development approvals, and construction costs. Andrew Tong, RI, gives us a great overview of financing (all types) and Nathan Worbets, RI, gives us construction procurement and management. Finally, Greg Zayadi tell us about marketing, sales, and project wrap-up. And in 52 pages we've (more or less) covered development!

As always, we have a great Ask a Lawyer piece, this time on community amenity contributions, and UDI is our featured organization. Tim Down, RI, talks about being On the Job, and Mandy Hansen, RI, is profiled. You will also read about the 2018 Annual Golf Tournament, which was our twenty-fifth.

I would like to take this opportunity to also thank our external editor, Shana Johnstone, of Uncover Editorial and Design, who puts *Input* together for us. I don't always take the time to thank her, and she does an outstanding job.

Meet our new president, Daniel John, in his President's Message, and we will see you in November or December for one of the many Holiday Receptions that REIBC is holding throughout the province. Have a wonderful holiday season and a safe, happy, and prosperous 2019.

ABOUT

Input was established in 1976. It ran at 12 pages and stayed that size for a long time. It was more like a newsletter then; when something new happened in the real estate industry, one of our RIs wrote about it, but the publication didn't cover much industry information otherwise.

Many years later, *Input* runs at an average of 48 pages, sometimes a bit bigger or smaller, and our authors hail from around the globe. Our focus is on keeping readers informed with all aspects of the industry, particularly hot topics.

REIBC delivers *Input* to 4,000 people or organizations within the real estate industry.

Who receives *Input*?

- REIBC members
- REIBC subscribers
- PIBC members
- BC Notaries
- PAMA – Professional Association of Managing Agents
- SPA-BC – Strata Property Agents of BC
- Government ministries
- Real estate boards

WE WANT TO HEAR FROM YOU

Please let us know your ideas for upcoming issues and how you like the magazine—and check out our Facebook and Twitter pages for up-to-the-minute information on REIBC activities.

reibc.org
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DAVID PODMORE, RI
CHAIRMAN, CONCERT
PROPERTIES LIMITED

The articles that follow will give an appreciation of the complexity of our industry and the professionalism and discipline that is required to successfully conceive, launch, commission, manage, and maintain quality real estate developments meeting the housing, industrial, commercial and institutional needs of our province. Together, these articles provide a high-level overview of the increasingly complex process of undertaking development projects in British Columbia.

The mantra of those in the business, and those contemplating an entry into the field, should be, "Discipline, discipline, discipline," at every stage of the development process: opportunity identification, preliminary due diligence, site acquisition, initial development planning, market research, construction feasibility analysis, construction management, financing, delivery to the customer, and post-completion service. Hopefully, this collection of articles will remind the more sophisticated as well as the less experienced developers of the importance of discipline in each phase of the development process.

For those that are recent entrants to the development business, this collection should provide some enlightenment on the complexity of the development and project delivery process and an appreciation of the steps that can (and should) be followed to avoid surprises and disappointment in outcomes.

The challenge for our industry is to do all we possibly can to advance initiatives to enhance the availability of more affordable housing to a large cross-section of our community. We are the ones best suited to address this challenge and we have a duty to our communities and province to do all we can to help achieve this objective. This will only be possible with engagement of our industry and all levels of government and with discipline within our industry.

I am an optimist. I believe our industry has a huge ability to contribute to addressing the needs of our communities. The inspiring leaders that authored the following articles will play a key role in helping to achieve community and social objectives.

CONTRIBUTORS

ARTICLES

David R. Podmore, RI, O.B.C., serves as chairman of Concert Real Estate Corporation and is chairman and CEO of Concert Infrastructure Ltd. David is a Registered Professional Planner (MCIP), a Professional Member of REIBC, and a Professional Member of the Real Estate Institute of Canada (FRI). David has served on many boards (LifeLabs, Balfour Pacific Capital, FortisBC, BC Children's Hospital Foundation, BC Pavillion Corporation, BCIT Foundation, UDI (Pacific), GVHBA, and Canadian Tourism Commission) and has received numerous community and professional awards: an honorary doctorate of Technology from the British Columbia Institute of Technology; British Columbia's Residential Construction Person of the Year; the Rix Award for Engaged Community and Corporate Citizenship from the Vancouver Board of Trade; BC CEO of the Year for the Enterprise category; and the Queen Elizabeth II Diamond Jubilee Medal. David has been invested to the Order of British Columbia.
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Perry Staniscia, RI, is the president of Southfork Developments Ltd., having founded the company in 1982. He also runs a consultancy practice, In the Black Advisors Group, that provides highly skilled advice in assessing the viability of high-density mixed use and other high-value real estate developments. Perry has a strong connection to the greater Vancouver real estate development and construction industry and local government. He has led negotiations for many large and complex real estate development deals during his career and currently sits on the BC Housing Board as a director and as the chair of the Capital Review Committee. He was a founding member and secretary of the BC Non-Profit Housing Association and has served on other non-profit boards as well. Perry studied urban land economics at UBC and holds FRI, CRF, CPM, CSM and RPA professional designations. Perry enjoys travelling, hiking, cycling, bass and guitar, songwriting, and riding his Harley.
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Nathan Worbets, RI, is the vice president of Development at Madison Pacific Properties Inc. Nathan has over 20 years of experience in the real estate industry, including various development roles across Western Canada in retail, office, industrial, and multi-family projects. Nathan holds a bachelor of Commerce from UBC in urban land economics and has been a CFA charter holder since 2004. He is a past president of the Real Estate Institute of BC and former chair of REIBC's Vancouver chapter.
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Andrew Tong, RI, B.Comm, is the senior vice president of Investments and the managing director of CREC Commercial Fund LP at Concert Properties Ltd. He is responsible for leading the strategic planning and key operational activities of Concert's income portfolio (office, industrial, and multi-family rental) across Canada, valued at over $2.2 billion. These activities include acquisitions, dispositions, asset and portfolio management, term financing, and commercial leasing. Additionally, Andrew oversees Concert's residential condominium and seniors land acquisitions across Canada. In October 2016, Andrew played a key role with the creation and capital raising of Concert's CREC Commercial Fund LP, an open-ended limited partnership. The fund includes over 64 office and industrial properties across Canada valued at over $1.4 billion. Andrew has acted as the fund's managing director since its inception. The fund's investors include Canadian pension fund and institutional investors.
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Greg Zayadi, senior vice president of rennie, advises clients throughout every stage of development, from acquisitions and site planning, through development design, to project marketing and sales. Since the early 2000s, Greg has worked with some of the top players in the Vancouver real estate industry, including Concord Pacific, Onni, and Anthem Properties. As such, he has been a key player in the construction of some of Vancouver's finest landmarks: he stood atop the Shangri-La as it was being built, walked the rooftops of the Fairmont Pacific when it was under construction, and observed the Beach Crescent towers go up from the shore of False Creek. Greg believes rennie to be an ideal vantage from which to watch—and shape—the next 10 years of real estate in Vancouver.
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COLUMNS

Anne McMullin is the president and CEO of the Urban Development Institute (UDI). Previously, Anne held many leadership and communications positions, including president and general manager of the North Vancouver Chamber of Commerce, director of communications at the Vancouver Fraser Port Authority, president of the BC Salmon Farmers' Association, a reporter for Global TV in Vancouver, and a reporter and broadcaster for Mountain FM in Squamish. Anne is a board member with BC's Knowledge Network, a trustee with the Jack Webster Foundation for Excellence in Journalism, vice chair of Field Hockey Canada, president of West Vancouver Field Hockey Club, and a volunteer with many other community organizations. She studied political science at the University of British Columbia and holds a journalism diploma from the British Columbia Institute of Technology (BCIT). Anne received the 2017 BCIT Distinguished Alumni award. (Photo by Ryan Broda.)
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John McLachlan, RI, BA, LLB, is a lawyer at Lex Pacifica Law Corporation in Vancouver. His practice is focused on civil litigation with an emphasis on real property matters. John has appeared as counsel before the British Columbia Court of Appeal, the Supreme Court of British Columbia, the Provincial Court of British Columbia, the Federal Court, and various Administrative Tribunals.
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PRELIMINARY OPPORTUNITY ASSESSMENT AND EVALUATION

David Podmore, RI

Capital Park development in Victoria (all images).

The steps required to successfully conceive and execute a development project are essentially the same for commercial, residential, industrial and institutional properties. How does the process start? It starts with identification of an opportunity, a vision for what may be possible for an identified property—the big idea!

Successful developers often have the ability to recognize an opportunity to accommodate housing, commercial, industrial, or institutional needs where others may not have the same creativity or commitment. They also do their homework—ensuring they understand the requirements of those that may be interested in purchasing, leasing, or renting the development product.

Successful developers pay a lot of attention to the requirements of not only their customers but the communities in which they develop, working closely with their neighbours, approving authorities, and special interests. In my opinion, the majority of developers in our communities are committed to improving the quality of the environment and life through their development activities; the incredible philanthropy and the significance of the development and construction industry's contribution to the economy of our province and communities is most often not acknowledged or understood.

So let's examine how development projects are conceived.

OPPORTUNITY AND SUITABILITY

Almost universally, these projects start with the identification of an opportunity for development of a property to a higher and best use in the community. This may be an opportunity for multi-family residential development, land subdivision for single-family homes or low- and medium-density residential uses, or commercial or industrial uses.

Prudent developers start with an assessment of the proposed development site to determine the suitability of the property for the intended uses, including an assessment of the proposed use to be accommodated under current zoning, or the likelihood of obtaining support for amended or change-of-use zoning to accommodate the intended use. This requires consultation with

the relevant approving authority and, in most cases, the neighbours and broader community. In my experience, these consultations are best conducted by the developer directly so that the community gets to meet and know the developer without a "filter" of hired representatives, but this clearly depends on the capability of the developer to communicate directly with the community.

DUE DILIGENCE

In advance, or concurrently, the developer needs to undertake key due diligence to ascertain the suitability of the property for the intended development. This includes essential investigation of the physical and legal impediments or constraints that may exist (for example, site contamination, easements, registered restrictive covenants, rights of way, etc.). What is discovered may lead to further investigations or abandonment of the opportunity. For example, on most sites a Phase One environmental assessment (to identify potential for contaminants on site) should be undertaken. This may lead to a Phase Two assessment, the results of which may lead to the purchase of the property under consideration being abandoned, or it may significantly influence the terms of site acquisition.

In today's evolving development world, three of the most difficult issues to address in the early exploratory due diligence phase of a development proposal are:

- expectations of the approving authority for development and processing fees
- community amenity contributions (extractions)
- grossly extended approval times

These issues, combined with an extraordinary escalation in construction costs, make projections of future performance on development projects very difficult to reasonably forecast.

Add to this the uncertainty regarding the direction of interest rates and the threatened trade tariffs affecting many of the essential material costs for the construction and development industry and you realize the importance of very disciplined due diligence and a cautious approach.

PRODUCT AND PROGRAM

Informed knowledge of the demographics of the community in which the development is proposed is key to determining the characteristics of the product that should be contemplated. This applies to all product types, especially residential condominium, multi-family rental, retail, office, and seniors' living.

An extra effort should be made to assemble as much information from the realty community, existing developments and properties, government agencies, other developers, specialized research groups, and others who could guide the fine-tuning of the target market and refine the definitive program (unit features, amenities, services, etc.) for the proposed development.

PRO FORMA

All of these considerations and intelligence lead to the assembly of a project pro forma to ascertain the feasibility of a given development project and to test project sensitivity to various changes in construction costs, municipal fees and CACs, timing, interest rates, sales or rental rates, and more. A very disciplined pro forma projection with adequate contingencies, supported by solid research and pragmatic assessment of current and responsibly forecast future conditions, is essential to successful development initiatives.

Images provided by Concert Properties.

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FINANCIAL FEASIBILITY ASSESSMENT, INSURANCE, AND DEVELOPMENT PLAN

Perry Staniscia, RI

Like most businesses, the successful development of real estate must result in a financial return acceptable to the developer. Although conducting business in all sectors has risk, the development of real estate poses higher risk relative to some other businesses due to the length of time associated with bringing projects to market, along with many variables beyond the control of the developer. Although a higher financial return is usually expected to compensate for this higher risk, the marketplace will dictate the actual financial return that is achieved. As such, successful developers should have a good read of the marketplace and must be able to mitigate risk. A sound financial feasibility assessment, development plan, and insurance strategy are essential in determining whether the development of a project should proceed.

ESTIMATING REVENUE

Gathering information from qualified sources such as expert consultants or others, and making informed assumptions based on that information, is the most important component of preparing a sound financial feasibility assessment. If the assumptions are too conservative, there will be less inclination to proceed with the project due to a lower than expected return. If the assumptions are too aggressive, there will be a greater propensity to proceed with the project, albeit at a potentially much greater risk due to a higher than expected return. Most developers take a balanced approach in formulating their assumptions, which typically pencil out to a moderate return commensurate to risk.

As revenues are established by the marketplace, developments will only be as successful as the marketplace permits. It is extremely important to focus time, money, and effort in getting the development revenues right, as there is much sensitivity associated with different revenue assumptions (as shown in the following chart).

Revenue and Risk in the Marketplace

AVERAGE SALE PRICE (REVENUE) per saleable square foot	$800*	$850**	$900***
AVERAGE COSTS converted to costs per saleable square foot	$650	$650	$650
CALCULATED RETURN	LOWER	MODERATE	HIGHER

*Revenues less than the marketplace – lower risk, conservative approach typically resulting in higher absorption rates
**Revenues supported by the marketplace – moderate risk, balanced approach typically resulting average absorption rates
***Revenues above the marketplace – higher risk, aggressive approach typically resulting in lower absorption rates

Just as important, though, is getting the unit mix right. There is no sense in accurately establishing revenues if the types of units proposed cannot be sold due to non-acceptance for them in the marketplace. As such, a comprehensive analysis of the marketplace, including unit inventory/types, demographics, absorption rates, and more, must be completed prior to deciding on a unit mix and related revenues. Receipt of the identical market analysis will be interpreted and viewed differently by different developers based on their depth of experience, requirement for a certain return, risk tolerance, and myriad other factors. The developer who makes the most accurate interpretation of the marketplace will be rewarded with a reasonable return while incurring moderate risk.

Now that the revenue side of the analysis has been covered off, let's have a look at the cost side.

> Although conducting business in all sectors has risk, the development of real estate poses higher risk relative to some other businesses due to the length of time associated with bringing projects to market, along with many variables beyond the control of the developer.
>
> —Perry Staniscia

ESTIMATING COSTS

Accurate costs must also be established to determine whether a developer can achieve the expected return. Cost categories include land, hard and soft costs, financing, and a reasonable profit and contingency amount. The total of all costs (excluding land) is typically subtracted from the established revenues, with the result being the maximum amount that can be paid for the land. Paying more for the land will result in decreased profits equating to a less than expected return.

There will always be developers willing to take on higher risk by paying more for land in the hope of achieving higher revenues and lower costs. Paying more for land puts the project under tremendous pressure to succeed and places the project financing at risk as lenders tend to be conservative by nature. As these higher-risk projects are more challenging to finance, higher interest rates are usually incurred along with additional equity typically being required. Additional equity translates into lower leverage which in turn results in a lower overall return.

INSURANCE

Highly experienced and disciplined developers shy away from such developments and place significant importance on the principle of leverage in order to increase returns. Typically, the less equity (higher leverage) contributed to a specific project, the higher the internal rate of return. In cases of higher leverage, lenders may require the mortgage to be insured, which triggers insurance premiums. Even with the addition of mortgage insurance premiums as an increased cost to the project, the return is generally greater than the alternative of contributing a greater amount of equity on a non-insured basis. The decision to secure mortgage insurance is very strategic and is typically linked to leveraging the project as much as possible (contributing as little equity as possible) and mitigating risk. This allows a developer to take on more projects, thus spreading the risk among different projects. Developers also mitigate risk by purchasing course of construction and general liability insurance. The total insurance cost is included with all of the other soft costs associated with the project.

PRO FORMA

Based on the developer's best judgement of the marketplace and tolerance for risk, the pro forma is refined to include all land purchase costs, revenues, hard and soft costs, projected profits, and contingencies. In addition, the required returns and equity amounts should also be confirmed. An application for a mortgage accompanied by the project pro forma is then provided to the lender. Once a mortgage has been granted preliminary approval, unit pre-sales can commence in accordance with the lender's minimum number of pre-sales requirement. Once the minimum number of pre-sales has been achieved and the mortgage granted final approval, construction of the project can proceed. This assumes, however, that local government and other development requirements have been finalized and approved.

DEVELOPMENT PLAN

Local and other levels of government have a significant impact on whether projects can proceed in a cost-viable manner or at all. Therefore, purchasing land not zoned for a developer's proposed use poses a significant risk and should only be pursued on a conditional basis in order to minimize the risk of the land not receiving the required zoning.

Land situated in the Agricultural Land Reserve poses a significant risk for development of anything other than agricultural purposes and should be avoided. Other risks associated with land purchases are environmental issues, soil conditions, archeological findings, heritage requirements, servicing upgrades, off-site servicing requirements, the length of time required to secure the required approvals, and neighbourhood opposition to the newly proposed land use. A change of municipal council during the project's approval process, particularly prior to the public hearing, can also pose a significant risk.

Except for the City of Vancouver, which is governed by the Vancouver Charter, all other municipalities in BC are governed by the Local Government Act and Community Charter. In addition, most municipalities have enacted a number of bylaws that directly affect a developer's ability to carry out their business. Refining the development plan must consider all of the city's requirements prior to finalizing the plan. It is not prudent to proceed on a certain assumption only to find out later in the process, for example, that the city requires you to purchase a portion of the neighbour's property in order for you to comply with the city's minimum lot size requirement for your development. The list of these requirements goes on and on and can vary widely from one municipality to another. It is therefore extremely important that if the developer does not have a good working knowledge of a certain city's specific requirements that they recruit the required expertise to their team.

There was a project I was involved in that resulted in a developer overpaying for land because they underestimated the bonus density payment due to the city prior to the issuance of a building permit. If they had correctly estimated the bonus density amount payable, they could have avoided overpaying for the land. Establishing a good working relationship with city staff goes a long way in being able to stickhandle the wide variety of city requirements and—just as important—the time, money, effort, and expertise required in fulfilling them.

PROJECT OUTCOMES

During the course of any development project, there are many external factors that influence the project's failure or success. Outcomes for the project can vary substantially from the finalized financial feasibility assessment, development plan, and insurance strategy.

The developer's finalized feasibility assessment indicated the level of profit required by the developer commensurate with their accepted level of risk. If the revenues and costs match the pro forma in the execution of the project, the developer will make their expected return on investment. When factors beyond the developer's control influence actual revenues and costs to differ from the pro forma, resulting profits may be less, more, or balance out to the same as expected.

A typical experience during the past five years in the greater Vancouver condo market has been for revenues and costs to be higher than expected, but profits to remain as expected. For example, some markets and specific condo units were able to achieve significantly higher price points than estimated while others achieved only moderately higher price points; it is the increased revenues versus the increased costs that have dictated whether profits have remained the same as expected.

To put some numbers to it, if revenues increased by $1 million because of an unanticipated strong market, and costs increased by $1.2 million, all other things being equal, the profits will be lower than estimated by $200,000. On the other hand, if revenues increased by $1 million and costs increased by $800,000, then the profits will be higher than estimated by $200,000, all other things being equal. It is therefore very important for developers to keep on top of their projects at every turn to ensure there is time to mitigate the risk of things going wrong.

THE ROLE OF EXPERIENCE

There is no replacement for the experience required by a developer in making money in both strong and weak markets. Novice developers who have made money by having started in strong markets will be tested in weaker markets. If they are able to make money in weak markets, they have most likely gained the experience and skillset required to succeed in the long run. Due to strong markets masking mistakes made by novice developers, some of those developers continue to unknowingly make the same mistakes in weak markets, which eventually leads to project failures. In strong markets, it seems like everyone thinks they can be a developer. The true test comes when the market turns. Has the novice or one-time developer been caught in a market downturn and, if so, will they survive?

Although no one has a crystal ball, experienced developers are able to make money in both strong and weak markets due to their ability to adapt quickly to factors beyond their control. They are better equipped to anticipate market changes and adapt accordingly. If, by chance, they do get caught in a severe market downturn, they will be better prepared to weather the storm versus developers with little experience.


324 & 330
GOLDSTREAM AVE.
CENTRE FOR WELLBEING

>> Pacific Centre Family Services Association's Centre for Wellbeing (all images).
Photography by Andrew Doran.

Recipient of the Victoria Real Estate Board's 2018 Excellence Award, Community - Institutional. The award recognizes developers, architects, designers, builders, owners, and financiers for enhancing commercial real estate stock, for stimulating urban renewal, and for the risks they undertake to build and renovate commercial space within the community.

COMMUNITY CONSULTATION, DEVELOPMENT APPROVALS, AND CONSTRUCTION COSTS

Jeffrey Simpson, RI

The real estate development business is a very dynamic field that relies upon the timely coordination of many disciplines, all toward the end goal of delivering the project on time and on budget. To many within the industry, it is all about risk mitigation. It is relatively easy to plan and budget for known risks; it takes experience and related forethought to protect projects from the downside risk of unforeseen events, which invariably happen. The following three areas of the development process, done well, will minimize risk and enhance the likelihood of a successful outcome.

Renderings by Iredale Architecture.

CONSULTING AND ENGAGING THE COMMUNITY

Whether the property owner initiates a community consultation process or the authority of jurisdiction mandates that such a program be sponsored, it is the right thing to do on so many levels:

- it ought to be considered a civic duty due to the interface between the public realm and private property
- it will undoubtedly inspire refinements to the design of the project
- without question, it will aid the goal of "defusing" applications that are potentially contentious
- it will broaden social acceptance of the end product

For these reasons at a minimum, community engagement is good business.

Municipalities as well as consultants who specialize in facilitating collaborative processes recommend that an informal venue such as an open house be organized to take place at a convenient time and place (with due consideration to the target audience) and that notice be provided well in advance.

It is strategically beneficial to showcase nothing but highly conceptual drawings. It would be disingenuous of a developer to represent that they are openly soliciting feedback from the general public but then unveil presentation materials that have a lot of hard edges and definitive character. Rather, use "bubble drawings" to introduce thematic design concepts and profile the interface with surrounding properties to suggest how elements of the project are compatible with and complement the neighbourhood context. Introduce general ideas with respect to the massing of the project and the associated sensitivities of how and where densities ought to be dispersed across the site. Touch on linkages such as public transportation and introduce early-stage ideas of site ingress, egress, and how off-street parking will be addressed (as most will have preconceived expectations around surface parking, structured parking, or a combination of both).

As crude as it may be, making sticky notes available for guests to write comments and post them on the appropriate board is a simple yet effective means of capturing feedback that can be subsequently evaluated.

At a minimum, it is highly beneficial to conduct a second open house, once design development drawings are sufficiently advanced. In a perfect world, participants who introduced suggestions at the first open house will see their feedback reflected in the second iteration of drawings.

Open houses will bring to light issues that special interest groups regard as contentious. It is valuable to gain an understanding of contrary viewpoints early and in a controlled environment. Even if the project team and public sentiment are at an impasse, the rezoning case as well as delegations made by the applicant at the public hearing can speak very directly to how such issues are intended to be mitigated.

Photography by Andrew Doran.

TIPS FOR BETTER CONSULTATION

- Avoid polished, slick presentations as they convey the wrong message.
- Be as inclusive and consultative as possible.
- Be intentional about how you communicate in public; offer a direct response to direct questions and resist the temptation to expand your explanation as you could open up unintended issues.

SECURING DEVELOPMENT APPROVALS

The market value of land is very dependent upon what the land can be used for. Enabling legislation, commonly referred to as zoning and servicing entitlements, prescribe permitted land uses in detail across an extensive range of zoning classifications. Bylaws also control the form and character of all improvements. Planning criteria, such as land use, density, lot coverage, the height of structures, setbacks (front, rear, and side), off-street parking, and a plethora of other zoning stipulations will need to be carefully reviewed by each member of the project team. There are material costs associated with qualifying for and securing such entitlements, including, yet by no means limited to: public open space requirements, community amenity contributions (CACs), development cost charges (DCCs), and a number of fees intended to defray processing costs.

If a development site is zoned for uses incompatible with the intentions of the owner, or the proposed density of the project exceeds the stipulated floor area ratio (FAR), then filing an application to rezone is the administrative protocol. Depending on the nature of the rezoning case and the authority of jurisdiction, these applications can take anywhere from six months to a number of years before fourth and final adoption of the bylaw is enacted.

There are many steps that can and should be taken to streamline the process, not least of which is verifying whether the proposed rezoning is compatible with overarching legislation, such as the local government's official community plan. Securing these entitlements can add tremendous value, yet the journey will require fortitude, technical acumen, and staying power. Conducting a pre-application meeting with the local government's planning department, to then properly satisfy all of the submittal requirements, while respecting due process, will go a long way toward establishing a healthy rapport with the various stakeholders and special interest groups. Fundamentally, it is very important to take the time to build a solid plan of development as the merits of the proposal will be subjected to political, administrative, and public scrutiny.

It is quite common to encounter a circumstance where a scheme-specific plan of development falls short of satisfying one or more technical specifications of the governing bylaw. There may even be situations where a property owner has hardship conditions that render it extremely difficult to be compliant. Securing a relaxation to these highly technical conditions is achieved by filing and processing a development permit variance application. The application needs to contrast and compare the bylaw requirements to what is proposed, outline compelling justification, substantiate that there are no health

Photography by Andrew Doran.

and safety risks, and that the variance, if approved, has no detrimental impact on adjacent properties. To be clear, a variance application cannot be used to vary density or permitted uses. Rather, as touched on above, density and permitted land uses can only be changed by processing a rezoning application.

Prior to acquiring a development site, it is prudent to verify whether the property is located within a development permit area. If so and notwithstanding that a site may already be hard-zoned for the intended purpose, the owner will have to advance the project design process to the point of being able to satisfy permit requirements around building form and character. Timelines are hard to generalize as the case load of the jurisdiction is relevant as is the quality of the submittal and the time of year. That said, the "normal" processing time is one to six months.

Subdividing vacant land or qualifying to register a strata plan that has gained the support of an approving officer will require engaging the services of a BC land surveyor. There is legislation (such as the Strata Property Act) specifying how access, subdivision standards, public safety criteria, and a variety of other technical requirements must be taken into account.

TIPS FOR SECURING DEVELOPMENT APPROVALS

- Research the process and understand the progression of key milestone approvals.
- Adopt best practices with respect to the delivery of required materials; the applicant will gain credibility with authorities of jurisdiction when a robust, technically sound application is filed, and this approach will likely shorten the approval period.
- Work collaboratively with jurisdictional staff.

REFINING CONSTRUCTION COSTS

Reviewing and refining cost projections throughout the entire design phase of the project, or at least at periodic intervals, will keep cost control rhythm underway. This

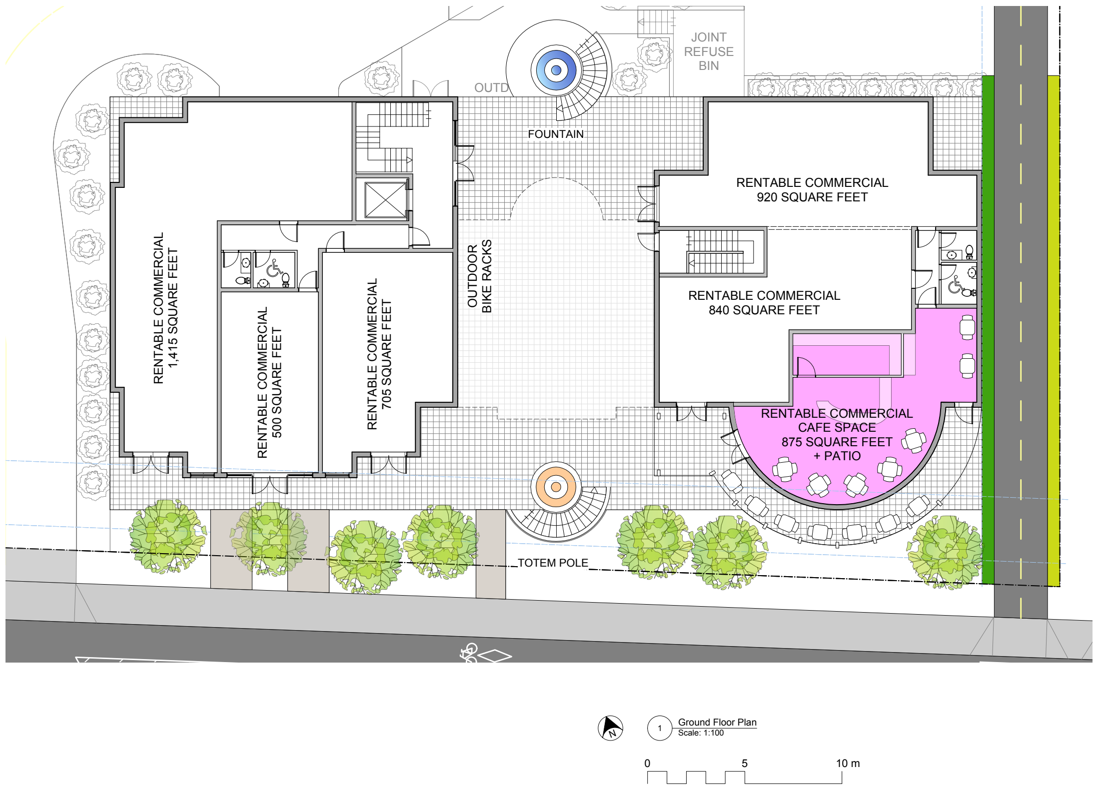
Photography by Andrew Doran.

discipline should be sustained until a full set of contract documents (plans and specifications) are rendered 100% complete.

Developers have many skill sets, but a notable one is the unique ability to "stress-test" the financial viability of a project well before any commitments are made. The budgeting process may very well start with nothing more than a "back of the envelope" estimate that assigns a per-square-foot cost to the building, adds a very broad and admittedly crude estimate for soft costs of 25%–30%, and uses this to determine how much can be allocated to purchase a site by performing a land residual. Essentially, the process takes into account the financial metrics the developer needs to achieve (on a risk-adjusted basis) and then mathematically solves for the unknown variable, namely, the land value the project is capable of supporting. That unit price estimate is then updated as and when a set of outline specifications for the project are generated. At this stage, a lender-approved quantity surveyor is engaged to prepare a pre-construction budget, which conservatively assigns a value against each component of the project. As and when more architectural and engineering detail is added, the costing process advances from an elemental budget to one based on take-off calculations.

The estimating process is critically important as building area calculations are relied upon to determine material quantities, which labour costs are then assigned to, with general expenses and fees added to account for the cost of mobilizing and sustaining the construction program to completion. Against this sub-total, a general contractor then applies a profit margin on costs to arrive at the total construction budget.

Over the course of the last three to four years, construction costs in BC have risen dramatically. This phenomenon has made it very difficult to make accurate, forward-looking cost projections. Lenders are conservative by nature and protect the downside risk by structuring thresholds or lending criteria designed to preserve loan-to-cost ratios. For instance, the term sheet or commitment letter may stipulate that no less than 80% of approved hard costs have to be rolled in to a lump-sum, fixed-price contract, awarded to a qualified general contractor.



Therein lies one of the most significant challenges of the real estate development business—arriving at a solid set of contract documents that:

- align with market conditions
- satisfy permitting requirements (exacerbated by the introduction of new building codes)
- are fully coordinated between all disciplines (architectural, mechanical, electrical, structural, civil, and landscape)
- conform to the pre-construction estimate of the quantity surveyor
- prove to be reliable when the scope of work is competitively tendered

It has become increasingly common to experience a rather nerve-wracking issue: once general contractors have qualified their bid price to undertake the specified scope of work within the scheduling parameters of the developer, the cost often exceeds the developer/lender approved budget. This circumstance triggers the need to embark on "value-engineering" initiatives. Essentially, the goal is to gain the same or better functionality of each building component yet at a lower capital cost. While this process is by no means easy, more cost-effective materials that have the same look, feel, maintenance characteristics, and longevity are substituted to bring costs down. Successfully executing this imperative requires focused dedication and contributions from every member of the project team.

TIPS FOR REFINING CONSTRUCTION COSTS

- Establish the discipline of specifying alternates for components of the project most likely to be costly and request that bidders price out alternates when their bid price is tendered.
- When executing a value-engineering program, make sure to track the substitutionary process all the way through so as to avoid the risk of false economies.
- Look for ways and means to streamline the project schedule: track interdependent deliverables carefully, manage critical path items with the respect that is due, and stay on top of long delivery items (such as elevator cabs).

Images provided by Iredale Architecture; photography by Andrew Doran.

ORGANIZATION PROFILE

URBAN DEVELOPMENT INSTITUTE (UDI)

Anne McMullin

No matter where you go or who you talk to in this province, housing tends to be the dominant topic of conversation at dinner tables, in coffee shops, and at the provincial Cabinet table.

With high home prices and a low vacancy rate, it is no wonder there is such interest in what many call BC's housing crisis. It seems everyone has an opinion on the cause of our housing problems and who we should blame, but rarely the realistic solutions needed to address the deadlock.

While the problems are acute, many of them aren't new. I recently came across a yellowed front-page news clipping from the February 14, 1979, issue of the *Victoria Times* with the headline "Zoning Red Tape to Go." The then Municipal Affairs Minister Bill Vander Zalm called for legislation that would establish a "time limit" for local governments to deal with development applications, which were taking up to three years, impacting housing availability. The legislation recommended a 30-day approval process. "If we don't hear back from you in 30 days, we will assume you have approved it." Can you imagine a 30-day approval process?

I'm not sure what became of that grand plan, but to this day, municipal approval delays continue to be a major factor in our housing shortages, with some municipalities taking as long as five to seven years to approve a housing project. While people may disagree on the many diverse reasons behind our housing challenge, we can all agree we need more housing options for ourselves, our kids, our seniors, new immigrants, and our most vulnerable community members.

Housing choices should include more than a condo in a tower or a single-family home. Our diverse society needs a diverse affordable housing mix that includes micro-suites, laneway homes, duplexes, family-friendly three-bedroom townhomes, rowhomes, and rental apartments.

The problem is clear: Metro Vancouver is growing by about a million people in the next 20 years—about 43,000 per year. Yet we are only building about 20,000 new homes for them to live in. When it comes to rental units, our vacancy rate has been less than 1% for many years. We simply don't have enough homes to rent or buy.

At the Urban Development Institute, we care about this housing shortage because we aren't just homebuilders—we live and work here too. We also support over 233,000 jobs in BC and we know the importance of working together to find meaningful solutions that work for residents, workers, and communities.

As a non-profit association, with more than 850 members across British Columbia, we take our role seriously as we promote wise and efficient urban growth, thoughtful transit investment, proper planning, development practices, and affordable housing. That's why UDI recently created our MoreHomes4BC Facebook and Instagram pages—as an engagement platform to educate and encourage concerned British Columbians to have their voices heard as we work constructively to resolve our housing challenges.

Real, solvable issues are keeping British Columbians from finding homes. We invite you to join our #MoreHomes4BC movement and share its content with your networks. Together, with community and government support, we can remove the barriers that delay construction and create more homes for everyone in British Columbia.

ON THE JOB

TIM DOWN, RI

MANAGING BROKER AND PRINCIPAL,
NAI COMMERCIAL OKANAGAN LTD.

WHAT DO YOU DO IN YOUR PROFESSIONAL POSITION?

I manage a commercial real estate brokerage office operation with a total of seven licensees in Kelowna and a sub-office in Kamloops. I am also actively engaged in providing clients with sales and leasing services for commercial, investment, and industrial property throughout the BC Interior.

HOW DO YOU SPEND YOUR DAY?

I initially review news websites and related association emails first thing in the morning. I then review my work calendar notes from the previous day to ensure there are no loose ends before dealing with telephone, email, and text inquiries. I review the reported new listings and sales of properties on MLS and various listing platforms. The balance of my day is spent meeting with clients and colleagues, inspecting properties, preparing and presenting offers, reviewing and responding to offers, assisting other agents in the office, preparing listing contracts, preparing and submitting proposals, and more.

WHAT PREPARED YOU FOR THIS ROLE?

I started my real estate career as a fee appraiser and assessor, which provided a solid foundation for understanding the inspection process and valuation of all forms of real estate. My corporate real estate services experience exposed me to commercial real estate brokerage environments where I gained a better understanding of the marketing and sale process from the transactional side of the real estate industry.

WHAT DO YOU FIND CHALLENGING ABOUT YOUR WORK?

Time management due to continuous inquiries throughout the day. Implementing and monitoring new regulatory changes. Real estate practices that focus on limiting access to property listing and sales information.

WHAT DO YOU ENJOY ABOUT YOUR WORK?

Delivering real estate solutions to clients for a variety of property types in different geographic locations.

Mentoring and supporting agents and staff. Negotiating, mediating, and facilitating activities that lead to a successful transaction.

ARE THERE COMMON MISUNDERSTANDINGS ABOUT THE WORK YOU DO?

The commercial managing broker position is a challenging and time-consuming position that requires unique knowledge and experience with a wide variety of investment, commercial, and industrial property types.

WHAT DO YOU WISH PEOPLE KNEW ABOUT THE WORK YOU DO?

I believe many managing brokers are re-examining their decisions to continue providing management services given the recent regulatory changes in British Columbia that place significant oversight risks on the broker, including significant financial penalties.

IS THE WORK YOU DO TYPICAL FOR YOUR TYPE OF POSITION?

I believe the work I do so is similar for my position. However, I remain actively involved in a variety of professional associations, including REIBC, to ensure that our commercial brokerage membership has appropriate representation and advocacy for emerging issues and concerns.

WHAT GOALS ARE YOU WORKING TOWARD?

I'm continuing to build a reputable full-service commercial real estate firm offering sales and leasing, property management, strata management, and consulting services throughout the BC Interior, with a focus on professional agents with significant educational backgrounds and business experiences. I am also focused on continuous learning and on completing the CCIM designation program as a current personal goal.

CONSTRUCTION PROCUREMENT AND MANAGEMENT

Nathan Worbets, RI

After working through the design and entitlement process for a project it is time to get to work and actually build the building. This is an exciting time and depending on the nature of the job, the delivery requirements, and the stage of design, a method of procuring a contractor is required—following which construction can begin.

Many contract variations are available in the market today and a host of factors play into choosing the correct format for your project. Prior to the actual contract, though, the work will need to be tendered. Once working drawings are completed, a tender set of drawings and specifications is prepared, which will be issued to a selection of capable contractors to bid on. Once the job is awarded to a contractor, a contract will be executed and, subject to permits being in place, construction can commence. Let's go through these steps in more detail.

CHOOSING THE TYPE OF CONTRACT

While working through the preliminary stages of design, consideration should be given to the most suitable type of contract based on the project timelines, ownership requirements, and risk profile. The decision really boils down to the transfer of risk and accountability for project costs and schedule.

Many owners may want to work with a construction contractor through the design process. Such an integrated approach can lead to efficiencies during the construction phase: opportunities for value engineering and cost savings can be identified as the design is consummated. Some owner requirements may dictate an expedited construction start to meet delivery targets for potential users and as such need to look at tendering only partially completed design drawings, such as excavation and building foundations, to facilitate the start of construction as soon as possible, with the remaining scopes to be tendered as the design is completed. These scenarios will likely involve a construction management

Burnaby Business Park, 4750 Tillicum Street, Burnaby (all images).

or a "cost plus" type of contract. These contracts entail more risk for the owner as the owner is generally subject to any price variations or changes in the final design, but they can be delivered at a lower fee from the construction manager due to the transfer of risk.

Alternatively, an owner may wish to transfer all the risk to a design-build contractor, where the builder is accountable for the entire project design and construction process based on a predetermined scope of work and budget. This entails a design-build contract. Or, another scenario has the owner's design team completing a set of comprehensive design drawings and tendering the project under a stipulated price contract, where the contractor agrees to complete the work for a fixed price.

Within each of these options there are variations, as well as the possibility of agreeing to convert a contract from one type to another part way through the process. Generally, the circumstances surrounding the particular project will guide you towards a certain contract format, and the requirements of the end user or tenant as well as the owner's relationships with various contractors will dictate the decision.

The actual contract will generally be based on a standard Canadian Construction Documents Committee (CCDC) contract. These documents are updated over time but have been developed and accepted as a standard contracting framework. Depending on the nature of the project and level of sophistication and requirements, the owner may include a set of supplementary conditions to the contract to reflect their specific requirements on a project and tailor the contract to suit their needs. Working closely with a lawyer familiar with construction law will facilitate this process and ensure you have an appropriate contractual framework in place for the project in question.

TENDERING THE PROJECT

With drawings now ready for tender, it is time to determine which contractors will be invited to bid on the job. The nature of the project and its location, timing, and scope all impact the potential candidates available to bid on a project. In addition, the reputation and experience of the various contractors will be important in determining who to invite. With the above in mind, a list of contractors should be compiled who have the ability to complete the project and capacity to do so at the time anticipated. Depending on the complexity of the project, a tender period could be as short as several weeks or potentially as long as a few months. In addition, in the current construction climate—with a severe lack of trades and everyone working at capacity—it is important to include a sufficient number of bidders so that you have adequate coverage to evaluate your options, but also not too many that bidders may be discouraged from competing with too many others.

SELECTING THE CONTRACTOR

Once tendering is complete it is time to evaluate the bids received and award the contract. A tender review meeting will be held with each bidder to review their tender and ensure the correct scope has been priced. This meeting is also an opportunity to understand the sub-trades that the contractors intend to work with and potentially review any possible changes or gaps in scope that may require further attention. It is important to become familiar with the team proposed to execute the project on behalf of the contractor—from the project manager to the site superintendent—and their past experience. Finally, once satisfied with the evaluation, the contractor of choice will be awarded the contract. This will not necessarily be the lowest bidder, but who the owner feels can complete the project as intended, on budget and on schedule.

HIRING A PROJECT MANAGER

Beyond the contractor, based on the level of expertise of the owner, consideration may be given to hiring a project manager or others to assist in overseeing the tender analysis and construction phase of the project. The project manager will work hand in hand with a construction manager or will help the owner oversee a general contractor and manage the contract administration and changes. Throughout the course of construction there will be regular project meetings to review progress, confirm project scope, and negotiate any potential changes. The owner and project manager will coordinate the consultant team and ensure they are responding to various requests from the contractor.

CONSTRUCTION MANAGEMENT

Construction management includes the review and oversight of many moving parts: requests for information (RFIs), shop drawings, submittals for equipment and components of the building, change orders where something has been added or subtracted from the scope, and project schedule and overall budget.

Depending on the project, many factors may contribute to changes in the project scope and schedule, including unforeseen site conditions, municipal requirements, potential gaps in the design requiring additional coordination, impacts from weather events, and others. Careful consideration and review by the entire project team will be important to substantiate and negotiate these scope or schedule changes.

Throughout the project there will be monthly progress draws from the contractor that will be scrutinized by the project team and approved for payment. A holdback will be deducted from each project draw and once the project achieves substantial completion this amount will be paid out in accordance with the lien legislation applicable for the place of work.

As the project approaches completion, there will be coordination of various close-out documents and schedules to facilitate final inspections and eventual occupancy of the building. The municipality will ultimately approve the final occupancy permit, at which point the shell building is ready for the use it was intended and the final user can start to move in or commence their tenant improvement work. To this end, in the case of industrial or commercial buildings, beyond the construction of the building shell, the tenant or in some cases the owner will then be required to complete the tenant improvement work. Such work takes the project from its shell condition to that which includes all the finishes, furniture, and equipment, to facilitate the ultimate operation of the building. This stage of the work can be considered another construction project in itself and is generally managed through the same process or, in some cases, it is managed concurrently with the base building.

The intent is that with a good set of drawings and a strong project team, construction will progress through to completion, on schedule and on budget, and all parties will be proud of their achievements in delivering a new home or a new workplace for many people to enjoy for generations to come.

Images provided by Nathan Worbets.

REIBC'S 25TH ANNUAL CHARITY GOLF TOURNAMENT

The 25th Annual REIBC Charity Golf Tournament, Dinner, and Auction was held on June 18, 2018, at Richmond Country Club. The event supports the Make-A-Wish Foundation of BC and Yukon, and since the tournament's inception REIBC has raised over $553,000 in charitable donations. Through the generous support of the participants and sponsors of the tournament, REIBC was able to donate $32,709 to the foundation in 2018.

The event featured 140 registered golfers and hosted an additional 25 guests for dinner. Sponsorship for the tournament was strong, with 18 Platinum and nine Gold sponsors. Par three Hole-in-One sponsors included REIBC (offering $25,000 cash) and Dueck Auto Group (offering a 2018 Cadillac).

The weather was perfect, with beautiful sunshine, and the temperature was warm enough to allow everyone to enjoy the barbeque lunch on the patio deck overlooking the golf course. The tournament started at 1:00 p.m. and, with everything running smoothly on the course, play ended by 5:30 p.m., allowing plenty of networking time before the evening festivities. The formal evening agenda began with a welcome greeting from REIBC's new president, Daniel John.

Perry Solkowski was back once again to perform emcee duties for the evening and he did a masterful job in generating significant donations for the live and silent auction packages. Perry has been our event's longest-serving emcee; his personality and innate ability to joke with the crowd keeps everyone entertained, while he dips into their pocketbooks for the cause.

Judi Whyte presented the 2018 George Whyte award and plaque to Ashley Cooper, president of Paladin Security, another long-time sponsor and supporter of the tournament. As a platinum sponsor every year, Ashley has helped to secure other platinum sponsors and prizes for the tournament and consistently invests in the live and silent auction prizes—and was very deserving of this acknowledgement.

A formal cheque presentation was made by REIBC to the Make-A-Wish Foundation, represented by volunteer Heather Pedersen, for the 2017 record donation of over

$36,000. Heather then gave a greeting from the foundation and presented a special Adopt-A-Wish certificate to REIBC. Heather then introduced the Wish family.

Attending this year's event were three-year-old Ryker, the Wish child, and his parents, Mark and Magdalena. The special element to their story is that Ryker had a kidney disease very early in his life and his father donated one of his kidneys to Ryker. Ryker's wish was to go to Disney World, so the family went together and had a fantastic time for a week. Both parents spoke about the trip and were very grateful to Make-A-Wish for the opportunity to take Ryker on the trip. They also thanked everyone in attendance for their support of the event that made their trip possible. The family's recount of the trip paved the way for the rest of the evening and encouraged everyone to participate in the auction activities.

A multitude of prize donors ensured each participant took away a prize. The auction table consisted of three live and 13 silent auction prizes, which raised $9,275. An additional $2,880 was raised via raffle draw, 50/50, and Hit the Green tickets sold throughout the day. Platinum sponsors were each entered into a draw for a round of golf for four at Richmond Country Club and the winners this year were Shasta Consulting/Pagnanini Edwards Lam.

The tournament continued with its tradition of capping off the evening with a reverse draw for the grand raffle prize: a full set of custom Callaway clubs and bag. The winner this year was Allan Lam of Pagnanini Edwards Lam.

The Golf Committee would like to extend its thanks to the corporate and individual sponsors for their support and prize donations, the participants for supporting the event, the volunteers for assistance in the organization of the tournament, and REIBC staff—who were instrumental in assisting the committee through the process. We are looking forward to another successful tournament in 2019. The date next year is Wednesday, June 26, so please mark your calendars and save the date. See you next year!

TEAM PRIZE WINNERS

First Place: Judi Whyte, Terry Dreaver, John Finlayson, David Kureluk

Second Place: Todd Mikl, Colin Murray, Dan Hunt, Colby Johannson

Third Place: Michael Ferreira, Darren Trester, Garry Wong, Clint Wark

Most Honest Team: Scott Ullrich, Silvia Hoogstins, David Pitts, Lucy Agostinho

GRAND PRIZE RAFFLE WINNER

Set of Calloway Golf Clubs:
Allan Lam

SKILL PRIZE WINNERS

Ladies' Longest Drive: Joan Bird
Ladies' Closest to the Pin: Adena Waffle
Men's Longest Drive: Dave Bird
Men's Closest to the Pin: Doug Niemi
Longest Putt: Colby Johannson and the Masters Building Services team

MARK YOUR CALENDARS!

REIBC's 26th Annual Charity Golf Tournament is on June 26, 2019.

2018 TOURNAMENT SPONSORS

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PLATINUM SPONSORS

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– Judi Whyte
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UBC Golf Club

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Gibraltar Holdings Ltd.
Johnson Controls Canada
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Martello Property Services
Omicron Consulting Group
Oxford Properties Group
Prism Engineering
SerVantage Services Corp.
Siemens Canada Limited
Somatic HVAC Solutions
ThyssenKrupp Elevator Ltd.
Ultra-Tech Cleaning
Verativ Canada
Westpac Pacific Paper

ASK A LAWYER

John McLachlan, RI, LLB

Q: *What are community amenity contributions (CACs) and how are they implemented?*

A:

As demand increases for housing, local governments grapple with how to manage the impact that increased housing has on the community. Local governments need to ensure that any new development is in accordance with the community plan and that there are sufficient infrastructure, community amenities, and services in place to accommodate the additional development.

To address the need for additional infrastructure, legislation allows local governments to impose development cost charges or levies (DCCs) for particular off-site services—water, sewer, drainage, roads, and park land. DCC bylaws must be approved by the Province and are only allowed to cover the specific costs mentioned above.

In addition to DCCs, local governments seek other contributions, known as community amenity contributions (CACs), from developers seeking a change in zoning. These CACs are used to support a range of services and amenities that are not covered under the DCC program, such as community centres, affordable housing, daycares, public art, and more. Local governments have no authority to require CACs as a condition of rezoning; any contribution must be at the initiative of the applicant or come through the rezoning negotiations between the parties.

CAC CALCULATIONS

There are three primary ways that CACs are calculated: 1) fixed rate; 2) revenue or land lift; and 3) negotiation. Many local governments will use a combination of all three approaches in the implementation of their CAC policies.

Fixed-rate CACs are calculated by applying a set rate based on the increase in allowable floor area proposed by the rezoning, or through the use of a charge per created housing unit. The method provides certainty in the amount of CACs required but lacks flexibility to adjust to changing market conditions or the particular circumstances of each development.

The land lift approach bases the CAC contribution on a percentage of the increase in land value due to the rezoning. The developer is charged a percentage of the increase in value from rezoning, sometimes up to 100%. The increase is generally based on the developer's pro formas and can be difficult to properly assess as many of the line items in the pro forma are debatable in terms of impact to the land value. The approach can be time consuming and can delay the commencement of the project. An additional concern is that CACs based on this approach may be perceived as having no relation to the rezoning's impact on the community, but rather as simply a cash grab by the local government.

The process that offers the greatest flexibility is that of private negotiations between the local government and the applicant for rezoning. However, the concern is that when CACs are negotiated there is a lack of transparency and unpredictability to the process.

The negotiation process can lead to a number of issues, such as:

- increasing the cost of development
- making it difficult for smaller developers to take part in the process

> As a result of the increased number of rezoning applications throughout the province and, particularly, in Vancouver, CACs have grown tremendously.
>
> —John McLachlan

- creating uncertainty in the process as different municipalities take different approaches and the approaches can vary even within municipalities
- inconsistency and subjectivity, with a large variance between projects

In spite of these concerns, local governments often rely on CACs over other methods, such as density bonus zoning, to address their infrastructure needs due to the flexibility that the CAC process gives them.

CAC OVERKILL?

As a result of the increased number of rezoning applications throughout the province and, particularly, in Vancouver, CACs have grown tremendously. The CACs collected in Vancouver in 2014 illustrate this: the City of Vancouver issued 50 approvals of additional density resulting in an increase in floor area of 6.5 million square feet. In exchange, that additional density resulted in approximately $234 million in cash or in-kind CACs. Approximately 80% of the CACs were offered as in-kind contributions and the remaining 20% were offered as cash-in-lieu contributions.[1]

Similarly, in 2016, the City of Vancouver obtained $127 million in cash or in-kind CACs from 51 rezoning and density bonus project approvals.[2] Of that amount, $85 million came from just five rezoning approvals.

In 2017, the City of Vancouver collected $88 million in cash-in-lieu contributions and $1 million in density bonus contributions.[3] In addition, the City approved 58 new projects granting additional density through rezonings, Heritage Revitalization Agreements (HRAs), and density bonus zoning, which resulted in approximately $334 million in cash or in-kind CACs being secured for future public benefit and infrastructure needs. Most of the $334 million was secured through the use of CACs as compared to the benefits secured through HRAs or density bonuses.

A GUIDE FOR LOCAL GOVERNMENTS

In response to the concerns set out above and in having regard for the rapid rise in development in BC, together with the concurrent increase in the use of CACs to address infrastructure and service demands, the Province, in March 2014, released a high-level guide to assist local governments in understanding the risks and challenges and to set out recommended practices related to obtaining CACs.[4] The guide, *Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability*, emphasizes that there is no legislated authority to require CACs and sets out guidelines that should be followed by local government to ensure that any CACs negotiated are not seen as being imposed by local government. In particular, the guide emphasizes that local governments need to remember that zoning is a regulatory tool and a means to implement their official community plans—and not to see rezoning as a revenue source. Local governments must avoid the perception that they are no longer planning but simply selling zoning.[5]

The guide also describes the relationship between CACs and housing affordability. CACs can have a significant impact on housing affordability in that increased CAC costs can affect the price that developers are willing to pay for land, thereby decreasing the supply of land available as fewer landowners will be willing to sell their property for a lower price. The Province's view is that the

1 https://council.vancouver.ca/20150610/documents/cfsc7-2014AnnualReportonCommunityAmenityContributionsandDensityBonusing.pdf
2 https://vancouver.ca/files/cov/annual-report-community-amenity-contributions-and-density-bonusing-2016.pdf
3 https://vancouver.ca/files/cov/annual-report-community-amenity-contributions-and-density-bonusing-2017.pdf
4 https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/local-governments/planning-land-use/community_amenity_contributions_guide.pdf
5 Ibid.

amount of the CAC requested by local government is paramount. If the value of the CAC adds a relatively small amount to the cost of the project, the CAC amount is unlikely to prevent the project from proceeding; whereas if the amount requested is significant, it is more likely that the project will not proceed, with the result being an upward pressure on housing prices due to decreased supply. As a result, the guide recommends that CAC requests be moderate and proportionate to the impact the proposed development has on the community.

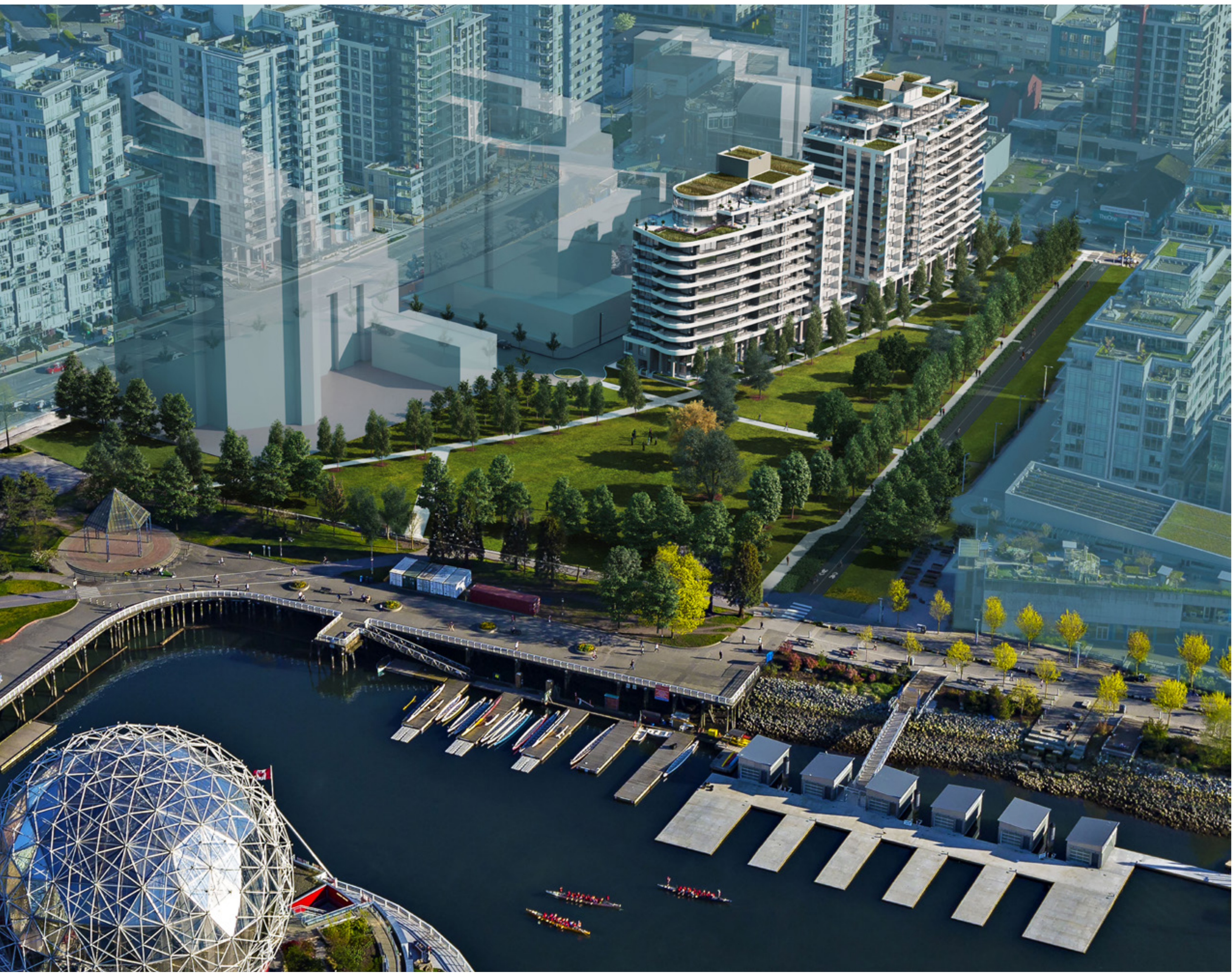
One of the principal objectives of the guide is to provide local governments with knowledge of the risks so that they may adopt policies that ensure CACs are predictable, consistent, and convey a sense of fairness for all parties involved. To achieve this, the guide recommends that local governments use density bonus zoning as the starting point and, if they must use CACs, set target rates so that all parties are aware of the local government's objectives. The guide does not recommend negotiating CACs based on the land lift approach.

The response from local governments to the guide has been varied and local governments are slowly responding to the recommendations set out in the guide. For example, the City of Vancouver had in the past relied primarily on private negotiations on a site-by-site basis to determine the appropriate CAC contribution. More recently, the City is relying more on neighbourhood-specific target CAC rates for smaller developments and using site-specific negotiations for larger rezonings. While this does reflect a move toward greater transparency, as can be seen from the City's annual reports the majority of the CACs received by the City come from larger rezonings through a negotiated process.

It is hoped that local governments will continue to move toward more transparent approaches in seeking contributions for increased infrastructure and service costs but it will be hard for those local governments to get away from the negotiated CAC process that has brought in such significant revenues over the years.

REAL ESTATE FINANCING

Andrew Tong, RI



The Creek development in Vancouver (all images).

At Concert, we view our lenders as financial partners. Partnerships, like many things in life, can be wonderful if managed well. Poorly managed partnerships, however, can be a serious risk to the health of an organization. Over the past decade the market has had, and continues to have, excellent liquidity and relatively low interest rates. However, the market for mortgage debt, like the broader real estate market, is cyclical in nature. Through both good markets and bad, having a thoughtful and clear financing strategy will be critical to your success.

THE BASIC ELEMENTS OF FINANCING

Types of Mortgages

There are several different types of mortgages in Canada, including:

- construction mortgage (which includes development/land servicing)
- term mortgage (also known as a take out mortgage)
- joint construction and term mortgage
- land acquisition mortgage

The security of a mortgage can have different priorities on title. With a first mortgage, the lender is the highest priority on title and gets their money back first in the event of a default. With second and third mortgages, the lender is not first in line to get their money back on a defaulting mortgage, so lenders will charge a higher interest rate for this greater amount of risk. Often these mortgages help to bridge the gap between a first mortgage and the equity required from an owner or developer.

Types of Properties

The different property types that can be financed commercially include:

- residential (condominium, multi-family rental, seniors)

DEFINITIONS

Basics

- principal: how much is owed, not including interest expense
- term: number of years for which the mortgage agreement is valid
- amortization: number of years in which to repay the principal

Interest Rates

- base rate: Government of Canada (GOC) bond yield, prime rate, or banker's acceptance (BA) rate
- GOC bond yield: return achieved on a Government of Canada bond
- prime rate: interest rate that major banks use to set interest rates for lines of credit and variable-rate mortgages (e.g., construction loans)
- BA rate: return on a negotiable financial instrument used to raise short-term funds in the money market
- spread: additional interest rate, measured in basis points, which a lender adds on to the base rate
- mortgage interest rate: base rate plus spread

Ratios

- loan-to-value (LTV): loan amount divided by appraised market value
- loan-to-cost (LTC): loan amount divided by cost to build or cost to acquire the property
- debt coverage ratio (DCR): ratio used to assess the borrower's ability to meet their debt payments based on net operating income

- office, industrial, and retail
- institutional and hotel
- mobile home parks and agricultural lands

Each property type has its own set of risks and rewards and lenders will offer different mortgage terms and lender protections given the different risks associated with each property type.

There are also types of property ownership that affect loans: freehold and leasehold. Most loans assume freehold ownership; however, a loan based on leasehold ownership affects a lender's security and potentially diminishing property value. Questions to consider: What is the remaining term of the leasehold interest (10 versus 99 years)? Is it a prepaid lease or are there annual lease payments that escalate over time? Are those annual lease payments reset over time at a defined calculable rate or is it at a market rate that can be debated? Is the landowner a government agency, First Nation, or a private entity? Is the landowner's process predictable and accountable?

Types of Lenders

Just as real estate buyers are diverse in Canada, there is extensive diversity and variety among lenders. Some of the key lenders in the marketplace include:

- pension funds
- insurance companies
- chartered banks and credit unions
- institutional and private syndicates
- private equity firms

Lenders have limited capital to deploy during a given period, but they need to maintain their portfolio diversification and a return threshold. The diversification relates to such factors as type of properties, city location, age of buildings, and remaining length of the mortgage term. These portfolio factors, which vary between lenders, are ever-changing as they are influenced by market shifts and the state of the economy. Each lender will have different risk tolerances, which will limit what type of building or project they will be willing to lend on.

The Team

You are only good as your team. Make sure you pick a highly experienced consulting team when you finance. A solid team would include:

- finance lawyer
- environmental consultant (soil, vapor, water, habitat)
- building condition consultants (structural, architectural, mechanical, electrical, plumbing, etc.)
- geotechnical consultant
- surveyor
- appraiser
- title insurer and deposit insurer
- mortgage broker and insurance broker

Make sure that you choose consultants who are approved by the various lenders from which you are seeking financing. If not, the lender will likely not accept their report or advice on your project.

Borrowers who do not have the in-house expertise and lender relationships, or perhaps do not have the capacity to manage the team and process, should consider using a mortgage broker who can help them navigate through the complexity and array of mortgage financing.

Canada Mortgage and Housing Corporation (CMHC)

CMHC offers insurance to encourage the development and retention of multi-family market rental projects in Canada. Although there is a premium charge for this type of insurance, lenders will bid a lower spread for the CMHC-insured mortgage as the mortgage is backed by a federal Crown corporation. In addition, CMHC has now taken a greater role—from being an insurer to being a lender—in encouraging the development of affordable housing.

> Some of the most critical work that is required when setting up your financing strategy is to ask some hard questions within your organization. These questions will help form your financing strategy and ultimately determine the risks you are willing to take.
>
> —Andrew Tong

SETTING IT UP

Some of the most critical work that is required when setting up your financing strategy is to ask some hard questions within your organization. These questions will help form your financing strategy and ultimately determine the risks you are willing to take.

What is your corporate objective? Different developers and investors have different objectives, which will influence the financing approach. Some want to maximize the LTV and stretch their equity as far as possible even though it bears substantial financial cost. Others want to be more conservative and put more equity to work while maximizing the amount of profit. There are benefits and drawbacks to the different approaches. Have you and your investors agreed on the level of risk to take for the potential reward? How much equity do you have now?

What is your project-specific objective? Is the project significant to the financial outcome of the overall enterprise? What are your return metrics? How attractive is the asset to potential lenders? How can debt be used to execute your objective, such as enhance your return, reduce the equity required, or free up equity to reinvest in another project?

Does the project not work financially given certain interest rates? How much financial flexibility and strength do you and your investors have if the project is delayed, the market goes sour, or if interest rates change during construction?

To obtain a better interest rate (or in some cases to even secure the financing at all), are you prepared to put your balance sheet on the line and make the financing a recourse loan to the parent company rather than only to the property? Are you prepared to have someone be an indemnifier/guarantor?

Once you are clear on your own objectives and what you're trying to accomplish, it's time to put together your financing package and go to market.

FINANCING PACKAGE

To create your package, you will need to include, at minimum, the following information:

Project and deal:

- objective
- project highlights
- preferred deal terms
- project details, timeline, zoning and entitlements, and market analysis

Borrower:

- executive leadership team, bios, and organization chart
- track record, experience, and past projects as a developer
- financial strength
- key references

Schedules:

- project development plans and renderings
- pro forma with scenario analysis
- current and past audited financial statements
- environmental, building condition, and geotechnical reports
- appraisal, survey, and title
- fixed price construction contract

PROCESS

Once you have the financing package assembled, it is time for you to go to market. Either directly, or through a mortgage broker, you can now connect with the various lenders who fit the risk profile of your given project. Each lender will have their own underwriting team who will evaluate your proposal and have a series of questions.

Once the lender is satisfied with the project details and deliverables, you will receive their proposal. Some critical aspects of the loan will include:

- loan amount and interest rate or spread
- term and amortization period
- type of security: recourse or cross-collateralization
- application and commitment fees
- representations and warranties
- due diligence and title review requirements
- pre-sale and estoppel requirements
- ongoing DCR/LTV covenants and pre-payment provisions

These loan terms are important, and they usually work together. For example, fewer pre-sale requirements and less security would likely result in a higher interest rate or lower loan amount.

Does this lender have the same core values and business culture that you have? Core values and business culture impact strategic direction and influence management, decisions, and key business lines within an organization. If the core values and culture aren't aligned between you and your financial partners, no matter how attractive the specific terms of the financing proposal are, it will be difficult to achieve a longstanding and prosperous relationship.

Once you choose the proposal and lender, a commitment letter will be prepared. To ensure smooth execution on the financing, a prudent borrower will only agree to provisions in the commitment letter they are certain they can execute prior to the proposed funding date of the loan. The lender will then complete its due diligence and will have its lawyers prepare the closing documents with your lawyers.

Sometimes there are new, last-minute due diligence or leasing items that surface or additional lender requirements that arise unexpectedly. You should anticipate the needs of your lender and proactively solve their issues of concern, as this approach will expedite the process and build trust.

FOSTERING SOLID RELATIONSHIPS WITH LENDERS

Our experience has taught us that lenders value honesty and transparency; they value a borrower whose word is their bond. Lenders also value borrowers that execute their projects well. These attributes lead to a relationship of trust, strong execution, consistency, and reliability with your lender.

While it is important to have loyalty among partners, prudent borrowers must be sure to diversify their base of lenders and financial partners. In a cyclical business such as real estate, when the ups turn to downs, the relationship built and nurtured during the good times will pay off in the tough times. For borrowers, lenders must not exceed the credit connection limit, which is the total amount of funds a lender is permitted to loan to that borrower. Likewise, prudent borrowers will ensure they are not beholden to any one lender.

FINAL THOUGHTS

The use of debt financing is an important tool in the toolbox for real estate investors. Each owner or borrower will have their own unique objectives when setting up the mortgage financing. Each lender will have their own unique risk return profile and portfolio considerations. In this dynamic marketplace, there are hard-working, sophisticated, and diverse players on both sides of the transaction. Starting early, and following a disciplined and thorough process, will help achieve a mutually beneficial financing transaction.

At the end of the day, real estate investment (including debt financing) is a people business. Just like in any relationship, if your lender trusts that you will keep your promises and be a good steward of their interest (their money and their reputation), then the sky is the limit to what you and your lender can accomplish together!

Images provided by Concert Properties.

RI

MEMBER PROFILE

MANDY HANSEN, RI

PRINCIPAL,
INSIGHT SPECIALTY
CONSULTING

Mandy Hansen, principal and senior consultant at Insight Specialty Consulting, started her career in the real estate industry at BC Assessment. Working from six different offices over seven years, Mandy sought experience on a variety of projects and worked under a mentor to evaluate development land parcels. "Developing a pro forma was an important skill," recalls Mandy, "but what really honed my expertise was defending my valuation."

Now the head of her own firm for nearly five years, Mandy works as a senior consultant for government and NGO clients, offering real estate strategy and project management. She enjoys the project variety and the range of challenges she helps solve for her clients. Her success with Insight Specialty Consulting is Mandy's greatest professional achievement. "When I gave up a "job" to start Insight, it was the scariest thing I had ever done," she admits. "Now I'm not sure I could go back to a nine-to-five."

Personal achievements have a strong connection to Mandy's professional ones. "I did not have the opportunity to go to university after high school," she explains, "so my undergrad, masters, and now doctorate have all been done through distance learning while working full time." Her doctoral research is strategic, focused on resort development in the Caribbean because, she says, "I'm positioning my company to take on projects in warm, sunny places," prompted by a love of travel and a "portable" workload. Aided by a flexible lifestyle—no kids, pets, or houseplants—Mandy and her spouse of 23 years love to find themselves in new places.

Mandy has held several volunteer positions, including board positions with REIBC and the Real Estate Foundation. She has also managed several projects with PM Volunteers, working with non-profit organizations that need project management expertise. "Giving back to my industry and community is important to me," says Mandy. "So many have given their own time to create the institutions and organizations that we now value. It is my turn to keep them going."

Mandy has recently taken up the sport of triathlon, which is particularly impressive given that she has no idea what it means to take a day off.

NEW MEMBERS

PROFESSIONAL MEMBERS

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BC Assessment

T. Michael Cameron, RI

BC Hydro and Power Authority

Mark Annable, RI

Amix Group

Dennis Chan, RI

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Jesse Bianco, RI

BC Assessment

Chad Kelbough, RI

BC Assessment

Shannon Brown-John, RI

BC Assessment

Andrew MacKinnon, RI

BC Ministry of Transporation and Infrastructure

Matthew Butterfield, RI

BC Assessment

Deborah Nixon, RI

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MARKETING, SALES, AND PROJECT WRAP-UP

Greg Zayadi

The sales and marketing role in the development process is an important contributor to a project's viability and success. For everything that leads to the sales and marketing stage—from site purchase, to assembly of consultant teams, through to project and municipal planning processes—the completion of any for-sale project (residential or otherwise) requires a successful strategic marketing and sales program. For more than forty years, rennie has been Metro Vancouver's industry leader in real estate sales and marketing, partnering with the region's top developers and consultants to contribute to the success of their development programs.

THE FUNCTION OF SALES AND MARKETING TEAMS

At a high level, sales and marketing teams leverage strategic insights gained from past experience, empirical data, and market comparables to inform key decisions throughout the development process. The goal is to ensure that all decisions—from those pertaining to unit design and appliance brands to target buyers and price points—are calculated to limit risk and optimize return based on market conditions, key economic and demographic trends, and the needs and wants of the homebuyer.

More specifically, sales and marketing teams look forward to aid in the design of the right product for projected launch-time market conditions and buyer demand, and they provide expert consultation on buyer demographics, market movement, and the competition to achieve the optimal building design, suite mix, and price point.

Marketing

The marketing team facilitates the creation of a project brand, including a project name, logo, printed material, advertising, presentation centre, and website. The look and feel of the brand, along with the strategic messaging, is designed to create strong emotional and logical connection with the consumer. The marketing campaign generates a qualified database through integrated print and digital ad campaigns, planned events, and other marketing initiatives.

Sales

Working with the developer, the sales team establishes a sales target in order to meet either financing requirements that will trigger construction to start or other goals agreed to in the planning stage. As a means to achieve these sales targets, a comprehensive pre-sale strategy is developed to generate interest and identify specific potential buyers prior to opening the doors of the presentation centre. Typically, once the potential demand target is achieved and would-be buyers are qualified, the sales team opens the presentation centre where the development's details—including renderings, models, and display homes—are made public. Indeed, one of the primary goals of the presentation centre is to amplify the buyer experience and to describe the offering in an engaging and accurate manner.

The marketing team then works to generate consistent traffic to the presentation centre while the sales team focuses on engaging and converting buyers, ensuring they are informed and comfortable throughout the entirety of their home purchase journey.

INITIAL STRATEGIES AND CHALLENGES

Each project has its own sales strategy, but the goal is always the same: efficiently match the right homes to the right buyers. Depending on the project, however, various opportunities and challenges present themselves.

For example, projects situated in established transit nodes or along frequent transit corridors tend to generate a lot of initial demand relative to their less transit-oriented counterparts. In these cases (Surrey's City Centre, for example), the primary challenge for the sales and marketing teams is to manage the inventory of the homes available for purchase in order to ensure that buyers get the home they want while revenue is also being maximized. Conversely, projects in newer, less established neighbourhoods tend to require a longer period of engagement with would-be buyers to allow them to achieve a level of comfort with the notion of being pioneers in an up-and-coming neighbourhood (think about the idea of Southeast False Creek's Olympic Village—before it was the thriving village it is today).

TEMPO CAMPAIGNS

The job of sales and marketing teams is not complete until the last home in a particular development is sold. Once the initial pre-sale targets are achieved, the sales strategy transitions into what is referred to as "tempo" stage. The goal of a tempo campaign is to optimally evaluate conditions to ensure that each home sells at fair market value. Strategies will also shift to target specific buyers depending on remaining inventory. The tempo campaign continues even once the initial presentation centre is closed and, furthermore, once the building is complete. It is common to see an integrated presentation centre in finished product, when there are still homes to be sold.

RELATIONSHIPS ARE EVERYTHING

In order for a pre-sale development to be a success, sales and marketing teams must maintain strong relationships within the industry and, more specifically, within the realtor community. Realtors play an integral role in each project's success, serving as conduits between home-buyers and the developer.

In order to effectively engage with realtors, a commission structure is established early in the sales process, with commissions ranging between 1.5% and 3% of the final purchase price. In some cases, additional realtor bonuses are employed to further incentivise transactions.

When purchasing a home on a pre-sale basis, a buyer is contractually required to pay between 15% and 25% of the final sale price of the home prior to construction of the project completing. Most often, 10% will be required by the developer at the time of contract signing, with the remaining 5% to 15% being required between 180 and 365 days after that date.

PROJECT WRAP-UP

From the point of contract signing through to the completion of the project—and everything in between—sales and marketing teams provide conveyance services to

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>
> —Greg Zayadi

administer the sales contract, disclosure statements, amendments, deposit collection, and lawyer coordination between the buyers, realtors, and developer. The collective job of sales and marketing teams is done only after homeowners receive their keys to their new homes.

Buying pre-sale can be a stressful undertaking for buyers, but it's also an exciting one. The sales, marketing, and conveyance teams at rennie work diligently to help alleviate the stressful elements through their transparent sharing of information, offering of advice, and professional administration of the entire pre-sale process.

If you haven't yet purchased a home on a pre-sale basis, or if you're just interested to find out more about some of the projects we're currently selling, check out the New Developments section at www.rennie.com or, better yet, come visit us at one of our presentation centres.

Images provided by rennie.

RI

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