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Memorandum

To:	Mr. David Sajecki		
Company:	Brook McIlroy		
From:	N. Barry Lyon Consultants Limited		
Phone:	(416) 364-4414	**Date**:	September 14, 2017
Re:	Downtown Burlington Technical Memo – Market Analysis		

The following provides a summary of NBLC's market analysis for the Downtown Burlington Mobility Hub Area:

- NBLC believes that the Downtown area will continue to be the primary destination within the City of Burlington for both residents and visitors. The proximity to the waterfront, walkability, and access to services and amenities are all attractive aspects of the Mobility Hub Area and the continued evolution of the Downtown will only enhance these elements.

- Market demand for residential and non-residential investment in the Downtown is being driven by the character and range of available services and amenities more so than access to transit services and the highway system like at the other Mobility Hubs within Burlington.

- Demand for high-density residential housing in condominium format is expected to increase as the Downtown continues to mature.

- The market in the near-term will likely focus on older demographics, but, as we have seen in other municipalities, the appeal of the Downtown, growing employment opportunities, and declining affordability in the low-density housing market will, in the longer term, begin to attract younger groups to the Downtown.

- Having a wider range of pricing for new housing units in the Downtown will be imperative to diversify the buyer groups, and to ensure that the demand for new housing in the Downtown area is captured. The most recent developments have prices that are reflective of their waterfront locations and are typical of a luxury positioning, ensuring that they are not accessible for many first-time buyers. Increased densities in the Downtown may aid in suppressing pricing somewhat, opening the market up to a wider mix of buyers.

- Demand for modern rental housing is present but the economics of development still favour condominium tenure for most developers. The recent extension of rent control legislation has also taken some momentum out of an emerging rental development market across the GTA.

- Demand for medium density housing forms is also very strong, although opportunities for infill developments are limited. Land assemblies are challenging and expensive. Where opportunities can be found, townhome and stacked townhome projects offer the prospect of attracting a more diversified income and family profile of residents in the Downtown.

- Developing strategies that will attract a more diverse population of buyers and renters, and a mix of age groups, should be an important objective for the Downtown Mobility Hub area.

- As the Downtown's population continues to grow, we expect that demand for retail and service commercial uses will increase and new investment will continue its positive trend.

- Demand for office space is also likely to increase as employers look for unique and high-quality environments to attract staff. However, achievable rental rates for new office investment will need to increase in order to support the economic opportunity for the development of new high-density office construction. In the near term, new non-residential space is likely to be built primarily as part of new mixed-used buildings.

In addition to our market analysis, NBLC also completed an illustrative financial pro forma model to consider whether high-density residential development at heights in the order of six to eight storeys might be viable within current market conditions, or whether additional height is required to support viable pro forma results within the current land market.

The purpose of this financial analysis was to answer questions from City Staff in regards to the impacts of increasing building heights on development viability. This analysis is meant to be illustrative of condominium apartment buildings only, in order to isolate the impact of added residential space that could be achieved through increased building height.

The following were our key findings (**Table 1** illustrates our comparison of results):

- The economics of development at six and eight storeys appear to be viable in the current market context. The models tested in this analysis generated enough revenue to offset all project costs, developer profit expectations, and a residual payment for land. The 6 and 8-storey scenarios were estimated to support land values in the order of $2.15 to $2.72 million (for a theoretical 0.5 acre parcel), or about $23 per square foot of gross floor area.

- The analysis also indicated that a larger scale development would support stronger returns. The results of our model illustrate that a 25-storey building could support higher profit, but also stronger land value on an index basis (approximately $30 per square foot of gross floor area vs. $23).

    - In testing this scenario, unit sizing and pricing assumptions were adjusted slightly to recognize the larger number of units and typical character of larger scale apartment development which requires that units are positioned to sell at a quicker pace.

- Recent land transaction activity indicates that the development community may believe, or is speculating, that increases to development heights will be granted through a planning application or appeals process. With confidence that this can be achieved, land values have begun to escalate as the expectations of both the development community and land owners adjust to this context.

- However, there may also be situations in which added density is required in order to support land values that can outcompete other productive uses. For example, $2.0 million for 0.5 acres of land would likely be economical for a gas station or even some retail uses.

- A lower height limit in the Downtown – while feasible – comes with the following potential unintended consequences:

  - Encouraging developers to drive pricing higher to compensate for a lack of density, as has occurred in Downtown Oakville. This does not help in diversifying the population base and range of built form in the Downtown;

  - Constraining the viability of new rental housing development– except at the luxury end of the market;

  - Allowing other lower density development forms and land uses to compete for land; and,

  - Limitations in the supply of significant redevelopment opportunities are likely to delay private sector investment.

- If the overarching desire is to encourage redevelopment and intensification within the Downtown, increases to height permissions may provide greater financial flexibility for the development community in their ability to assemble properties and compete with the land values supported by other productive uses. However, if the City were to pursue a regimented and defensible mid-rise approach to building heights in the Downtown through its review of the Official Plan, the land market will likely adjust accordingly, but the pace of redevelopment activity might temper.

Table 1

Illustrative Pro Forma Example - High Density Condominium Apartment Development			
	Scenario 1 **6 Storey**	**Scenario 2** **8 Storey**	**Scenario 3** **25 Storey**
Market Assumptions			
Average Unit Size (square feet)	725	725	700
Residential Index Price (PSF)	$600	$600	$620
End Price (per residential unit)	$435,000	$435,000	$434,000
Absorption Rate (sales per month)	6.00	6.00	10.00
Discount Rate	7.00%	7.00%	7.00%
Cost & Revenue Inflator	1.50%	1.50%	1.50%
Developer Profit Margin (% of Gross Rev.)	15.00%	15.00%	15.00%
Project Statistics			
Land Area (acres)	0.50	0.50	0.50
Gross Residential Area (GRA, SF)	95,200	116,960	236,000
Net to Gross Efficiency (NGE, %)	83%	83%	83%
Net Saleable Residential Area (SF)	79,016	97,077	195,880
Number of Units	109	134	280
Revenue			
Total Revenue	$49,477,000	$60,852,000	$127,067,000
Development Costs			
Hard Costs	$25,864,000	$31,687,000	$63,870,000
Soft Costs	$13,312,000	$16,335,000	$34,044,000
Total Development Costs	$39,176,000	$48,022,000	$97,914,000
Developer Profit			
Total Profit (Future $)	$7,321,000	$9,004,000	$18,804,000
Residual Land Value			
Residual Land Value (Present $)	**$2,152,000**	**$2,718,000**	**$7,190,000**
R.L.V. $PSF Buildable	**$23**	**$23**	**$30**
Source: N. Barry Lyon Consultants Limited			