

File No.: 04-1000-20-2025-245

August 7, 2025

s.22(1)

Dear s.22(1)

Re: **Request for Access to Records under the Freedom of Information and Protection of Privacy Act (the "Act")**

I am responding to your request of April 4, 2025 under the ***Freedom of Information and Protection of Privacy Act*** for:

**All financial analyses (report) and related documentation concerning the City's pilot concept to build rental housing on five sites, announced during the first week of February 2025. Specifically, records that assess the idea and feasibility of the City developing and operating its own market rental housing leading up to the announcement.**

All responsive records are attached. Some information in the records has been severed (blacked out) under s.13(1), and s.17(1) of the Act. You can read or download this section here: [http://www.bclaws.ca/EPLibraries/bclaws\\_new/document/ID/freeside/96165\\_00](http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/96165_00).

Under Part 5 of the Act, you may ask the Information & Privacy Commissioner to review any matter related to the City's response to your FOI request by writing to: Office of the Information & Privacy Commissioner, [info@oipc.bc.ca](mailto:info@oipc.bc.ca) or by phoning 250-387-5629.

If you request a review, please provide the Commissioner's office with: 1) the request number (2025-245); 2) a copy of this letter; 3) a copy of your original request; and 4) detailed reasons why you are seeking the review.

Yours truly,

*[Signed by Cobi Falconer]*

**Cobi Falconer, MAS, MLIS, CIPP/C**  
**Director, Access to Information & Privacy**

If you have any questions, please email us at [foi@vancouver.ca](mailto:foi@vancouver.ca) and we will respond to you as soon as possible. You may also contact 3-1-1 (604-873-7000) if you require accommodation or do not have access to email.

Encl. (Response Package)

:lg

# City of Vancouver Portfolio Strategy

Prepared for: City of Vancouver

Prepared by: Colliers Strategy & Consulting

October 16, 2024

Accelerating success.



E.

Executive Summary



# E.1 Recommendations

## Governance and Deal Structuring

- **Incorporate a municipal development corporation.** The business subsidiary model, in the form of a Government Business Entity ("GBE"), best suits the City's objectives, including leveraging development partnerships, optimizing debt/equity structure, potentially securing portfolio CMHC low-cost financing, and enabling long-term asset management.  
s.13(1), s.17(1)
- **Structure the initial development partnership in accordance with option A or D.** The City can choose which option better fits the development based on their ability to secure a PTT exemption.
- **Develop internal capacity and institutional knowledge.** The first development that the City proceeds with will pave the way for the success of the program. The City should use the first pilot project as a learning opportunity for optimization of both development as well as partnership outcomes. Successful execution of the project, through appropriate partners and team, will pave way for the future success of multiple projects via options such as self-development, partnerships or long-term lease-hold ownership.

## Pilot Projects

- **Complete rezoning on pilot project sites.** Ensure the design process includes enough design detail and clarity related to density and built-form such that the project is constructable and marketable. At the same time, ensure the zoning is flexible enough to allow development partners to make specific design changes to unit layouts, nature of amenities and building articulation.
- **Incorporate flexibility for phasing and subdivision as part of project design.** Pacific & Hornby and Main & Terminal are large projects. Need to consider market absorption and limited investor and partner interest in owning projects valued over s.13(1), due to the lower sale (exit) liquidity for projects of that scale.
- **Design appropriate deal structure to minimize PTT on projects.** The City's cash equity requirement will increase significantly if the deal structure imposes multiple property transactions.
- **Secure financing from CMHC.** Securing CMHC financing increases the financial viability of the projects, lowers cash equity requirements significantly, and will help secure the best development partners. However, the City should assess the financial impact arising from CMHC affordability requirements.  
s.13(1), s.17(1)
- **Proceed with Main & Terminal as a joint venture development.** Market sounding participants were most interested in the Main & Terminal site considering its location close to an existing skytrain station, and distance from the Senakw, which reduces the risk of rental oversupply in the same micro-market.

# E.2 35 Year COV Levered Cash Flow Chart

s.13(1), s.17(1)



*Does not include land equity contributions*

## City of Vancouver Levered Cash Flows

The graph shows the forecasted annual levered cash flows for the City of Vancouver across all 5 pilot project sites. The joint venture scenario includes a large positive cash infusion from the development partner at joint venture formation.

## Maximizing Cash Flow

The current cash flow assumptions maximize cash flow in year s.13(1). The investment period extends over 35 years, it would be typical for an investor to refinance multiple times over this period and extract equity. By extracting equity, the projects would take on more debt and reduce the cashflow.

## Reinvesting Pre-Paid Lease Payment

The pre-paid lease scenario assumes the lease payment is reinvested in an apartment portfolio at a s.13(1) cap rate and assumes NOI grows at s.13(1) annually. The annual cash flows grow slower than the self development and JV scenario as the apartment acquisition is not levered.

s.13(1)  
s.17(1)  
s.13(1)  
s.17(1)  
s.13(1)  
s.17(1)  
s.13(1)  
s.17(1)

# E.2 35 Year COV Debt Chart



Graph provided by City of Vancouver

**City of Vancouver Debt Liability**

The analysis forecasts that the City would incur up to s.13(1) in debt in the form of take-out financing in the self development scenario. The City would only incur s.13(1), s.17(1) in debt if they proceeded as a joint venture.

# E.4 Self Development – ACLP

Self Development Metrics (ACLP Financing)								
Development Site	Cash Equity Required Pre Construction	Equity Returned at Construction Draw	Net Cash Equity	COV IRR <sup>1</sup>	NOI at Stabilization	Net Cash Flow at Stabilization	NOI at Year 35	Net Cash Flow at Year 35
Granville Loops - Parcel A	s.13(1), s.17(1)							
Granville Loops - Parcel B								
Granville Loops - Parcel D								
Pacific and Hornby								
Main And Terminal								
Marpole								
2400 Kingsway - Parcel 1								
2400 Kingsway - Parcel 2								
Subtotal (Granville, Pacific, Main)								
Total								

<sup>1</sup>To complete pre development work until construction loan is available.

<sup>1</sup>Equity internal rate of return for project delivery and 35 year hold.

30-Sep-24

### City of Vancouver Cash Requirement

ACLP financing allows the City to proceed with self development with a significantly lower cash requirement than conventional financing. However, the City will only be able to access the additional financing at the start of construction. If the City proceeded with development of all the sites concurrently, they would need s.13(1), s.17(1) in up front cash.

### City of Vancouver Internal Rate of Return

The City's IRR is calculated assuming they dispose of the property after a 35 year holding period.



# E.5 COV JV Metrics – ACLP

COV Joint Venture Metrics (ACLP Financing)								
Development Site	COV Cash Requirement Pre JV (A) <sup>1</sup>	JV Partner Cash Payment to COV (B) <sup>2</sup>	COV Cash Requirement Post JV (C)	COV Equity Returned at Construction Draw (D)	COV Net Cash Equity (B - C + D - 0.5*A)	COV IRR <sup>3</sup>	Cash Flow at Project Stabilization	Cash Flow at Year 35
Granville Loops - Parcel A	s.13(1), s.17(1)							
Granville Loops - Parcel B								
Granville Loops - Parcel D								
Pacific and Hornby								
Main And Terminal								
Marpole								
2400 Kingsway - Parcel 1								
2400 Kingsway - Parcel 2								
Subtotal (Granville, Pacific, Main)								
Total								

<sup>1</sup>To complete pre development work until rezoning completion.

<sup>2</sup>JV partner is expected to true up with City for 50% of land value and pre development costs at JV formation.

<sup>3</sup>Equity internal rate of return for project delivery and 35 year hold.

30-Sep-24

## City of Vancouver Cash Requirement

The joint venture structure reduces the amount of cash equity required by the City of Vancouver. The City will cover all the costs until joint venture formation, which is assumed to occur at rezoning enactment. At JV formation the development partner will even up their equity in the project by providing the City with cash to cover 50% of costs up to this point and 50% of land value. The City will be able to use this cash to cover their share of the remaining costs in the project. s.13(1), s.17(1)

## City of Vancouver Internal Rate of Return

The City's IRR is calculated assuming they dispose of the property after a 35 year holding period.

# E.6 Risk Register - Overall

Colliers met with 9 of the largest institutional investors and developers in Canada to understand their interest in the Pilot Portfolio. The following risk register is a summary of the concerns raised through these conversations and our assessment of prevailing market & execution risks.

Risk	Description	Likelihood	Impact	Severity/ Risk Level	Mitigating Party	Mitigating Action
Rental Absorption and Timelines	The pilot projects are large scale developments with a significant number of units. Current absorption assumptions range from 29 to 102 units per month. The Downtown projects are also facing a large amount of rental supply coming to the market at the Senakw development in Kitsilano, across the Burrard St bridge.	3	3	High	City of Vancouver	The City should review the design of the projects and identify opportunities for phasing the projects or extending the lease up period to allow for a maximum lease up assumption of 40 units per month.
Land Valuations	The market for residential development land is currently adjusting to a significant increase in supply associated with recent provincial legislation. The leasehold nature of the projects adds additional uncertainty to the projects.	2	3	High	City of Vancouver	The City should perform sensitivity analysis on the current valuations to understand the range of potential achievable values.
Affordability Requirement	The city rezoning policy limits the achievable rents at the projects to serving middle income households. CMHC financing programs require projects to provide a share of the units at below market rates.	2	3	High	City of Vancouver	The City should model the rent increases against middle income housing requirements to see if the rents may become constrained. The City should also test the impacts of meeting CMHC affordability requirements within the project.
Property Transfer Tax	The potential for multiple transactions can result in a high PTT liability.	2	3	High	City of Vancouver	s.13(1), s.17(1)
Construction Timeline	The pilot projects are tall building projects with large floorplates and significant underground parkades. The projects are currently assumed to be constructed in 3 to 3.5 years, which is quite aggressive relative to other projects of this nature.	2	2	Medium	City of Vancouver	The City should review the design of the projects and identify opportunities for phasing the projects or extending the construction period.
Design	Some of the pilot project sites face site constraints and poor soil conditions.	2	2	Medium	City of Vancouver	The City should investigate the impact of these restraints on the design of the building and ensure that the pro forma reflects the costs associated with these constraints.

1.

Introduction



# 1.1 VHDO Portfolio Development

City council has directed the Vancouver Housing Development Office (VHDO) to optimize the City's real estate portfolio to create perpetual value and generate non-tax revenue to address the growing infrastructure deficit.

## Middle Income Housing on City Land

The City of Vancouver is currently facing dual crises of an undersupplied housing market and an infrastructure deficit not capable of supporting the required housing growth. At the end of 2023, Vancouver City Council expanded the mandate of the Vancouver Housing Development Office to increase the development of housing targeting middle income households. This has been a shift in policy as the City had been focused on using City owned land to support the creation of social housing.

## Five Pilot Project Sites

On June 25<sup>th</sup>, 2024 City Council created the *Rental Housing on City-Owned Land – Public Benefits Pilot Rezoning Policy*. The policy allows the director of planning to exempt five development applications from the City's CAC policy for Rezoning. The pilot projects must be 100% rental projects on City-owned properties. The policy acknowledges that the ongoing revenue streams generated by the rental projects are the public benefit from development. The revenue streams created by the projects will be available to invest in addressing the growing infrastructure deficit, supporting the renewal and upgrade of community amenities, or contributing towards affordable housing.





# 1.2 Pilot Projects

The City has selected the following 5 properties as pilot projects for the new rezoning policy.

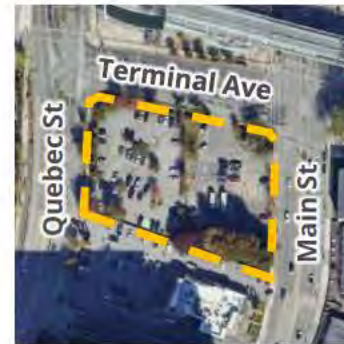
Granville Loops



Pacific & Hornby



Main & Terminal



Marpole



2400 Kingsway





# 1.3 Project Statistics

The City is currently updating the design concepts for the pilot project sites. We have assumed the following project statistics, but they are subject to change.

Site	Site Area	Height (Storeys)	Units	Density	Residential Gross Buildable	Commercial Gross Buildable	Total Gross Buildable
Granville Loops – Parcel A	19,390 SF	s. 4.2	s.13(1)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1)	s.13(1), ~ 47/4)
Granville Loops – Parcel B	22,649 SF	s. 4.2	s.13(1)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)
Granville Loops – Parcel D	17,823 SF	s. 4.2	s.13(1)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1)	s.13(1), ~ 47/4)
Pacific & Hornby	77,833 SF	s.13(1), ~ 47/4)	s.13(1)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)
Main & Terminal	63,070 SF	s.13(1), ~ 47/4)	s.13(1)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)
Marpole	49,567 SF	s. 4.2	s.13(1)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)
2400 Kingsway – Parcel 1	120,287 SF	s.13(1), ~ 47/4)	s.13(1)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)
2400 Kingsway – Parcel 2	22,490 SF	s.13(1), ~ 47/4)	s.13(1)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1)	s.13(1), ~ 47/4)
<i>Subtotal (Granville, Pacific, Main)</i>	<i>200,765 SF</i>		s.13(1)		s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)
<b>Total</b>	<b>393,109 SF</b>		<b>4,000</b>		s.13(1), ~ 47/4)	s.13(1), ~ 47/4)	s.13(1), ~ 47/4)

2.

## Governance and Deal Structuring

## 2.1 Creating a Special Purpose Entity (SPE)

KKBL agrees with Clark Wilson that a business subsidiary model is the best SPE to meet the City's objectives of developing and retaining real estate assets.

In October 2020 the City of Vancouver explored different governance models to support the redevelopment of the City-owned lands in False Creek South. Clark Wilson LLP prepared two memos that review the options available to the City.

### Capacity to form Property Trust and Comparison to Business Subsidiary

Clark Wilson found that the City has the capacity to form both a property trust and a business subsidiary. They recommended that the City proceed with the business subsidiary model, as the limited benefits of the property trust model are not sufficient to overwhelm the additional layers of complexity and operational limits of the model. They found that a property trust model is better suited for public universities which are legislatively constrained from forming business subsidiaries.

### Considerations for Implementing a Special Purpose Entity

- The City should review the requirements for a government business enterprise to ensure a tax efficient SPE structure.
- The City will have to carefully draft the articles of incorporation to consider board composition, conflict of interest matters, duties of directors and officers, and other governance and development matters for the properties.

### Models

Characteristics	Municipal Corporation (Current)	Property Trust	Business Subsidiary
Decision Makers	City Council	CEO	CEO
Liability	Unlimited Liability Across All City Assets	Limited Liability	Limited Liability
Property Transfer Tax Implications	Does Not Require Property Transfer	Requires Property Transfer	Requires Property Transfer
Ability to Take on Debt	Development debt will impact City AAA credit rating	Debt Limited to Trust	Debt Limited to Subsidiary or Nominee Companies
Retained Earnings	Able to Retain Earnings Income Tax Free	All retained earnings are taxed at the highest marginal tax rate	Able to Retain Earnings Income Tax Free <sup>1</sup>
Perpetual Existence	Exists Perpetually	Requires Deemed Disposition and Restructuring Every 21 Years	Exists Perpetually

<sup>1</sup>Based on Clark Wilson memo (2020). City should confirm tax legislation.

# 2.2 Partnership Structures

If the City proceeds with a development partnership KKBL recommends that the City use a limited partnership structure. They recommend that the City create separate LPs for each project.

KKBL has prepared the memorandum *Creation of Municipal Subsidiary and Deal Structuring for Purpose Built Market Rental Developments* to support the City in redeveloping their pilot project sites. We have summarized some of the key topics from the Memo as they relate to the market sounding and inform the financial analysis. The full memo is included in the appendix.

## Safeguards in the Limited Partnership Agreement

KKBL has recommended potential terms that could be included in the Limited Partnership agreement to safeguard the City's interest. These include restricting the general partners scope of powers, setting up an operations committee to provide additional oversight and transferring responsibility for additional funds onto the partner.

## Ownership Structures

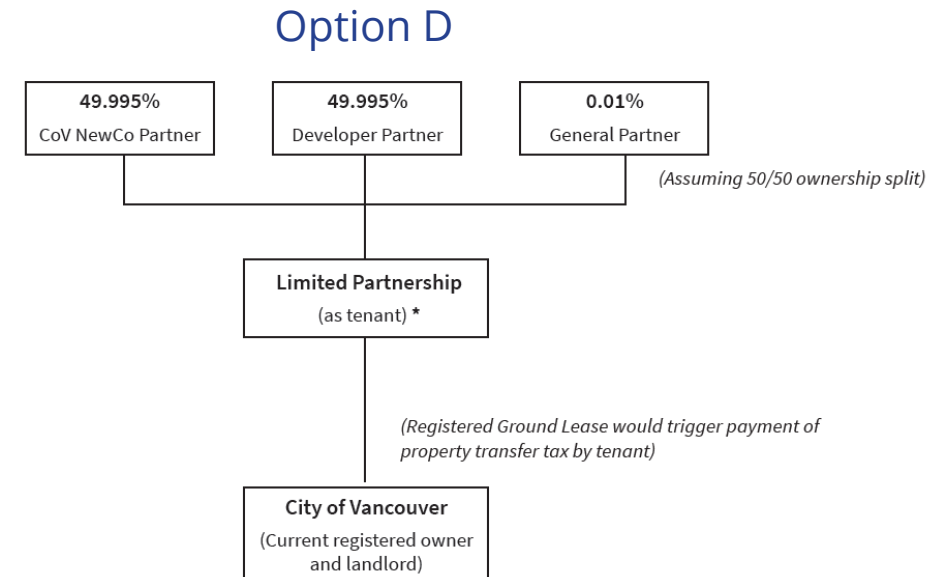
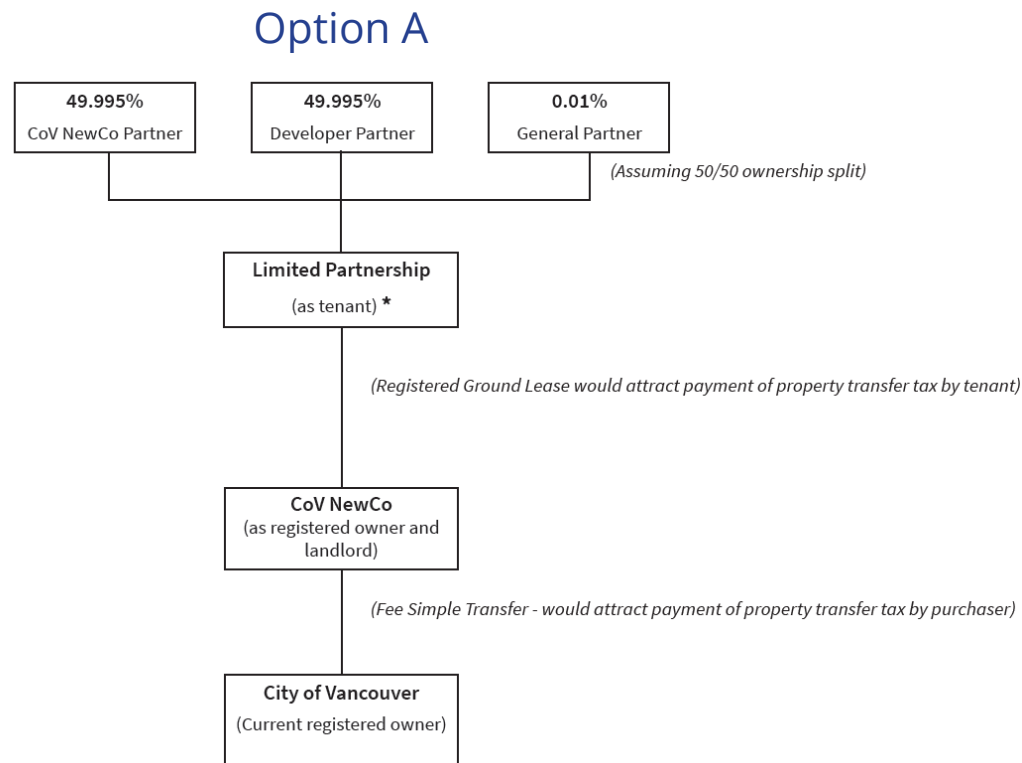
KKBL modeled 4 different ownership structures that involve nominee companies and limited partnerships.

- Option A: The City transfers the property to the NewCo which leases the property to a limited partnership comprised of the developer and the City NewCo.
- Option B: The City transfers the property to a Nominee Co which leases to a LP nominee comprised of the developer and the City NewCo. This allows the City to sell the completed project without the purchaser paying PTT.
- Option C: The City leases the property to the NewCo. The NewCo redevelops the property using a third party development manager. The DM partner would not have any ownership interest in the project.
- Option D: The City leases the property directly to a limited partnership comprised of the developer and the City NewCo.

Characteristics	General Partnership	Limited Partnership	Joint Venture/ Co-Ownership
Taxable Entity	Not a Taxable Entity	Not a Taxable Entity	Not a Taxable Entity
Liability	Unlimited Liability	Liability Limited to Financial Contribution	Unlimited Liability
Debt	Able to Borrow	Able to Borrow	Unable to Borrow

## 2.3 Partnership Structures

KKBL recommends that the City use Option A or Option D depending on the City's preference for land ownership and ability to secure a PTT waiver.



<sup>1</sup>The leasehold interest would be registered in the name of the general partner on behalf of the limited partnership.



## 2.4 Deal Structures

Based on input from the City and KKBL, Colliers analyzed 4 different deal structures that can create perpetual value and generate non-tax revenue at the pilot sites.

### 99 Year Prepaid Lease

The City of Vancouver can lease the property to a developer for 99 years. The City would receive the lease payment upfront similar to a freehold transaction. At the end of the lease the property and any improvements would return to the City. Developers would be restricted to building purpose built rental buildings by the public benefits rezoning policy. The City is familiar with this lease structure, but is concerned that the City does not benefit potential increases in rents over the life of the lease.

### 99 Year Participatory Lease

There is no set standard for participatory land leases in the Vancouver market. Based on input from the City of Vancouver we explored a lease structure where the developer makes a fixed annual payment and a monthly payment based on performance. We have assumed that the fixed payment has priority over any debt payments, but the performance payment would be lower priority behind first mortgage debt. Further analysis should be complete to test the marketability of this structure

### Joint Venture Partnership

Our analysis assumes that the Joint Venture proceeds under a limited partnership structure. This partnership structure is common in the Vancouver market, both development and equity partners would be comfortable entering into a limited partnership agreement.

### Self Development

As the City of Vancouver does not have development experience we have assumed that they would bring on a development manager on a fee for service basis. In this scenario the City's business subsidiary would be responsible for all of the equity requirements and would be subject to all potential losses.

3.

Market Sounding

# 3.1 Background

Colliers met with investors, developers and lenders to understand their interest to participate in the future development of the City of Vancouver's Pilot Project Portfolio.

Market Sounding Participants	Local Development Expertise	Investment Expertise	Lending Expertise
 <b>RELIANCE</b> PROPERTIES	✓	✓	✗
 <b>GWL REALTY</b> ADVISORS	✓	✓	✗
 <b>NICOLA</b> WEALTH	✓	✓	✓
 <b>Hines</b>	✓	✓	✗
 <b>OXFORD</b> AN OMERS COMPANY	✓	✓	✗
 <b>FIERA</b> REAL ESTATE	✗	✓	✓
 <b>HOOPP</b> Healthcare of Ontario Pension Plan	✗	✓	✗
 <b>KingSett</b> CAPITAL	✗	✓	✓
 <b>Scotiabank</b>	✗	✗	✓

The Colliers team engaged with developers, investors and lenders who are active in real estate development and commercial lending to gauge their interest in the City of Vancouver's pilot project portfolio. The feedback will allow the City to optimize deal structures, understand overall market demand, and joint venture partnership expectations.

The interviews were completed over a three-week timeline from the end of August to early September. The participants were shown a presentation deck with site & location details, development statistics and high-level financials of the pilot projects. The presentation deck has been included in the appendices with this report.

The market sounding participants were chosen to represent a wide array of potential development and capital partners. All participants currently have projects in Metro Vancouver, but they are located across Canada.

## 3.2 Findings

The market sounding participants were open to partnering with the City on the development of the pilot sites, but there was concern over the lack of precedent for the proposed arrangement.



### Development Partnership Structure

**GP/LP Ownership Structure:** All of the market sounding participants were comfortable with a GP/LP partnership structure. As an LP the City would be involved in major decision making, while reducing exposure to development & lender risk.

**Investment Term:** The participants emphasized the importance that the City and the partner share similar investment horizons. Most participants emphasized concerns about the lack of liquidity for selling shares of ownership in a building. The participants would want to coordinate an exit with the City, if necessary, to maximize the sale value. Some participants discussed the requirement for participant agreements to include exit clauses (such as, black out during construction, Shotgun and ROFO).



### City as a Partner (Governance & Decision-Making)

**Speed of Decision-Making:** Some participants were concerned about the City's ability to be an effective investment partner. Participants were concerned about the internal approvals process for decision making. They emphasized the need to make major decisions on short timelines (< 1 week) such that project construction is not impacted.

**Corporate Structure:** The participants wanted clarification on how the City would operate as an investment partner. Where would the City land if there is a dispute between the development team and municipal planning staff?

There was emphasis that the City (VHDO) governance structure needs to be separate from Council. There were concerns that an election could result in the delays or cancellation of a project.



### Leasehold Transfer of Ownership

**Comfort with leasehold land as an ownership model:** There were varying levels of comfort with long term leases among the participants. Participants who are based in Vancouver were generally more comfortable. The leasehold tenure was not a deal breaker for any of the participants.

**Discount to freehold asset value:** There was an emphasis that the projects should be priced appropriately given the leasehold tenure. There was no consensus on the appropriate discount, but the highest discount suggested was **s.13(1)** premium on the exit cap rate.

**Term of the lease:** 99 years was an important number to some of the participants. They were concerned that multiple years would pass during construction given the size of the projects. It is likely that a few projects might need to be phased over several years. They recommended that the lease be extended beyond 99 years to compensate or the lease be phased by building occupancy.

# 3.3 Findings

Participants expect that the pilot projects will be financially attractive given their location, exemption from CACs and zero below-market rent requirements, but emphasized the importance of basing the pro forma in realistic financial assumptions.



## Asset Valuations & Financial Assumptions

**(Residual) Land Values:** Most of the participants initial response was focused on the residual land values in the presentation deck. They discussed how a combination of factors are currently impacting land values, including recent provincial TOA legislation, interest rates and the leasehold tenure of the project. Consensus among the participants is that the land should be valued between **s.13(1)** and **s.13(1)** per (buildable) square foot for the Downtown Sites. This value indication does not adjust for any discount due to the leasehold nature of title transfer or any specific impact due to the nature of the development partnerships (if any).

**Market Rents:** The participants suggest that rents from **s.13(1)** to **s.13(1)** per square foot per month are achievable, but the absorption at this level is quite slow. They strongly recommended being very considerate of the absorption schedule and accordingly the phasing strategy for the project.



## Expected Returns

**Investment Metrics:** The two key metrics for most participants were IRR and stabilized yield on costs. The participants would use the IRR to understand the value being created through development and yield to understand the value being created on the long-term hold. Participants were targeting levered IRR's from **s.13(1)** to **s.13(1)** assuming (deemed) disposition on project stabilization (approx. 8-14 months from occupancy, depending on the number of units).

**Yield on Cost:** Participants were targeting a **s.13(1)**, to **s.13(1)**, premium over cap rates to accommodate development risks. Yield on cost is an unlevered metric of NOI divided by total project cost.

Some participants state that they could accept the lower end of the range for transit-oriented sites in premium locations, to account for the lower lease-up risk.



## Debt

**CMHC Financing:** Participants stressed the importance that the projects receive some form of CMHC backed financing (either ACLP or MLI Select). Large scale rental projects are generally not viable without the extended amortizations and reduced debt coverage ratios available through these programs.

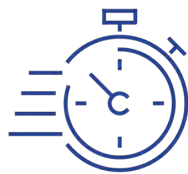
**Leverage:** Participants had comfort with different levels of leverage on the construction loans. The larger institutions were only comfortable up to 65%-75% loan to cost, whereas other participants were comfortable around 90%.

**Loan Guarantees:** Most participants were comfortable providing the loan guarantee for a fee. It is unlikely smaller groups would be able to guarantee these projects given their scale.



# 3.4 Findings

Colliers met with 9 of the largest developers and institutional investors in Canada to understand their interest in the Pilot Portfolio.



Timeline

**Partnership commencement:** Development partners want to be involved early in the process to add value to the design phase. Participants noted their expertise in finding design flaws related to constructability and operations. In the case where they are not involved before rezoning, they seek enough flexibility in the zoning to allow for changes based on their investment preferences.

The City is currently forecasting onboarding potential partners after rezoning enactment, but prior to completion of the entire approvals cycle.

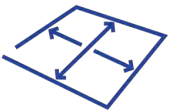


Development Concept

**Larger than typical scale of rental project development:** The scale of the projects concerned the participants. Multiple participants commented that there is limited liquidity for rental buildings valued over s.13(1). They would expect projects of this size to have a cap rate s.13(1), at the sale. Ideal scale for project in Vancouver is 300 to 400 units. City should look at ways to phase the project or create separate titles to allow for separation of development, ownerships and exit options.

**Development Mix:** Market sounding participants would not be interested in including office space in the projects.

**Absorption Risk:** There was also a concern about the absorption timeline for the mega projects. Senakw is delivering 6,000 units to market over 6 years, which will impact absorption at the Downtown sites.



Site Preference

**Project Preference Ranking:** The market sounding participants were very interested in Main and Terminal, Pacific and Hornby, and the Granville Loops. Many of the institutions had high-rise projects in suburban transit areas, but lacked new construction assets in the Downtown core. They appreciate the liquidity of projects located in Vancouver.

s.13(1), s.17(1) Participants appreciated the (attractive) location on major arterials and the proximity commercial services. However, they preferred transit-oriented locations for the scale of these projects.

## 3.5 Key Takeaways

### Current available options:

The only potential options available for monetization of the pilot sites based on the current governance & ownership framework is either pre-paid lease or some form of creative structure that includes ground rent + ongoing income participation. This is due to the City's current constraints related to the ability to take on any form of debt.

In order to “unlock” any form of ownership and development participation in the form of either a Joint Venture with a development and/or capital partner, or self-development, the City will have to be mindful of the following key takeaways:

- 1 Create a Governance Structure That Can Act Independently in a Timely Manner
- 2 Create a Clear RFP with Realistic Expectations
- 3 Focus on IRR and Yield on Cost as factors that will Influence Asset Valuations
- 4 Secure CMHC Debt
- 5 Consider Absorption and Liquidity

4.

Cash Flow Forecasting

# 4.1 Pro forma Financial Analysis

## Pro Forma and Financial Assumption Review

The VHDO is currently taking the pilot projects through the entitlement process. The City has individual pro formas for each site with existing design and financial assumptions. The *Long Term Sustainability and Finance* team created a unified pro forma for the 5 pilot sites including monthly cashflows for 35 years. Colliers was tasked with supporting the City's team with inputs related to market research and review of the assumptions with the VHDO. We provided suggestions for reasonable ranges for assumptions, reviewed the overall structure of pro forma and prepared portfolio cashflows to inform decision making.

## Cash Flow Modelling

Colliers' team integrated a cashflow model into the City's Pro Forma to support overall decision making related to the ownership framework for the execution of the development projects. The portfolio cashflow model tests the following ownership and partnership structures. The two financing scenarios (conventional and CMHC Ap) present the range of expected values and conclusions.



## Notes & Caveats

- The pro forma conclusions / recommendations are based on the City's assumptions.
- The pro forma analysis for CMHC ACLP financing lacks specific considerations pertaining to affordability, accessibility and environmental efficiency.
- The pro forma does not accommodate for the potential property transfer tax liability of transferring the properties into a nominee company or the leasehold transfer into a limited partnership.
- No site specific costs (adjustments for off site servicing, soils, building design) have been considered.



# 4.2 Project Costs

Project Costs (Conventional Financing)				
Development Site	Land Value	Development Costs	Total Project Costs	Value at Completion
Granville Loops - Parcel A	s.13(1), s.17(1)			
Granville Loops - Parcel B				
Granville Loops - Parcel D				
Pacific and Hornby				
Main And Terminal				
Marpole				
2400 Kingsway - Parcel 1				
2400 Kingsway - Parcel 2				
Subtotal (Granville, Pacific, Main)				
Total				

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## Total Project Costs

The total project costs are a combination of hard construction costs, soft construction costs, financing and the residual land value. The total cost for both scenarios is similar at s.13(1), s.17(1). The savings from the reduced construction costs in the ACLP scenario are captured by the increase in the residual land value.

## Value at Completion

The pilot projects are estimated to be worth s.13(1), s.17(1) at project construction completion. This is based on the capitalized value of the projected net operating income (NOI). The completed value is the same across the two financing scenarios as neither the NOI or the cap rate are impacted by the financing.

## Subtotal of Downtown Sites

The results of Granville Loops, Pacific & Hornby and Main & Terminal have been separated as these sites are the closest to proceeding. These projects perform similarly, whereas 2400 Kingsway and Marpole are less transit oriented.

Project Costs (ACLP Financing)				
Development Site	Land Value	Development Costs	Total Project Costs	Value at Completion
Granville Loops - Parcel A	s.13(1), s.17(1)			
Granville Loops - Parcel B				
Granville Loops - Parcel D				
Pacific and Hornby				
Main And Terminal				
Marpole				
2400 Kingsway - Parcel 1				
2400 Kingsway - Parcel 2				
Subtotal (Granville, Pacific, Main)				
Total				

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# 4.3 35 Year COV Levered Cash Flow Chart

s.13(1), s.17(1)



Does not include land equity contributions

## City of Vancouver Levered Cash Flows

The graph shows the forecasted annual levered cash flows for the City of Vancouver across all 5 pilot project sites. The joint venture scenario includes a large positive cash infusion from the development partner at joint venture formation.

## Maximizing Cash Flow

The current cash flow assumptions maximize cash flow in year s.13(1). The investment period extends over 35 years, it would be typical for an investor to refinance multiple times over this period and extract equity. By extracting equity, the projects would take on more debt and reduce the cashflow.

## Reinvesting Pre-Paid Lease Payment

The pre-paid lease scenario assumes the lease payment is reinvested in an apartment portfolio at a s.13(1) cap rate and assumes NOI grows at s.13(1) annually. The annual cash flows grow slower than the self development and JV scenario as the apartment acquisition is not levered.

s.17(1)

# 4.4 35 Year COV Debt Chart



Graph provided by City of Vancouver

City of Vancouver Debt Liability

The analysis forecasts that the City would incur up to s.13(1) in debt in the form of take-out financing in the self development scenario. The City would only incur s.13(1), s.17(1) in debt if they proceeded as a joint venture.

# 4.5 Source of Funds

Source of Funds (Conventional Financing)				
Development Site	Land Value	Net Cash Equity Required	Construction Loan <sup>1</sup>	Total Project Costs
Granville Loops - Parcel A	s.13(1), s.17(1)			
Granville Loops - Parcel B				
Granville Loops - Parcel D				
Pacific and Hornby				
Main And Terminal				
Marpole				
2400 Kingsway - Parcel 1				
2400 Kingsway - Parcel 2				
Subtotal (Granville, Pacific, Main)				
Total				

<sup>1</sup>Loan to cost

<sup>2</sup>Project as a whole.

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Source of Funds (ACLP Financing)				
Development Site	Land Value	Net Cash Equity Required <sup>1</sup>	Construction Loan <sup>2</sup>	Total Project Costs
Granville Loops - Parcel A	s.13(1), s.17(1)			
Granville Loops - Parcel B				
Granville Loops - Parcel D				
Pacific and Hornby				
Main And Terminal				
Marpole				
2400 Kingsway - Parcel 1				
2400 Kingsway - Parcel 2				
Subtotal (Granville, Pacific, Main)				
Total				

<sup>1</sup>Net Cash Equity represents the COV and Partner equity that remains in the project. Initial cash equity requirements are higher (See applicable scenario)

<sup>2</sup>Loan to cost

<sup>3</sup>Project as a whole.

<sup>4</sup>ACLP financing requires that projects provide a share of the units as affordable and accessible. The project also must meet environmental requirements. These requirements have not been modelled.

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## Construction Loan

Developers typically prefer to increase the size of their construction loan to minimize the equity required to proceed with a project. Lenders will perform two tests to see what size loan a project will support, Loan to Cost (LTC) and Debt Service Coverage Ratio (DSCR). Lenders will only provide a loan facility up to the lower value supported by each test. CMHC programs such as ACLP allow for higher LTCs and less restrictive DSCRs.

## Net Cash Equity

The net cash equity column represents the amount of cash a developer would need to invest in the project. The assumption is for the project as a whole. Scenario specific expectations are included in sections 4.6 to 4.10.

The net cash equity column does not represent the total amount needed for development in the ACLP scenario. The ACLP construction loan is larger than the construction costs, which means the developer will be returned equity in the first draw from the construction loan. The projects will still need s.13(1), before construction starts.

# 4.6 Upfront Land Lease

Up Front Land Lease					
Development Site	COV Cash Requirement <sup>1</sup>	Up Front Lease Payment		Up Front Lease Payment Per Buildable	
		Conventional	ACLP	Conventional	ACLP
Granville Loops - Parcel A	s.13(1), s.17(1)				
Granville Loops - Parcel B					
Granville Loops - Parcel D					
Pacific and Hornby					
Main And Terminal					
Marpole					
2400 Kingsway - Parcel 1					
2400 Kingsway - Parcel 2					
Subtotal (Granville, Pacific, Main)					
Total					

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<sup>1</sup>To complete pre development work until rezoning completion. Estimate from COV, based on high level percentages.

<sup>2</sup>Assuming land sale at rezoning completion.

## Cash Requirement

The City proforma estimates the City will have s.13(1), 17(1) in costs to rezone the projects in preparation of a Pre-Paid lease. These assumptions are based on high level percentages. The City should prepare a capital budget to allow for accurate

## Leasehold Discount

The up front land lease payment is assumed to be equivalent to the land residual value supported by the proposed development concepts. s.13(1), s.17(1)

The lease periods are expected to be between 99 and 125 years.

# 4.7 Self Development – Conventional

Self Development Metrics (Conventional Financing)						
Development Site	Cash Equity	COV IRR <sup>1</sup>	NOI at Stabilization	Net Cash Flow at Stabilization	NOI at Year 35	Net Cash Flow at Year 35
Granville Loops - Parcel A	s.13(1), s.17(1)					
Granville Loops - Parcel B						
Granville Loops - Parcel D						
Pacific and Hornby						
Main And Terminal						
Marpole						
2400 Kingsway - Parcel 1						
2400 Kingsway - Parcel 2						
Subtotal (Granville, Pacific, Main)						
Total						

<sup>1</sup>Equity internal rate of return for project delivery and 35 year hold.

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### City of Vancouver Cash Requirement

The self development option with conventional financing has the highest cash requirement. The City would need to consider staggering the projects 

s.13(1), s.17(1)

 to avoid the 

s.13(1), s.17(1)

 cash requirement.

### City of Vancouver Internal Rate of Return

The City’s IRR is calculated assuming they dispose of the property after a 35 year holding period.

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# 4.8 Self Development – ACLP

Self Development Metrics (ACLP Financing)								
Development Site	Cash Equity Required Pre Construction	Equity Returned at Construction Draw	Net Cash Equity	COV IRR <sup>1</sup>	NOI at Stabilization	Net Cash Flow at Stabilization	NOI at Year 35	Net Cash Flow at Year 35
Granville Loops - Parcel A	s.13(1), s.17(1)							
Granville Loops - Parcel B								
Granville Loops - Parcel D								
Pacific and Hornby								
Main And Terminal								
Marpole								
2400 Kingsway - Parcel 1								
2400 Kingsway - Parcel 2								
Subtotal (Granville, Pacific, Main)								
Total								

<sup>1</sup>To complete pre development work until construction loan is available.

<sup>1</sup>Equity internal rate of return for project delivery and 35 year hold.

## City of Vancouver Cash Requirement

ACLP financing allows the City to proceed with self development with a significantly lower cash requirement than conventional financing. However, the City will only be able to access the additional financing at the start of construction. If the City proceeded with development of all the sites concurrently, they would need s.13(1), in up front cash.

## City of Vancouver Internal Rate of Return

The City's IRR is calculated assuming they dispose of the property after a 35 year holding period.

# 4.9 Joint Venture Partner Returns

The market sounding discussions were an opportunity to understand which metrics were the key focus for potential development partners.

Development Partner Joint Venture Metrics							
Development Site	Partner IRR Conventional <sup>1</sup>	Partner IRR ACLP <sup>1</sup>	Target IRR <sup>2</sup>	Project Yield on Cost Conventional	Project Yield on Cost ACLP	Target Yield <sup>3</sup>	Assumed Cap Rate
Granville Loops - Parcel A	s.13(1), s.17(1)						
Granville Loops - Parcel B							
Granville Loops - Parcel D							
Pacific and Hornby							
Main And Terminal							
Marpole							
2400 Kingsway - Parcel 1							
2400 Kingsway - Parcel 2							

<sup>1</sup>Equity internal rate of return from project entry to stabilization.

<sup>2</sup>Based on investor input from market sounding.

<sup>3</sup>Net operating income divided by total project costs.

### Partner IRR

The development partner IRR is modelled assuming they exit at project stabilization. This is a benchmark for the industry, but we would expect the City's partner to remain invested in the project over a longer term. The City can increase the development partners IRR by reducing upfront costs in a project.

### Yield on Cost

Market sounding participants are seeking a s.13(1) to s.13(1), premium over the market cap rate. This covers the risk associated with development. The participants felt that they can acquire new construction rental properties in Vancouver for s.13(1) to s.13( cap rate.



# 4.10 COV JV Metrics – Conventional

COV Joint Venture Metrics (Conventional Financing)								
Development Site	COV Cash Requirement Pre JV (A) <sup>1</sup>	JV Partner Cash Payment to COV (B) <sup>2</sup>	COV Cash Requirement Post JV (C)	COV Equity Returned at Construction Draw (D)	COV Net Cash Equity (B - C + D - 0.5*A)	COV IRR <sup>3</sup>	Cash Flow at Stabilization	Cash Flow at Year 35
Granville Loops - Parcel A	s.13(1), s.17(1)							
Granville Loops - Parcel B								
Granville Loops - Parcel D								
Pacific and Hornby								
Main And Terminal								
Marpole								
2400 Kingsway - Parcel 1								
2400 Kingsway - Parcel 2								
Subtotal (Granville, Pacific, Main)								
Total								

<sup>1</sup>To complete pre development work until rezoning completion.Estimate from COV, based on high level percentages.

<sup>2</sup>JV partner is expected to true up with City for 50% of land value and pre development costs at JV formation.

<sup>3</sup>Equity internal rate of return for project delivery and 35 year hold.

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### City of Vancouver Cash Requirement

The joint venture structure reduces the amount of cash equity required by the City of Vancouver. The City will cover all the costs until joint venture formation, which is assumed to occur at rezoning enactment. At JV formation the development partner will even up their equity in the project by providing the City with cash to cover 50% of costs up to this point and 50% of land value. The City will be able to use this cash to cover their share of the remaining costs in the project. s.13(1), s.17(1)

### City of Vancouver Internal Rate of Return

The City's IRR is calculated assuming they dispose of the property after a 35 year holding period.

# 4.11 COV JV Metrics – ACLP

COV Joint Venture Metrics (ACLP Financing)								
Development Site	COV Cash Requirement Pre JV (A) <sup>1</sup>	JV Partner Cash Payment to COV (B) <sup>2</sup>	COV Cash Requirement Post JV (C)	COV Equity Returned at Construction Draw (D)	COV Net Cash Equity (B - C + D - 0.5*A)	COV IRR <sup>3</sup>	Cash Flow at Project Stabilization	Cash Flow at Year 35
Granville Loops - Parcel A	s.13(1), s.17(1)							
Granville Loops - Parcel B								
Granville Loops - Parcel D								
Pacific and Hornby								
Main And Terminal								
Marpole								
2400 Kingsway - Parcel 1								
2400 Kingsway - Parcel 2								
Subtotal (Granville, Pacific, Main)								
Total								

<sup>1</sup>To complete pre development work until rezoning completion.

<sup>2</sup>JV partner is expected to true up with City for 50% of land value and pre development costs at JV formation.

<sup>3</sup>Equity internal rate of return for project delivery and 35 year hold.

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### City of Vancouver Cash Requirement

The joint venture structure reduces the amount of cash equity required by the City of Vancouver. The City will cover all the costs until joint venture formation, which is assumed to occur at rezoning enactment. At JV formation the development partner will even up their equity in the project by providing the City with cash to cover 50% of costs up to this point and 50% of land value. The City will be able to use this cash to cover their share of the remaining costs in the project. s.13(1), s.17(1)

### City of Vancouver Internal Rate of Return

The City's IRR is calculated assuming they dispose of the property after a 35 year holding period.

## 4.12 Participatory Lease

The participatory lease structure impacts the size of the developer's construction loan. The resulting lease payment that a developer can pay would be similar to the returns from the City reinvesting the Pre-Paid lease payment. The JV structure is a more effective solution to achieve the City's objective.

s.13(1), s.17(1)

### Structure

The City wants to explore a ground lease model that allows the landowner to participate in the revenues from the completed rental building. The payment in the City's preferred model includes two components a fixed annual ground rent and monthly share of revenue. s.13(1), s.17(1)

### Debt

We have assumed that the City's ground rent payment takes priority over any debt the developer secures. This means that the payment would be considered an operating costs and will reduce the net operating income the developer has available to service their debt. We have assumed that the mortgage would have priority over the participatory component, this could result in the City's payment being reduced when the loan is refinanced.



6.

Risk Register

# 6.1 Risk Register - Matrix

Colliers met with 9 of the largest institutional investors and developers in Canada to understand their interest in the Pilot Portfolio. The following risk register is a summary of the concerns raised through these conversations and our assessment of prevailing market & execution risks.

Risk	Description	Likelihood	Impact	Severity/ Risk Level	Mitigating Party	Mitigating Action
Likelihood	The pilot projects are large scale developments with a significant number of units. Current absorption assumptions range from 29 to 102 units per month. The Downtown projects are also facing a large amount of rental supply coming to the market at the Senakw development in Kitsilano, across the Burrard St bridge.	3	3	High	City of Vancouver	The City should review the design of the projects and identify opportunities for phasing the projects or extending the lease up period to allow for a maximum lease up assumption of 40 units per month.
Land Valuations	The market for residential development land is currently adjusting to a significant increase in supply associated with recent provincial legislation. The leasehold nature of the projects adds additional uncertainty to the projects.	2	3	High	City of Vancouver	The City should perform sensitivity analysis on the current valuations to understand the range of potential achievable values.
Affordability Requirement	The city rezoning policy limits the achievable rents at the projects to serving middle income households. CMHC financing programs require projects to provide a share of the units at below market rates.	2	3	High	City of Vancouver	The City should model the rent increases against middle income housing requirements to see if the rents may become constrained. The City should also test the impacts of meeting CMHC affordability requirements within the project.
Property Transfer Tax	The potential for multiple transactions can result in a high PTT liability.	2	3	High	City of Vancouver	<b>s.13(1), s.17(1)</b>
Construction Timeline	The pilot projects are tall building projects with large floorplates and significant underground parkades. The projects are currently assumed to be constructed in 3 to 3.5 years, which is quite aggressive relative to other projects of this nature.	2	2	Medium	City of Vancouver	The City should review the design of the projects and identify opportunities for phasing the projects or extending the construction period.
Design	Some of the pilot project sites face site constraints and poor soil conditions.	2	2	Medium	City of Vancouver	The City should investigate the impact of these restraints on the design of the building and ensure that the pro forma reflects the costs associated with these constraints.



# 6.1 Risk Register - Overall

Colliers met with 9 of the largest institutional investors and developers in Canada to understand their interest in the Pilot Portfolio. The following risk register is a summary of the concerns raised through these conversations and our assessment of prevailing market & execution risks.

Risk	Description	Likeli-hood	Impact	Severity/ Risk Level	Mitigating Party	Mitigating Action
Rental Absorption and Timelines	The pilot projects are large scale developments with a significant number of units. Current absorption assumptions range from 29 to 102 units per month. The Downtown projects are also facing a large amount of rental supply coming to the market at the Senakw development in Kitsilano, across the Burrard St bridge.	3	3	High	City of Vancouver	The City should review the design of the projects and identify opportunities for phasing the projects or extending the lease up period to allow for a maximum lease up assumption of 40 units per month.
Land Valuations	The market for residential development land is currently adjusting to a significant increase in supply associated with recent provincial legislation. The leasehold nature of the projects adds additional uncertainty to the projects.	2	3	High	City of Vancouver	The City should perform sensitivity analysis on the current valuations to understand the range of potential achievable values.
Affordability Requirement	The city rezoning policy limits the achievable rents at the projects to serving middle income households. CMHC financing programs require projects to provide a share of the units at below market rates.	2	3	High	City of Vancouver	The City should model the rent increases against middle income housing requirements to see if the rents may become constrained. The City should also test the impacts of meeting CMHC affordability requirements within the project.
Property Transfer Tax	The potential for multiple transactions can result in a high PTT liability.	2	3	High	City of Vancouver	s.13(1), s.17(1)
Construction Timeline	The pilot projects are tall building projects with large floorplates and significant underground parkades. The projects are currently assumed to be constructed in 3 to 3.5 years, which is quite aggressive relative to other projects of this nature.	2	2	Medium	City of Vancouver	The City should review the design of the projects and identify opportunities for phasing the projects or extending the construction period.
Design	Some of the pilot project sites face site constraints and poor soil conditions.	2	2	Medium	City of Vancouver	The City should investigate the impact of these restraints on the design of the building and ensure that the pro forma reflects the costs associated with these constraints.

## 6.2 Risk Register – Upfront Lease

Risk	Description	Likelihood	Impact	Severity/ Risk Level	Mitigating Party	Mitigating Action
Property Valuation through Land Sale (Upfront Pre-Paid Lease)	The 99-year leasehold transfer of title of the property is unsuccessful or does not achieve the targeted value due to availability of freehold sites of similar scale & nature.	1	3	Medium	Procurement Agent	The procurement team / brokerage agent will ensure the timing of the transaction and the nature of partner maximizes value for the City. They will also ensure that the terms of the lease are marketable to potential developers. The impact on the value realization will be a function of market conditions and depth of outreach.
Timing of Payment and Lease Tenure	It is likely that developer / capital partners might ask for more creative payment structures or longer lease tenure in case of long-term development projects with multiple phases that take several years to build-out. Lease renewal clauses will need to be built into the term to be executed through mutual consultation with the City and Partner(s).	2	3	Medium	Procurement Agent and Legal Advisors	The City of Vancouver procurement team / brokerage agent will need to assess the lease term considerations on a project by project basis, and understand the impact on asset valuation.
Asset Maintenance	City receives improperly maintained building at the end of the lease term	1	3	Low	City of Vancouver and Legal Advisors	The terms of the lease should incentivize/require the proper maintenance of the buildings on the property.
Indigenous Consultation and Reconciliation	Potential political backlash for a lack of consultation with the local First Nations.	1	2	Medium	City of Vancouver	Ensure that the City meets any duty to consult that may exist under common law or their implementation of UNDRIP.



## 6.3 Risk Register – Participatory Lease

This type of structure assumes a 2-part payment to the City – Part 1 is a basic Ground Rent which forms part of the asset's operating expenses, and Part 2 is an ongoing participation in the net operations income (NOI) of the asset on a percentage of NOI basis.

Risk	Description	Likelihood	Impact	Severity/ Risk Level	Mitigating Party	Mitigating Action
Payment Impact due to Debt / Lender Considerations	The structure of the lease (the basic ground rent being included in the operating expenses) impacts the development partner's ability to access debt by suppressing future cashflows. Also, it is likely that the participatory portion of the City's payment will be subordinate to the debt payment. This may expose the City to payment risk in the event of market changes.	2	3	High	Procurement Agent and Legal Advisors	The brokerage agent should consult with lenders when drafting the lease agreement. The Legal Advisors will have to ensure that the lease agreement is carefully drafted to mitigate against payment risk, especially during loan refinancing.
Unusual Transaction Structure	It is more common for municipal or other government / First Nations landowners to enter into upfront pre-paid leases. A more atypical, participation based lease structure might expose the City to the risk of fewer offers and lower valuations.	2	3	High	Procurement Agent and Legal Advisors	The brokerage agent should consult with lenders when drafting the lease agreement, and make sure that any potential concerns of the partners can be addressed early and with clarity. The Legal Advisors will have to ensure that the lease agreement is carefully drafted to mitigate against impact on valuation. Together, the advisors will need to work with the City to ensure that the terms of the lease are marketable to potential developers.
Market	The participatory portion does not achieve the targeted financial returns (rents/operating costs/escalation).	1	2	Low	Procurement Agent	The brokerage agent should monitor the market conditions and make adjustments to projections.
Lease Renewal and Asset Maintenance	City receives improperly maintained building at the end of the lease term	1	3	Low	City of Vancouver	The terms of the lease should incentivize/require the proper maintenance of the buildings on the property.
Damage to the Property, Neighboring Properties or Other Parties	The City could be named in a lawsuit for damages caused by the leasehold owner. (excavation, toxic materials, personal injuries).	1	2	Low	City of Vancouver	The City could consider a combination of risk mitigation measures. Moving the fee simple ownership to a nominee corporation to reduce the City's liability. Purchasing insurance to cover potential liabilities. The terms of the lease should allow the City to recover any costs related to damage by the leaseholder.
Reputational Risk	The developer acts improperly and draws negative attention to the City (Improperly evicting tenants, hosting controversial events at the property)	1	2	Low	Procurement Agent	The brokerage agent should qualify partners to verify track record and ensure their values align with the City.
Construction Delay	Leasehold purchaser delays construction or does not maximize revenue from the project	1	2	Medium	COV/ Procurement Agent	The terms of the lease should have deadlines for construction. The brokerage agent should qualify purchasers to ensure that the chosen purchaser has the ability to complete a large scale development project and maximize value.
Indigenous Consultation and Reconciliation	Potential political backlash for a lack of consultation with the local First Nations.	1	2	Low	City of Vancouver	Ensure that the City meets any duty to consult that may exist under common law or their implementation of UNDRIP.

## 6.4 Risk Register – Joint Venture

Risk	Description	Likelihood	Impact	Severity/ Risk Level	Mitigating Party	Mitigating Action
Capital Partners	Given current interest rates and construction costs many development projects are not meeting investor return requirements and have difficulty securing capital partners.	2	2	Medium	Procurement Agent	The procurement agent should coordinate a selection process that maximizes value for the City, will also ensuring the partner is well suited for the project.
Market Conditions	The project does not achieve the targeted financial returns (rents/operating costs/escalation).	2	2	Medium	Development Partner	The City and the development partner should monitor the market conditions and make adjustments to projections.
Construction Cost Inflation	Construction costs have increased significantly over the past 5 years.	2	2	Medium	Development Partner	The City and the development partner should monitor market conditions and make adjustments to projections. The partnership should take appropriate measures to control costs.
Asset Maintenance	City receives improperly maintained building at the end of the lease term	2	2	Medium	Development Partner	The partnership should be involved in the design process to minimize the need for major revisions later in the development process.
Governance Structure and Internal Approvals	Development decisions need to be made in short time periods.	2	2	Medium	City of Vancouver	The City team should keep senior leadership informed of major project decisions and work to schedule key internal approval dates. Internal approval delays should be avoided to prevent cost increases.
Public Engagement	The project can be stalled if the project faces public backlash due to height or the lack of affordability.	2	2	Medium	City of Vancouver	The City should utilize their communication staff to properly market the program to the public.
Debt	The ability to secure debt is an important step for project success.	1	2	High	City of Vancouver	The City should maintain their relationship with CMHC and ensure that the proposed financing package is available.
Indigenous Consultation and Reconciliation	Potential political backlash for a lack of consultation with the local First Nations.	1	2	Low	City of Vancouver	Ensure that the City meets any duty to consult that may exist under common law or their implementation of UNDRIP.

# 6.5 Risk Register – Self-Development

Risk	Description	Likelihood	Impact	Severity/ Risk Level	Mitigating Party	Mitigating Action
Market	The project does not achieve the targeted financial returns (rents/operating costs/escalation).	2	3	High	COV/ Development Manager	The City should monitor the market conditions and make adjustments to projections.
Construction Cost Inflation	Construction costs have increased significantly over the past 5 years.	2	3	High	COV/ Development Manager	The City should monitor market conditions and make adjustments to projections. The partnership should take appropriate measures to control costs.
Internal Approvals	Development decisions need to be made in short time periods.	2	2	Medium	City of Vancouver	The partnership should be involved in the design process to minimize the need for major revisions later in the development process.
Public Opposition	The project can be stalled if the project faces public backlash due to height or the lack of affordability.	2	2	Medium	City of Vancouver	The City should utilize their communication staff to properly market the program to the public.
Debt	The ability to secure debt is an important step for project success.	1	2	Low	City of Vancouver	The City should maintain their relationship with CMHC and ensure that the proposed financing package is available.
Indigenous Consultation and Reconciliation	Potential political backlash for a lack of consultation with the local First Nations.	1	2	Low	City of Vancouver	Ensure that the City meets any duty to consult that may exist under common law or their implementation of UNDRIP.

6.

Recommendations



# 6.1 Recommendations

## Governance and Deal Structuring

- **Incorporate a municipal development corporation.** The business subsidiary model, in the form of a Government Business Entity ("GBE"), best suits the City's objectives, including leveraging development partnerships, optimizing debt/equity structure, potentially securing portfolio CMHC low-cost financing, and enabling long-term asset management.  
s.13(1), s.17(1)
- **Structure the initial development partnership in accordance with option A or D.** The City can choose which option better fits the development based on their ability to secure a PTT exemption.
- **Develop internal capacity and institutional knowledge.** The first development that the City proceeds with will pave the way for the success of the program. The City should use the first pilot project as a learning opportunity for optimization of both development as well as partnership outcomes. Successful execution of the project, through appropriate partners and team, will pave way for the future success of multiple projects via options such as self-development, partnerships or long-term lease-hold ownership.

## Pilot Projects

- **Complete rezoning on pilot project sites.** Ensure the design process includes enough design detail and clarity related to density and built-form such that the project is constructable and marketable. At the same time, ensure the zoning is flexible enough to allow development partners to make specific design changes to unit layouts, nature of amenities and building articulation.
- **Incorporate flexibility for phasing and subdivision as part of project design.** Pacific & Hornby and Main & Terminal are large projects. Need to consider market absorption and limited investor and partner interest in owning projects valued over s.13(1), due to the lower sale (exit) liquidity for projects of that scale.
- **Design appropriate deal structure to minimize PTT on projects.** The City's cash equity requirement will increase significantly if the deal structure imposes multiple property transactions.
- **Secure financing from CMHC.** Securing CMHC financing increases the financial viability of the projects, lowers cash equity requirements significantly, and will help secure the best development partners. However, the City should assess the financial impact arising from CMHC affordability requirements.  
s.13(1), s.17(1)
- **Proceed with Main & Terminal as a joint venture development.** Market sounding participants were most interested in the Main & Terminal site considering its location close to an existing skytrain station, and distance from the Senakw, which reduces the risk of rental oversupply in the same micro-market.

A.

Appendices

# A.1 Contents

The following material has been included in the appendix to supplement the report.

- Market Sounding Presentation Deck
- Koffman Kalef's Memo – *Creation of Municipal Subsidiary and Deal Structuring for Purpose Built Market Rental Developments*
- Review of the City's Financial Assumptions
- Portfolio Pro Forms (Conventional Financing and CMHC ACLP Financing)

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