

# Memo



**Date:** March 3, 2010  
**File:** 0920-20-009  
**To:** City Manager  
**From:** Manager, Strategic Land Development  
**Subject:** CENTRAL GREEN - FINANCIAL FEASIBILITY

---

## **Recommendation:**

THAT Council direct Staff to require the Central Green site achieve the LEED Gold Neighborhood standard and mandate all buildings on the Central Green site be built, at minimum, to a LEED Certified standard;

AND FURTHER THAT Council direct Staff to provide for 15% of the estimated residential units onsite be for affordable housing purposes.

## **Background:**

Following City Council's unanimous approval of the Central Green development Concept Plan on September 29, 2008, Staff has been diligently preparing the Central Green site for rezoning. The City is taking the steps necessary to redevelop a thirteen acre land parcel on the corner of Harvey Avenue and Richter Street in a manner that is consistent with the approved Concept Plan and the wishes of the Community. The site Concept Plan envisioned the parcel being subdivided into a total of seven lots; five acres will provide for a community park and eight acres will provide for development.

The City has been undertaking detailed site and infrastructure design for the approximately 1 million square feet of planned LEED construction. It is proposed that Central Green will be rezoned under a Comprehensive Development Zone with site specific design guidelines to ensure the architectural integrity, sustainable design, and public open space is protected.

Part of the work required of Staff by Council prior to bringing forward the rezoning was to assess the multiple bottom line approach to redevelopment; including a financial analysis of the redevelopment. The recommendations made in this report follow this work.

## **REQUEST FOR PROPOSAL**

The City is planning to undertake a detailed request for proposal ("RFP") process to ensure project delivery while meeting the multiple bottom line objectives of Council and the community. Staff plans to deliver a project that will demonstrate Province wide industry leadership by setting minimum standards and looking for increased levels of social, environmental, economic, and cultural objectives through the request for proposal process. During this process, the proponents' proposals will be assessed by a Staff committee using weighted multiple bottom line criteria. Proponents that offer a project that exceeds the minimum standards in any of the four areas would receive a higher proposal ranking. Under this

A handwritten signature in blue ink, located in the bottom right corner of the page.

proposed model the highest bid price may not be the ultimate purchaser, rather it will be their ability to best meet all of the multiple bottom line criteria set out in the RFP offering.

The key for the City is to not set the mandated requirements at too high of a level such that it deters proponents from submitting a proposal. Staff believes the mandated requirements of LEED Gold certification and 20% affordable housing will significantly hamper the quality and quantity of RFP submissions and affect the creativity that would come from developer proposals; perhaps to a point where no proposals come forward at all. We must move forward with the understanding that any mandated encumbrance placed on the property will reduce the amount a developer will be willing to pay for the property. At a minimum it will be at a dollar for dollar level, but may be higher due to the associated development and financing risks.

Staff believe the most prudent path to balancing strong leadership in sustainability and project viability is to mandate the sustainability minimums at a level of LEED Certified construction for all buildings and 15% of units for affordable housing. This will provide a high guaranteed base level for sustainability and allow for higher levels of sustainability to be achieved through a competitive RFP process. The Staff committee will also assess the proponents' experience and ability to complete as a measure of their suitability. Staff believes this is the optimal process to ensure the project is deliverable while best meeting the sustainability objectives.

Of note, the City is exploring the option of selling individual land parcels instead of the whole 8 acre development site. This will allow local developers to be a part of the Central Green experience and to raise the local sustainable knowledge economy as a whole.

## SUSTAINABILITY

The model proposed in this report will allow the Central Green project to become a leader in sustainable design based on its demonstration sustainability targets:

- **Significant community park** that focuses on pedestrian networks, community places, and community gardens
- A **compact urban community** that contains residential, commercial, office and park uses which promotes public **open space through densification**
- A target of **15% affordable housing units** throughout the whole Central Green site, including a **contribution of a development parcel** to an affordable housing provider
- A focus on energy and environmental design by **covenanting land dispositions with LEED requirements**
- Goal of a demonstration **LEED Platinum building, LEED Neighbourhood Gold**, and certification of every building on site to a LEED standard (approximately one million square feet of LEED certification)
- Wherever a LEED certification level is targeted, it is followed through with **certification**, versus stating that it is LEED equivalent
- The promotion of renewable energy sources
- A focus on reducing personal vehicle travel by focusing on pedestrian and bike pathways, promoting **vehicle sharing**, planning for a **pedestrian highway overpass**, and designing a **site with a mantra of "no vehicles visible"**
- **Bus rapid transit on-site**
- A site that actively plans for its **water use and re-use**

- To respect and integrate into the heritage area abutting the development
- Embrace the City of Kelowna **crime prevention through environmental design (CPTED)** principles
- To meet the high standards identified in the **multiple bottom line** criteria required by City Council
- To be branded as a **leader** in sustainable mixed-use developments

## FINANCIAL ANALYSIS

The financial analysis has demonstrated that the Central Green multiple bottom was not balanced at the conceptual level. While the land use, density allocations, and site design continue to be viable over the long-term, the previous requirements relative to LEED Gold standards and affordable housing are not. Stemming from previous Council direction, the Concept Plan proposed requirements of 20% affordable housing on site and that all buildings be built to at least a LEED Gold or equivalent standard. These requirements alone cause the multiple bottom line to be significantly unbalanced and provide no value for the economic objective. Our financial analysis has revealed that the costs associated with a mandated LEED Gold standard for all buildings and a 20% affordable housing requirement would be greater than the value of the land itself and would therefore not produce any economic return upon disposition or not proceed at all. The Staff recommendations contained in this report aim to balance the multiple bottom line approach and improve the likelihood of a successful site redevelopment.

A fundamental concept to this financial analysis is the requirement for mandating integrated affordable housing units and LEED standards will directly reduce the value of the land. Hence, these mandates will be subsidized by the taxpayers. This conclusion is further supported by extensive market sounding and industry research.

In 2008, the Central Green redevelopment property value was assessed at approximately \$17 million.

To bring the multiple bottom line in better balance, Staff has made recommendations in this report to mandate, at a minimum, that all buildings on the site be LEED Certified construction and that there be a minimum of 15% affordable housing.

## MULTIPLE BOTTOM LINE

Staff engaged consultants to provide a template for assessing capital projects based on a multiple bottom line analysis, which also includes a cultural objective. The assessment template was constructed based on other municipalities' best practices and Staff input. The draft assessment template has defined indicators to appropriately assess the social, environmental, economic, and cultural objectives.

Central Green was assessed by senior staff based on the recommendations provided in this report and it received full support to move forward with these recommendations in place at the LEED Certified and 15% affordable housing levels. The ratings for each objective were as follows:

- **Exceeds standards and expectations**
  - Environmental objective
  - Social objective

- Cultural objective
- **Minimum standards and expectations met**
  - Economic objective

**\*Sample Rating Scale:**

-2	-1	0	1	2
Below standards and expectations		Minimum standards and expectations met		Exceeds standards and expectations


**Internal Circulation:**

Design & Construction Service Department  
Infrastructure Planning Department  
Policy & Planning Department  
Land Use Management Department

**Considerations not applicable to this report:**

Legal/Statutory Authority:  
Legal/statutory Procedural Requirements:  
Existing Policy:  
Financial/Budgetary Considerations:  
Personnel Implications:  
Technical Requirements:  
External Agency/Public Comments:  
Communications Considerations:  
Alternate Recommendation:

Submitted by:

  
\_\_\_\_\_  
Folk  
Derek Edstrom  
Manager, Strategic Land Development

Approved for inclusion:  , Doug Gilchrist, Director, Real Estate & Building Services

cc: Director, Design & Construction Services Department  
Director, Infrastructure Planning Department  
Director, Policy & Planning Department  
Director, Land Use Management Department





## CENTRAL GREEN

FINANCIAL FEASIBILITY

### AGENDA

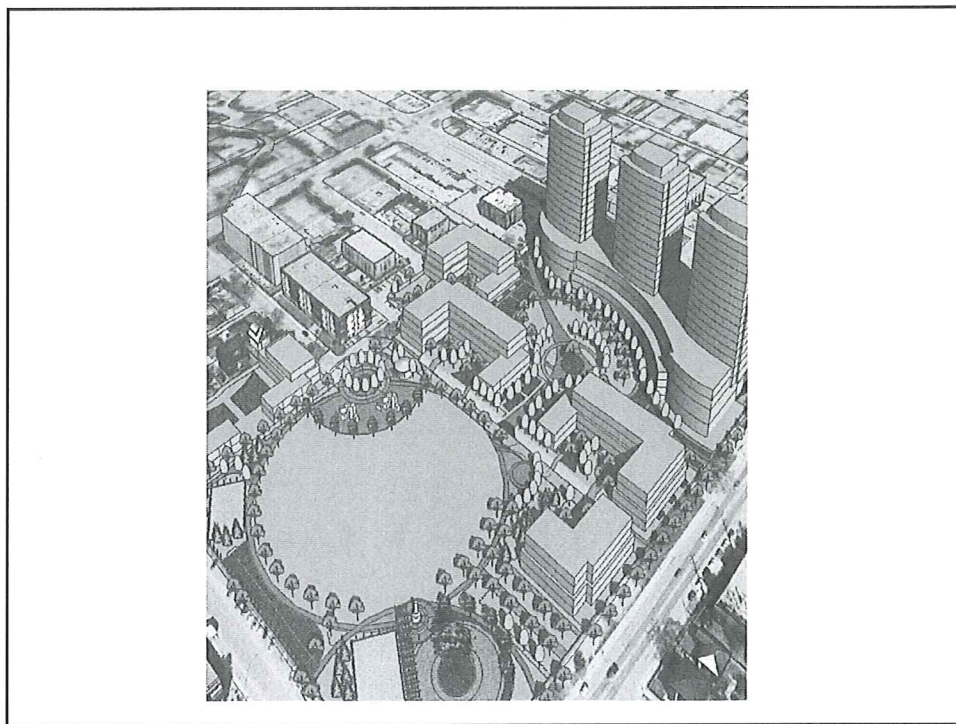
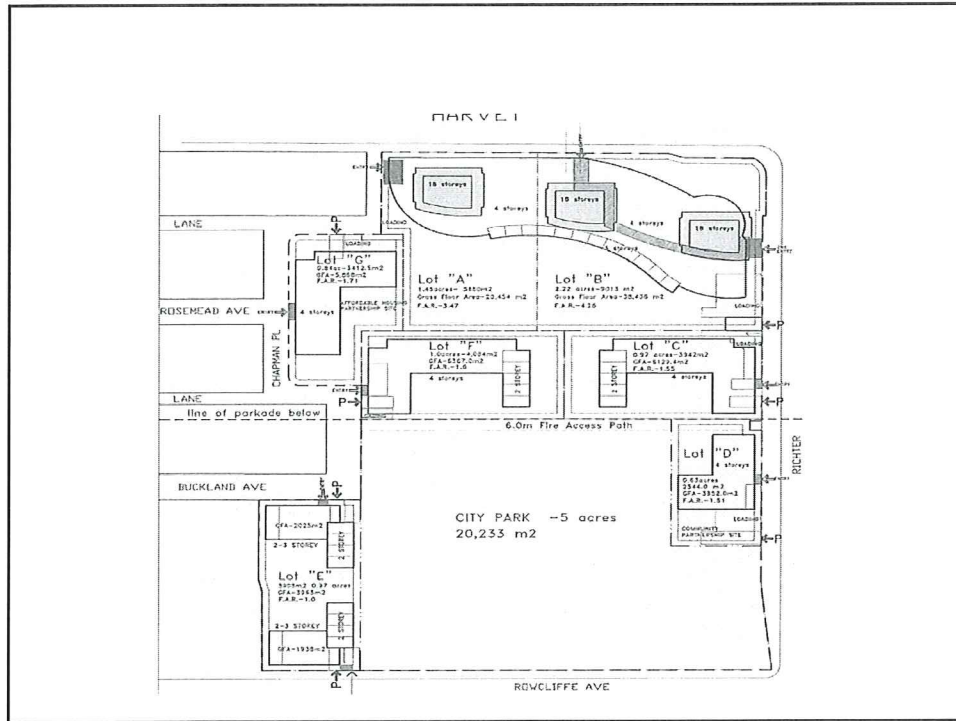
- ▶ KSS site background
- ▶ Redevelopment process
- ▶ Sustainable design
- ▶ **Financial analysis**
- ▶ **Multiple bottom line**
- ▶ Request for proposal
- ▶ Next steps

## **KSS SITE BACKGROUND**

- ▶ City ownership 2002
- ▶ Site tendered 2004
  - ▶ 4 proposals
- ▶ Council did not accept
- ▶ Redevelopment process
  - ▶ Increased land value
  - ▶ Increased sustainability focus
  - ▶ Affordable housing
  - ▶ Park (minimum 5 acres)

## **REDEVELOPMENT PROCESS**

- ▶ Council direction
- ▶ Team building
- ▶ Public consultation
- ▶ Partnership development
- ▶ Concept plan
  - ▶ Subject to financial analysis and economic conditions
- ▶ **Financial analysis / multiple bottom line**
  - ▶ **Over one year**
  - ▶ **3 previous workshops with Council**
- ▶ Prepare zone





## **SUSTAINABLE DESIGN**

- ▶ 40% park land
- ▶ Compact community
- ▶ Public open space
- ▶ 15% affordable housing units
- ▶ Whole site LEED requirements
  - ▶ Goal of a demonstration LEED Platinum building, LEED Neighborhood Development Gold, certification of every building to a LEED standard

## **SUSTAINABLE DESIGN**

- ▶ LEED certification vs LEED equivalent
- ▶ Promote renewable energy sources
- ▶ Pedestrian oriented and overpass
- ▶ “No vehicles visible”
- ▶ Bus rapid transit on-site
- ▶ CPTED principles

### **FINANCIAL ANALYSIS**

- ▶ Multiple bottom line unbalanced
- ▶ Mandating requirements reduces land value
- ▶ LEED Gold, 20% affordable housing - land value of zero
  - ▶ No money to fund - park, site prep
- ▶ Affordable housing projects since 2002

### **FINANCIAL ANALYSIS**

- ▶ Previous staff recommendations:
  - ▶ LEED Gold Neighborhood Development
  - ▶ LEED Gold BC Housing building
  - ▶ LEED Platinum demonstration building
  - ▶ LEED Certified
  - ▶ 15% affordable housing units

## **FINANCIAL ANALYSIS**

- ▶ **KEY CONCEPTS**
  - ▶ **WE CANNOT DICTATE THE MARKET PRICE**
  - ▶ **MANDATED REQUIREMENTS UPON DEVELOPERS DECREASES LAND VALUE**

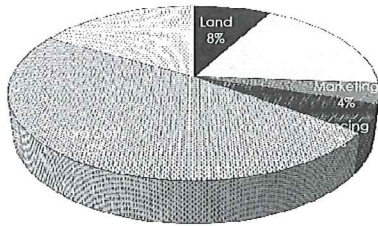
## **FINANCIAL ANALYSIS**

- ▶ For development model
  - ▶ **FIXED**
    - ▶ Market price of units
    - ▶ Hard and soft costs percentage
    - ▶ Margin
      - ▶ Lending requirements
  - ▶ **FLEXIBLE**
    - ▶ negotiated price of land
    - ▶ taxpayer's return

## FINANCIAL ANALYSIS

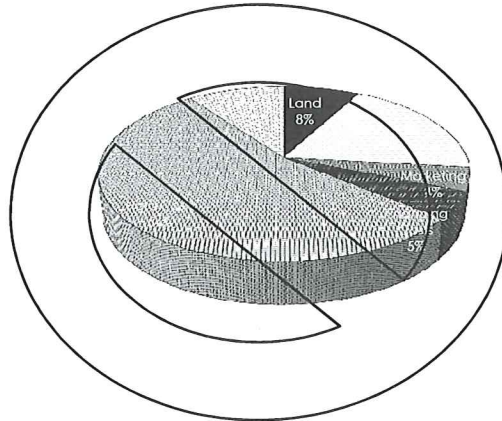
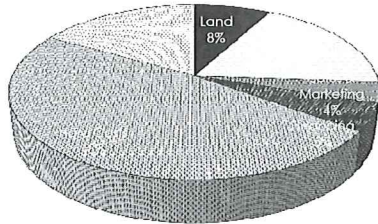
- ▶ Urban Development Institute
  - ▶ UDI Development 101 - Council
- ▶ Goal to educate
  - ▶ Development model
  - ▶ Development risks
  - ▶ Development costs
  - ▶ Items that affect development costs

## ACCEPTED - DEVELOPMENT BASE MODEL



- |                     |                        |
|---------------------|------------------------|
| - LAND              | - MARGIN               |
| - SOFT COSTS        | - Bank Requirement     |
| - SALES & MARKETING | - Return on Investment |
| - FINANCING         | - Overhead             |
| - HARD COSTS        | - Reinvestment         |

### BASE MODEL - GREEN CONSTRUCTION



Soft Costs increase by 1%  
Hard Costs estimated increase by 6%

Margin is Reduced by 7%

Project can no longer be financed - PROJECT NOT FEASIBLE

### UDI 101 - GREEN CONSTRUCTION COST

- ▶ Cost increase of 7%
- ▶ Extended land value impact
  - ▶ \$400m project has land value impact of \$28m
  - ▶ \$500m project has a land value impact of \$35m

### **I HEARD LEED GOLD IS ZERO COST?**

- ▶ Extensive research of developers, builders, government
  - ▶ Cost increase over 10% in Okanagan
- ▶ **UBCO** has not built LEED Silver for residences
  - ▶ Wood construction
  - ▶ REAP standards
  - ▶ Institutional buildings
- ▶ **BC Housing**
  - ▶ Considering own standards
  - ▶ Targeted LEED Gold with limited delivery

### **I HEARD LEED GOLD IS ZERO COST?**

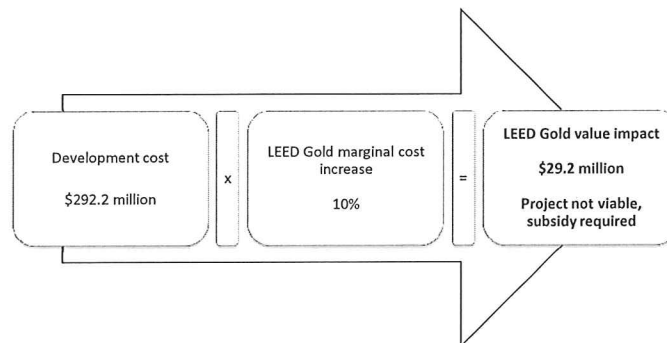
- ▶ **UDI estimates**
  - ▶ Wood - 15 to 30% increase
  - ▶ Concrete - 7 to 12% increase
- ▶ **Experienced Okanagan contractor with LEED AP**
  - ▶ **LEED CERTIFIED** - 15% increase
  - ▶ Plus: 3 months admin
- ▶ Soft costs underestimated
  - ▶ Lake Country LEED Gold targeted building
- ▶ Affordability

### FINANCIAL ANALYSIS - LEED GOLD

- Council directed LEED Gold 970,000 sq. ft.
- Marginal cost over 10%
  - Plus development risk and contingency
- Market does not pay a premium

### FINANCIAL ANALYSIS - LEED GOLD

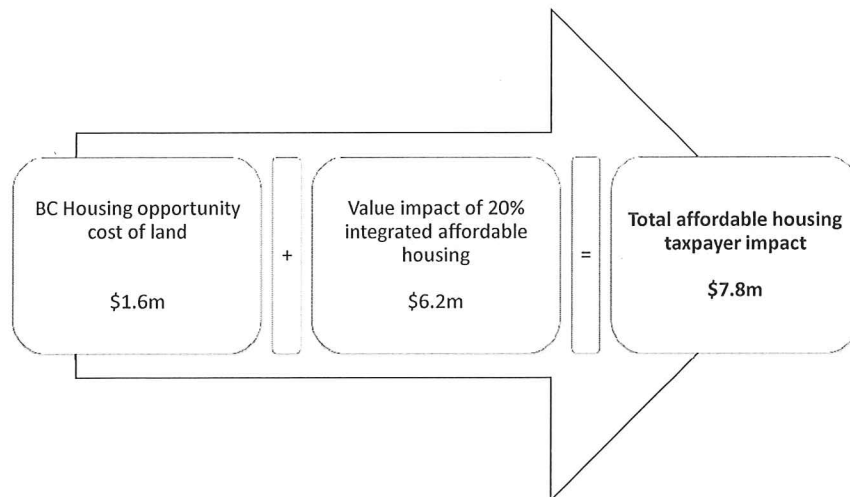
- Order of magnitude study conducted
- Hard and applicable soft costs except BC Housing \$292.2m



**FINANCIAL - AFFORDABLE HOUSING**

- ▶ Council direction was 20% affordable housing
- ▶ Maximum sale price for an affordable unit: \$201k
- ▶ Estimated sale price of concrete tower units
  - ▶ 600 square feet: \$316k
  - ▶ 800 square feet: \$421k
- ▶ Price difference will be deducted from City land value, subsidized by taxpayers
  - ▶ 600 square feet: \$316k - \$201k = \$115k per affordable unit
  - ▶ 800 square feet: \$421k - \$201k = \$220k per affordable unit

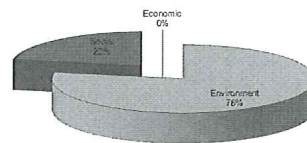
**FINANCIAL - AFFORDABLE HOUSING**





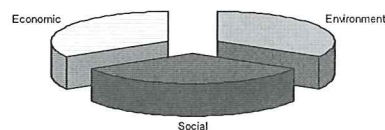
### MULTIPLE BOTTOM LINE UNBALANCED

- Multiple bottom line not balanced
  - Total pie: \$17.2 million
  - Social - 20% affordable housing: \$7.8 million
  - Environment - LEED Gold: \$29.2 million
  - Economic: \$0
- Project not viable, subsidy required to develop



### MULTIPLE BOTTOM LINE BALANCED

- Multiple bottom line balanced
  - Total pie: \$17.2 million
  - Social: 15% affordable housing - balanced
  - Environment: LEED Certified - balanced
  - Economic: balanced



### **MULTIPLE BOTTOM LINE - QUALITATIVE**

- ▶ Assessed by senior Staff **based on new recommendations**
  - ▶ Exceeds standards and expectations
    - ▶ Environmental objective
    - ▶ Social objective
    - ▶ Cultural objective
  - ▶ Minimum standards and expectations met
    - ▶ Economic objective

### **REQUEST FOR PROPOSAL**

- ▶ Balanced industry leadership
- ▶ Project delivery
- ▶ Achievable standards
- ▶ Ensure first-rate developers
- ▶ Competitive process drives innovation
  - ▶ Social and environmental objectives met through competition

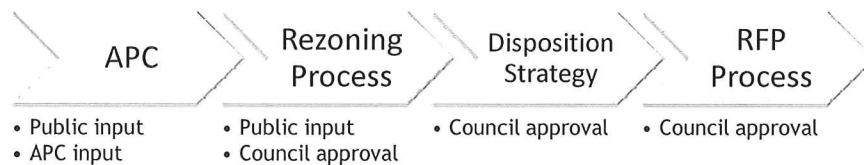
## REQUEST FOR PROPOSAL PROCESS

- ▶ RFP process strength for higher Social and Environmental
  - ▶ Committee review
  - ▶ Multiple bottom line criteria
  - ▶ Weighted criteria
  - ▶ Proponent
    - ▶ Experience
    - ▶ Financial strength



## NEXT STEPS

- ▶ Project timing
  - ▶ New zone drafted
    - ▶ Additional work to finalize
  - ▶ Public process first reading in early 2010
- ▶ Disposition strategy
  - ▶ Dependent on market conditions



## RESOLUTIONS

- ▶ THAT Council direct Staff to require the Central Green site achieve the LEED Gold Neighborhood standard and mandate all buildings on the Central Green site be built, at minimum, to a LEED Certified standard
- ▶ AND THAT Council direct Staff to provide for fifteen percent of the estimated residential units onsite be for affordable housing purposes

