Schedule 18 to the Minutes of the Public Hearing meeting of Richmond City Council held on Monday, October 16, 2017.

To Public Hearing
Date: Oct 16, 2017
Item # 9
Re: Bylaw 9062, 9063

MayorandCouncillors

From: CityClerk
Sent: Thursday, 14 September 2017 07:33
To: MayorandCouncillors
Subject: FW: Onni Imperial Landing Amenity Contribution - File RZ13-633927
Attachments: Onni Imperial Landing Rezoning Amenity Contribution Calculation.pdf

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From: Badyal,Sara
Sent: Wednesday, 13 September 2017 17:06
To: CityClerk
Subject: FW: Onni Imperial Landing Amenity Contribution - File RZ13-633927

From: John Roston, Mr [mailto:john.roston@mcgill.ca]
Sent: Wednesday, 13 September 2017 11:23
To: Badyal,Sara
Subject: Onni Imperial Landing Amenity Contribution - File RZ13-633927

Dear Ms. Badyal,
Many thanks for making the increasingly thick file available. I have sent a copy of this letter to members of City Council.

At the General Purposes Committee meeting on July 17, 2017, the question arose as to the correct calculation of the amenity contribution by Onni re the Imperial Landing rezoning. The uplift in the value of the property due to rezoning depends on:

1. the lease rates charged to the tenants
2. the cap rate derived from sales of similar developments
3. the deduction for increased leasing costs

Councillor Dang asked that the detailed calculations used by the consultants be made available since the uplift in value of $4.1 million calculated by the Onni consultants and the $5.8 million calculated by the City consultants seemed to be very low. Several other councillors concurred.

The full consultant reports containing the detailed calculations reveal that both Onni and City consultants used inappropriate lease rates and cap rates. The Onni consultants also used inflated leasing costs which were reduced by the City consultants. The attached calculations show that using Onni's own statement of anticipated lease rates submitted as part of its 2014 rezoning application and a slightly lower cap rate based on a more comparable sale of a Richmond shopping centre yields an uplift in value of $11.9 million. Given that Onni's anticipated lease rates have no doubt increased since 2014, this is a very conservative uplift in value.

Note that City staff provided a precedent for using 100% of the uplift or $11.9 million as the amenity contribution rather than Onni's offer of $2.375 million.

Please see attached explanation.

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Onni Imperial Landing Rezoning Amenity Contribution Calculation

	Highest Lease Rate Use	2014 Onni Submission	Increase in Annual Rent over $15.00	City Consultants	Onni Consultants
Building 1	Financial Services	$38.50 ft^2	$23.50 x 6,868 ft^2 = $161,398.	$33.00 ft^2	$32.00 ft^2
Building 2 Ground Level	Restaurant	$33.00 ft^2	$18.00 x 15,921 ft^2 = $286,578.	$24.00 ft^2	$22.00 ft^2
Building 2 Upper Level	Daycare	$22.00 ft^2	$7.00 x 5,764 ft^2 = $40,348.		
Building 3	Restaurant	$33.00 ft^2	$18.00 x 1,789 ft^2 = $32,202.	$33.00 ft^2	$32.00 ft^2
Building 4	Financial Services	$38.50 ft^2	$23.50 x 5,952 ft^2 = $139,872.	$30.00 ft^2	$28.00 ft^2
Gross Increase in Annual Rent			$ 660,398.	$389,691.	$ 335,992.
Less: Vacancy 2% (or incl. in Leasing Costs)					-$6,720.
Net Increase in Annual Rent			$ 660,398.	$389,691.	$329,272.
Capitalization Rate			5.0%	5.5%	5.25%
Increase in Value Using Cap Rate			$13,207,960.	$7,085,291.	$6,271,851.
Less: Increase in Leasing Costs			$1,313,688.	$1,313,688.	$2,194,747.
Net Increase in Value			**$11,894,272.**	$5,771,603.	$4,077,104.

Lease Rates for Each Building

The calculation summaries presented to the Committee showed very low lease rates were used by both the Onni consultants and the City consultants. The City consultants mention several times that Onni told them it has been impossible to rent any of the buildings at an industrial rate of $15 per square foot. This was directly contradicted by the owner of Steveston Marine Hardware in speaking to City Council when he recounted that Onni refused his offer to rent an entire building at that rate and instead insisted on much higher retail rates. This misinformation appears to have influenced the City consultants.

In any case, there is no need to rely on guesses by the consultants since Onni itself submitted its much higher "Anticipated Lease Rates" for various retail activities in the development as part of its 2014 rezoning application. It appears that none of the consultants were given access to this document. These anticipated lease rates have presumably increased in the interim.

The highest lease rates should be used for the uses permitted in each building by the rezoning and not the rates for the initial uses that Onni says it plans to have in each building nor the low rates used by the City consultants in some cases. The City consultants state that they are using the lowest possible rate for Building 2, the largest building, on the assumption that it will house a very large tenant who will get a much lower rate than the rate paid by several smaller tenants occupying the same space. However, Onni admits that it no longer has a major tenant for Building 2. It may well be occupied by a few smaller tenants including restaurants and it is the much higher lease rate for that permitted use that should be used.

Second Floor of Building 2

None of the consultants included the second floor of Building 2 in their uplift calculation. The recent emergency addition of daycare use to this area was not requested by Onni and there was therefore no amenity contribution. However, Onni wishes to continue benefitting from this rezoning and there is clearly an uplift in value as a result. Onni's 2014 request included daycare rezoning for this area and an anticipated lease rate of \$22 ft^2, an uplift of \$7 ft^2 over the \$15 industrial lease rate. It may well be that the daycare is currently paying more than \$22.

Capitalization Rate

The capitalization rate is applied to the annual lease revenue to determine the uplift. Using the lowest capitalization rate appropriate for the property is to the City's advantage. The Onni consultants raised the cap rate on the basis that the development is outside the main Steveston commercial area and therefore less visible and has more difficult parking, all of which will result in less traffic. They also raised the cap rate because the development will likely not have a large anchor tenant which normally increases the rents in a large shopping centre and lowers its cap rate. The only anchor tenant is a bank.

The City consultants pointed out that, "with the development of this property the core will move east in the future and make this area even busier and more successful ... This is a very attractive, unique and appealing property which will become a very successful commercial focus, potentially even busier than the existing commercial in Steveston." Further, the lack of an anchor tenant will not reduce rents, "Rents with and without an anchor are expected to be similar."

All the consultants had difficulty finding a comparable property. The Onni consultants mention the 2016 sales of shopping centres in Surrey, New Westminster, Coquitlam and Burnaby, all much larger than Imperial Landing, with cap rates of 4.8% to 5.3%. On the other hand, they fail to mention the 4.4% cap rate on the 2015 sale of the 8010 Saba Rd. shopping centre in central Richmond with a bank as the only anchor tenant and comparable in size to Imperial Landing although with more traffic.* A very conservative cap rate would therefore be 5% rather than the 5.25% and 5.5% rates used by the consultants.

Increase in Leasing Costs

The Onni consultants include every possible cost associated with rezoning and leasing the development totalling \$1.380 million to which they add an incredible \$0.815 million as "Profit Margin" to reach \$2.195 million. The City consultants reduce this latter amount and deduct the costs that would be incurred even if the development were not rezoned, to reach a more realistic \$1.314 million.

*Details on the 8010 Saba Rd. sale at: https://www.bcassessment.ca/services-and-products/Shared%20Documents/2016%20BCA%20CPTA%20Market%20Value%20Forum.pdf

Grocery
Daycare
Restaurant
Bank

	Ground Floor	Second Floor	Total	Anticipated Lease Rate	Anticipated Industrial Lease Rate	Difference
Building 1	6,868			$ 28.00	15	$ 13.00
Building 2 [redacted]	15,921			$ 29.50	15	$ 14.50
Building 2 [redacted]		5,764		$ 22.00	15	$ 7.00
Building 3 - [redacted]	1,789			$ 33.00	15	$ 18.00
Building 4 [redacted]	5,952			$ 38.50	15	$ 23.50
Building 5 [redacted]	13,803			$ 25.00	15	$ 10.00
Building 6	9,391			$ 15.00	15	$ -
Total	53,724	5,764	59,488	$ 26.27		
Industrial Lease Rate	$ 15.00	/sf				
Difference In Retail Vs. Industrual	$ 11.27					

Submitted by Omi 2014.

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