

MIXED-USE AS A TOOL FOR SUBURBAN TOWN CENTRE OFFICE SPACE
DEVELOPMENT IN METRO VANCOUVER: A CASE STUDY IN PORT MOODY, BC

EXECUTIVE SUMMARY

by

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Executive Summary

The central question explored in this report is: How can mixed-use development be used as a tool of cross-subsidization, allowing for the creation of office space in Metro Vancouver suburban town centres where it would not otherwise be economically viable? The central hypothesis is that mixed-use

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on the development pro forma, making development of office space viable where it would not otherwise be so.

Patterns of suburban office development across Metro Vancouver have largely focused on peripheral business parks and fringe development,

as mixed-use. A case study site was selected in the town centre through consideration of a variety of
criterion: location vis-a-

development and office development; projects costs and ratios. Interviewees were selected using a basic non-probability snowball sampling method, and were conducted with planners, economists and developers.

As office space displaces residential space within a fixed FSR development scenario, project viability as measured by unleveraged internal rate of return (IRR) decreases. In the case study analysis of a 3.0 FSR development scenario on the subject site, as office space increases from 16% to 41% (with an associated decrease in residential space), the overall project cost decreases by 0.8% while project revenues fall by 10.5%. The yellow bar in the figure below represented the unleveraged IRR hurdle rate range of 8-10%.

Returns Comparison		
	Office/Retail	Residential
FSR	3.0	3.0
Saleable Residential sq.ft.	0	155,550
Leasable Retail sq.ft.	130,900	0
Leasable Office sq.ft.	24,650	0
Total Project Costs	\$60,678,290	\$53,137,489
Total Project Revenues	\$46,068,802	\$74,786,333
NPV @ 9%	-\$23,097,143	\$7,267,844
Unleveraged IRR	1.2%	16.3%

two use mixes: (1) retail + office mix, and (2) 100% residential. The office/retail development accrues project costs 14% higher than the residential only development, while revenues are 38% lower. The unleveraged IRR drops from a very viable 16.3% to an unviable 1.2%.

Overall, the case study findings indicate that, provided there is sufficient residential space within the mixed-use development to make the overall project economically viable, office space can be included in the project and offered at rents congruent with what the market can pay. Residential end-users subsidize the office space component.

Sensitivity analyses indicate that, under most normal market circumstances, the key variables that would most affect the financial outcomes are likely to move in parallel up or down (e.g. residential sales prices and office rental rates). While market shifts will change overall project viability and make some mixes that were borderline viable under current conditions possibly less or more viable under changed conditions, there would continue to be a mix of residential and office that could achieve the dual objectives of economic attractiveness for developers and planning policy attractiveness in terms of encouraging suburban town centre office space. Furthermore, residential sales are a necessary source of subsidization for office uses in mixed-use development at the subject site.

The case study findings are found to be applicable to other sites in Port Moody and town centres of other Metro Vancouver municipalities.

-use Suter Brook Village, the office component is subsidized by residential end-users;

it was only due to a backlog of demand from users able to pay economic rents that the office component was not subsidized by residential end-users;

Metro Vancouver municipalities should consider a number of strategies to incentivize mixed-use development with office space in their town centres. These include: city assisted land assembly; permitting stand-alone office components as part of mixed-use, phased developments; and detailed exploration of bonus density strategies with mandatory office space FSR as part of base density allowances.

Areas for future research should include: determining the motivations of suburban office park tenants to locate as they do, as part of an effort to determine whether some could be attracted to mixed-use town centre developments