

Residential Rental Tenure Zoning (RRTZ)

Review of Report by Davidoff and Heaney

December 4, 2020



COMMERCIAL

MULTI-FAMILY

LAND

SENIORS' HOUSING

HOSPITALITY

DISPUTE &
SPECIAL SERVICES

SPECIAL PURPOSE

PREPARED FOR

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President and CEO
Urban Development Institute

And

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Chief Executive Officer
LandlordBC

PREPARED BY

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December 4, 2020

Project Number: 11120.102391.000

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Dear Ms. McMullin and Mr. Hutniak:

RE: Review of Report “Residential Rental Tenure Zoning: The Economic Effect on Delivery and Maintenance of Rental Housing – January 21, 2020”

In accordance with your request by way of an engagement letter dated August 14, 2020 and as per the terms of reference (TOR) provided herein, we have prepared the attached Consulting Report (the “Report”), being a review of the report identified above. The intended users of this Report are the Urban Development Institute and LandlordBC (collectively “the Clients”). The intended use of the Report is to assist the Clients in their analysis of the Report and for the purposes of informing their organizations’ advocacy work that may or may not be released publicly or shared with elected officials or government staff. No additional intended use or users are identified or intended by the author.

This Report must be read as a whole; sections taken alone lead may the reader to an incorrect conclusion.

This assignment has been completed in accordance with the Scope of Work as outlined in the Report.

Should you have any questions, please contact Carl Nilsen, B.Sc., AACI, P.App, FRICS at your convenience.

Respectfully submitted,



Altus Group Limited

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1 Executive Summary

This report (the “Report”) is a review of a study entitled *Residential Rental Tenure Zoning: The Economic Effect on Delivery and Maintenance of Rental Housing* dated January 21, 2020 (the “Study”).

Part 2 of the Report describes matters relating to our terms of reference and scope of work.

Our terms of reference require us to consider three main issues:

- a) whether the Study met the requirements of the terms of reference (assumed to be those set out in Schedule A of a letter dated May 13, 2019 from the City of Victoria to the Government Grants Officer)
- b) the appropriateness of the analytical methods and the data used to derive the Study’s conclusions.
- c) the consistency between the analysis and the conclusions reached by the Study

The conclusions we have reached regarding these three issues can be summarized as follows:

- a) The Study has not met all the requirements of the terms of reference for the following reasons:
 - Incorrect assumptions or lack of explanation regarding the analysis reduce the reliability of the Study’s methodologies.
 - Specific items identified in the terms of reference are not addressed in whole or part.
- b) Our review has identified issues which limit the reliability of the analytical methodology and data. These include:
 - The Study does not clearly define, for the purpose of the analysis, the assumptions made regarding the terms under which Residential Rental Tenure Zoning (“RRTZ”) might be imposed. As a result, the effect of variables affecting the outcome of the circumstances in which RRTZ might be used are not identified.
 - The derivation of the inputs used to generate numeric or value conclusions is not always clearly explained. In some instances, there are inconsistencies or incorrect assumptions in the analysis which limit the reliability of the conclusions.
 - The use of “*illustrative*” examples based on hypothetical assumptions, together with a lack of clarity regarding the source of the assumptions made in those examples, limit the practical application of the results.
 - The Study does not describe the extent to which current market research, if any, has been undertaken. Assumptions used for key aspects of the analysis do not appear to have been derived from market data then available.
 - The Study includes a number of caveats describing the limitations and uncertainty of the data and analysis on which conclusions are based.
- c) The conclusions expressed in the Study do not always follow from the analysis or have limitations as a result of the issues identified above.

Parts 3.1 and 3.2 of the Report describe our understanding of the Study, its analytical methods and conclusions. Our rationale for the above summary is described in more detail in Part 3.3 (“Conclusions”).

2 Introduction

2.1 Terms of Reference

The terms of reference provided for this Report are summarized as follows:

Terms of Reference	
Clients	Urban Development Institute and LandlordBC.
Report to be reviewed	“Residential Rental Tenure Zoning: The Economic Effect on the Delivery and Maintenance of Rental Housing” by Thomas Davidoff and Owen Heaney, Sauder School of Business, UBC. January 21, 2020 (the “Study”)
Intended User	Urban Development Institute (UDI) and LandlordBC
Purpose of Consulting Report	To provide a high-level review of the Study and the terms of reference on which we have been asked to assume it was based in order to provide an opinion as to: <ol style="list-style-type: none"> a) whether the Study met the requirements of the terms of reference b) the appropriateness of the analytical methods and the data used to derive the Study’s conclusions. c) the consistency between the analysis and the conclusions reached by the Study.
Intended Use	The intended use of this Consulting Report is to assist the Clients in their analysis of the Study and for the purposes of informing their organizations’ advocacy work that may or may not be released publicly or shared with elected officials or government staff.

2.2 Scope of Work

The scope of work has included the following:

- ▼ Review of Study and Terms of Reference (assumed to be those set out in Schedule A of a letter dated May 13, 2019 from the City of Victoria to the Government Grants Officer).
- ▼ Review of the basis on which the conclusions in the Study have been reached and their relationship to the terms of reference.
- ▼ Provide comments on the analytical methods used in the Study.
- ▼ Comment on the appropriateness of the data on which the conclusions in the Study are based.

- ▼ Comment on the consistency between the analysis and the conclusions reached by the Study.
- ▼ Prepare Consulting Report in accordance with the Consulting Standards of the Canadian Uniform Standards of Professional Consulting Practice (CUSPAP)

2.3 Extraordinary Limiting Conditions

An Extraordinary Limiting Condition, as defined in Section 3.24 of CUSPAP 2020, is a necessary modification or exception of a Standard Rule which may diminish the reliability of the report. There are no Limiting Conditions applicable to this Consulting Report.

2.4 Extraordinary Assumptions

An Extraordinary Assumption, as defined in Section 3.23 of CUSPAP 2020, is an assumption, directly related to a specific assignment, which, if found to be false, could materially alter the opinions or conclusions.

For the purpose of completing this Report it has been necessary to make assumptions about the terms of reference, the analysis, and the conclusions expressed in the Study. These have been identified where applicable and, if the assumption is not correct, the opinions expressed in this Report may change.

2.5 Hypothetical Conditions

As defined in Section 3.31 of CUSPAP 2020, Hypothetical Conditions are a specific type of an Extraordinary Assumption that presumes, as fact, simulated but untrue information about physical, legal or economic characteristics of the subject property or external conditions, and are imposed for purposes of reasonable analysis.

There are no Hypothetical Conditions applicable to this Report.

3 Review of the Study

3.1 Introduction

One of the principal purposes of this Consulting Report has been to consider whether the Study has met its Terms of Reference.

In conducting our review of the Study, we have been asked to assume that, while not specified in the Report, the Terms of Reference were those set out in Schedule A of a letter dated May 13 2019 from the City of Victoria to the Government Grants Officer.

The letter states: “This research project will be guided by the following areas of interest:

- Economic impact of applying rental only zoning to property values
- How BC Assessment will be valuing properties under rental only zoning, compared to similar forms of development but that are market condos.
- How would rental only zoning, if included as part of a density bonus scheme, affect valuation of the density bonus incentive.
- The influence of rental only zoning on delivering levels of affordability.
- Impact of rental only zoning on existing purpose-built rental stock and the ability to leverage property value for improvements/redevelopment.”

The purpose of the research project was described in the letter as being to address “the uncertainty on the effect to (*sic*) Residential Rental Tenure Zoning on land and property values in BC”

In order to conclude whether the Study has met the assumed terms of reference, we first comment on the analysis set out in the Study. This review also informs the conclusions we have reached with respect to other aspects of our own terms of reference.

3.2 Commentary

The Study does not identify what the Terms of Reference are. Instead it states that it identifies “*three concerns regarding RRTZ*” (introductory paragraph (Abstract)):

1. *“The destruction of land value from elimination of a condo redevelopment option through “spot” RRTZ of existing rental buildings might jeopardize property owners' ability to reinvest in older properties or finance the construction of new purpose-built rental properties.”*
2. *“Blanket” RRTZ might slow the pace of housing development where applied.”*
3. *“Blanket” RRTZ might reduce the available proceeds from density bonusing.”*

The Study’s Executive Summary (pages 1-2) describes the conclusions reached by the Study. The Study initially concludes that, by removing the option for condominium development, RRTZ “*can only reduce the profitability of redevelopment, thereby delaying redevelopment of purpose-built rental (PBR) buildings.*” It then identifies “*real and potential costs associated with RRTZ that municipalities need to monitor*”. These can be summarized this way:

1. RRTZ will slow the pace of housing supply and reduce proceeds from community amenity contributions.
2. Up to 40% of an owner's redevelopment value could be "destroyed".
3. Delaying redevelopment "creates incentives for landlords to invest in maintaining and improvements to their building.". "Unscrupulous" landlords may reduce maintenance so that the building becomes unsafe and requires major repairs, leading to "renoviction" in order to seek higher rents after major repairs.
4. A landlord's ability to finance building improvements is not expected to be affected, except in special circumstances.
5. "Spot" RRTZ may serve to protect incumbent renters in older buildings. "Blanket" RRTZ may be counterproductive if the objective is to create housing units and obtain revenue from density bonusing.

The analysis on which these conclusions are based are described in Section 3 to 6 of the Study. These are considered next.

The headings and heading hierarchy which follow are those used in the Study.

3.0 RRTZ and the timing and profitability of development

The Study first concludes that "spot" rezoning is "expected to delay redevelopment in a situation where profitability is large enough to trigger immediate condo redevelopment". The Study acknowledges, however, that "should the profitability of new rental outpace construction costs and existing net operating income (NOI), this should trigger redevelopment to PBR."

The "Analysis" section (page 5 and 6) describes the circumstances under which redevelopment might be expected to occur (in essence, when the present value of property for redevelopment exceeds the present value of the existing income and anticipated future capital gains). It also identifies the two components of present value: existing income and future redevelopment value. These are shown in the equation on page 6:

$$\begin{aligned}
 \text{Value} &= \underbrace{\sum_{t=1}^7 100,000 \frac{1.03^t}{1.06^t}}_{\text{Present value of current use rents}} + \underbrace{2.5 \times [1,000 - 500] \times 20,000 \times \frac{1}{1.06^7}}_{\text{Discounted value of future redevelopment}} \\
 &= \$625,082 + \$16,626,428 = \$17,251,513
 \end{aligned}$$

The numbers used in the equation are based on "suppose[d]" assumptions. A value of \$1,000 per sq. ft. is assumed for "sales revenues"; \$500 per sq. ft. is assumed for "total project cost (excluding land but including soft costs and developer profits)". The source of these numbers is not mentioned. While the equation may be useful for illustrative purposes, it has limited practical application for the following reasons:

1. The value of the net operating income over the 7 years before redevelopment is measured taking into account inflation of 3% and a discount rate of 6%. The present value of the land assumes land value remains unchanged for 7 years and is discounted at 6%. There is an inconsistency in using different assumptions for the two components.

2. Based on the numbers used in the equation, the present land value is \$25,000,000 (2.5FSR x (\$1,000-\$500) x 20,000 sq. ft.). The Value under the assumptions in the equation is \$17,251,513. The Study does not explain why development under these circumstances would be deferred for 7 years.
3. The equation does not address the “*profitability of development*” and how differences between condominium development and PBR development might properly be calculated in order to provide guidance as to the effect of RRTZ on value.

3.1 Impact of RRTZ on the profitability of redevelopment.

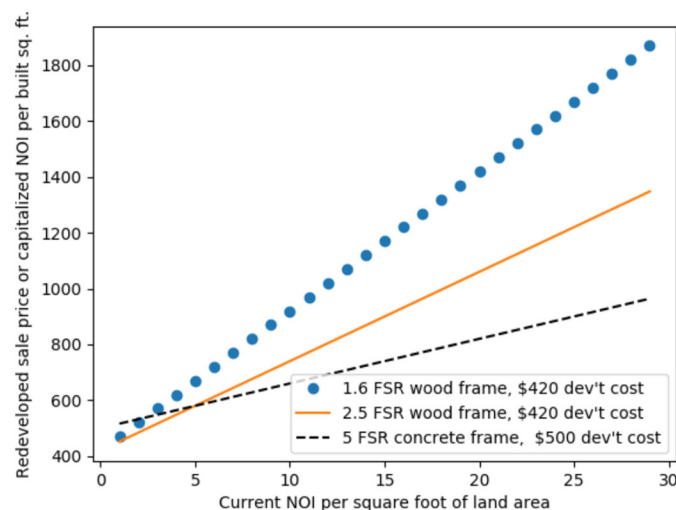
3.1.1 Value of Condo versus Purpose Built Rental (PBR)

The section opens with the statement that: “*RRTZ removes the option of redevelopment to condo, and hence can only reduce the profitability of redevelopment.*” This is true under certain conditions, such as those identified in the examples quoted from a 2019 Coriolis report (the Study refers to this as a 2014 report on page 6). The relevance of this section is unclear other than to note that in the hypothetical examples given, the capitalized value of rental projects per sq. ft. of completed building area is less than the value per sq. ft. of a condominium project on the same property, assuming all other factors (such as development density) are equal. The section does not address the profitability of condominium development versus rental *per se*.

The final paragraph of this section includes a caveat which limits the reliability of the data “*because there is a lack of data on rents for newly completed buildings.*” It is not known whether the authors of the study attempted to obtain market information relevant at the date the Study. Currently, there are many examples of purpose-built rental projects, either recently completed or planned.

3.1.2 A Model for redevelopment trigger values

The section describes a model that relates the “*current net income per sq. ft. of land*” (being the product of FSR and NOI [Net Operating Income] per built sq. ft.) to “*Redeveloped sale price per sq. ft. or capitalized NOI per built square foot.*” Results from the model are shown in graph form in Figure 2 (page 10):



Points to note here are:

- a) The Study contains insufficient information to enable the reader to properly understand how the data points in the graph have been derived. For example, the calculations are stated to have been based on a development cost of \$500 or \$420 per sq. ft. “*all-in*” but does not define what “all in” means.
- b) The conclusion expressed on page 9 of the Study is that the higher the density, the lower the “*trigger price*” (the “*Redeveloped Sale Price or Capitalized NOI per built square foot*”). While this conclusion may have some intuitive appeal, the graph ignores many of the variables that affect development feasibility; neither does it appear to relate to actual market circumstances, nor to any specified time period. As a result, the figures it portrays can be considered hypothetical rather than practical.
- c) The main point concluded from this data appears to relate to “*Land Lift*”. This is discussed in the next section.

3.2 RRTZ and Land Lift

The conclusions reached in this section appear to be:

- The willingness of an owner to pay for additional density through rezoning is represented by the difference between a) the market value per built sq. ft. of a rezoned and developed project and b) the “*trigger value*” generated by the assumptions relating to NOI per sq. ft. of land value.
- “*RRTZ will thus reduce charges available through selling (sic) extra density by the allowable density times the difference in value between PBR capitalized NOI per sq. ft. and condo price per sq. ft.*”

Neither of these two conclusions is correct. This is because the value of additional density is represented by differences in land value – “*Land Lift*” – not, as the Study concludes, differences in completed building values. The value of a completed building is only one factor affecting land value. Because of this, the difference between completed building values alone does not represent “*an owner’s willingness to pay for rezoning.*” Similarly, the impact of RRTZ cannot be measured solely by differences in completed building value (condominium as compared to rental).

The Study conclusions are based on the assumption that RRTZ would be applied solely to land which, absent RRTZ, would have the potential for rezoning to residential development similar to that assumed for the RRTZ. If RRTZ were applied in other circumstances, the “*charges available through selling extra density*” would not be affected in the same way as assumed in the Study.

3.3 Impact of RRTZ on the timing and pace of development

The Study concludes that because the value per sq. ft. of condominium buildings is greater than that of rental buildings (capitalized net income), applying RRTZ to land that could otherwise have been developed as condominium will delay development. This may well be the case where, as the Study says, “*all else [is] equal*”. The Study has not defined, however, what assumptions it has made regarding the conditions on which RRTZ is assumed to be

imposed, and does not address the impact of rent restrictions or potential incentives under RRTZ such as increased density or development cost relief.

3.4 Impact of RRTZ on property value

The Study is careful to point out that the example given is “*only intended as an illustrative example.*” (page 12). As a result, the mathematical result (a 40% loss in value) is solely a measurement of loss in value under the specific and hypothetical assumptions described for the equations on pages 6 and 12.

In neither case is the rationale for the development delays (7 years and 17 years respectively) explained.

Using the results of this example the Study concludes (page 2) that if “*RRTZ prohibits condo redevelopment, delayed redevelopment of PBR until new rents get high enough could destroy up to 40% of a landowner’s redevelopment value, especially if a property’s age and location make it a prime candidate for redevelopment.*” This conclusion appears to place a cap of 40% negative value impact resulting from RRTZ. Such a definitive conclusion cannot be drawn from an analysis which, as the report states, is illustrative only.

For example, using the formula in the Study (which, as noted previously, has limited practical application), a negative value effect of 50% would result if a 15 year delay were assumed instead of the 10 year delay “*suppose[d]*” on page 11 of the Study.

3.5 Incentive to spend on maintenance and

3.6 Delay of Redevelopment and Risk of Catastrophe

These sections of the Study refer to the potential impact of RRTZ on maintenance. The discussion is general nature and based on conversations or published material rather than analysis of data. It conjectures (page 12) that if land values are reduced by RRTZ, and this results in delayed redevelopment, there might be more incentive for landlords to invest in capital expenditure. The study identifies the possibility that delayed development could result in there being more incentive to defer maintenance to such an extent that existing tenants are evicted, and units re-leased at market rates following upgrades.

The delayed redevelopment scenarios are based on the Study’s earlier analysis. As we have discussed, there are limitations to this analysis. It is not possible, therefore, to reach conclusions regarding the effect of RRTZ on development timing on a broad scale. Consequently, whether the effects of delay cited by the Study will be wide-spread or isolated is not determined by the Study.

4.0 Mortgage debt capacity

This part of the Study describes the factors affecting an owner’s ability to raise capital through mortgage financing. The limits on amount borrowed are correctly identified as the Loan to Value ratio (LTV) and the debt service coverage ratio (DSCR). The mortgage amount set by the lower of the two tests will determine the maximum loan amount. The Study considers whether the ways in which debt capacity might be reduced if RRTZ is introduced and, as a consequence, property values lowered.

The Study includes an equation to determine the ratio between a) the amount that could be borrowed using the LTV test and b) the amount using the DSCR test. A graph (figure 3) is included on page 16 which is titled “*Required reduction in property value for the LTV test to bind and RRTZ to diminish debt capacity*”. Again, the graph appears to be for illustrative purposes only.

The Study (page 15) observes that, given current market conditions, it is the DSCR test that determines the maximum loan amount rather than LTV. The graph (figure 3) provides some indication of the theoretical dynamics which might create a situation where RRTZ has affected land values to such an extent that LTV becomes the determining factor, and thereby reduces borrowing capacity.

The Study (page 15) poses the question of whether “*RRTZ, not compensated with an increase in allowable new rental density, [could] increase cap rates so that LTV rather than DSCR tests bind, such that RRTZ reduces debt capacity for a large number of properties?*” The analysis in the Study is insufficient, however, to enable a conclusion to be drawn as to the extent and scale of this potential. As the Study says, “*this will depend greatly on context.*” While some examples of possible effects, based on assumed values, are included on page 17 and in Section 6, these appear to be for illustrative purpose and do not provide an answer to that broader question.

7.0 Conclusions and Discussion

The conclusions reached by the Study in Section 7 are summarized below. Our comments follow each of the Study’s conclusions.

1. Study Conclusion: When condo prices per sq. ft. are greater than the capitalized NOI per sq. ft. of Purpose Built Rental (PBR) projects, and the capitalized NOI per sq. ft. is insufficient to trigger redevelopment, the timing of redevelopment will be delayed. This will “*serve to protect incumbent residents in older buildings.*” Spot RRTZ in those circumstances “*is likely to avoid evictions*”.

Comment: The conclusion may be correct for the circumstances described, but it does not take into account that it is the difference in residual land values rather than end building values that determines redevelopment timing, rather than building values alone. Similarly, the Study does not answer the question of how common those circumstances are and what effect changing market conditions may have on the timing and nature of redevelopment.

It may be noted that the potential for development incentives (such as increased density or cost concessions) and limitations on the nature of the rental component (e.g. restrictions on rent) are also not reflected in the conclusion.

2. Study Conclusion: “*Blanket*” RRTZ may be counterproductive because the ability to obtain revenue from density bonusing for condominium development may be reduced.

Comment: This conclusion identifies an issue that might be addressed. However, the Study does not contain enough analysis to enable a firm conclusion on this to be reached. The complexities of amenity contributions (which can include provision of rental and non-market housing), other policies (such as rental replacement requirements), and incentives which can be included in an RRTZ initiative will all affect any analysis of this issue. The Study does not address the impact of these factors.

3. Study Conclusion: *“By extending the lifetime of existing rental buildings, RRTZ provides an increased incentive to perform maintenance.”* While it is possible that a reduction in value resulting from RRTZ will reduce debt capacity, under current market conditions it is Net Operating Income that is the primary determinant of debt capacity. Although the potential for *“renoviction”* appears to be reduced by RRTZ, *“the possibility of diminished incentive to maintain properties to accelerate the need for major “renoviction”, “is worth consideration.”*

Comment: As described earlier, the Study does not purport to measure the extent of these possible phenomena. It may also be noted that an analysis of the possible impact of RRTZ on debt capacity would need to take into account the terms on which RRTZ was being imposed.

The source for the second part of the conclusion relating to *“renoviction”* is unclear from the Study. The Study recognizes it is inconsistent to state there may be a *“diminished incentive to maintain properties”* having earlier stated that *“RRTZ provides an increased incentive to perform maintenance.”* An explanation of this inconsistency is required, but the Study does not explain in this paragraph when there may be such a *“diminished incentive”*. There is reference elsewhere in the Study to comments made by *“industry participants”* (page 12) regarding *“unscrupulous or cash-constrained rental property owners”*. However, in the absence of further analysis or explanation to support those comments, any conclusions regarding the impact of RRTZ drawn from the comments (such as the more definitive conclusion described in point 3. on page 2 of the Study) are considered speculative.

3.3 Conclusions

Our terms of reference require us to consider three main issues:

- a) whether the Study met the requirements of the terms of reference
- b) the appropriateness of the analytical methods and the data used to derive the Study's conclusions.
- c) the consistency between the analysis and the conclusions reached by the Study

Each of these is addressed in turn.

a) Has the Study met the requirements of the terms of reference?

Terms of reference are not described in the Study. For the purpose of our Report, we have been asked to assume that the Study's terms of reference are set out in the “Project Summary” in Schedule A of a letter dated May 13 2019 from the City of Victoria to the Government Grants Officer. This states:

“This research project will be guided by the following areas of interest:

- i. Economic impact of applying rental only zoning to property values.
- ii. How BC Assessment will be valuing properties under rental only zoning, compared to similar forms of development but that are market condos.
- iii. How would rental only zoning, if included as part of a density bonus scheme, affect valuation of the density bonus incentive.
- iv. The influence of rental only zoning on delivering levels of affordability.

- v. Impact of rental only zoning on existing purpose-built rental stock and the ability to leverage property value for improvements/redevelopment.”

The purpose of the research project was described in the letter as being to address “the uncertainty on the effect to (*sic*) Residential Rental Tenure Zoning on land and property values in BC”

Our comments on whether the Study has met each of these requirements are as follows.

- i. Economic Impact on property value

The Study concludes there would be a negative effect on property values where there is redevelopment potential at some future time. The principal value effect is assumed to be caused by delay in development resulting from the poorer economics associated with purpose-built rental. The Study provides illustrative examples of this phenomenon. However, as we have identified, the analysis is not always technically correct. Further, it does not consider how the specific provisions of RRTZ might affect the difference in value between land restricted to rental compared to land that might be developed for condominium use.

The Study alludes to the potential for cap rates for existing buildings to rise as a result of RRTZ, but solely in the context of commenting on the impact on debt capacity (see page 15).

- ii. BC Assessment methodology

The Study has a comment on page 14 (bullet 2) regarding BC Assessment methodology. This quotes BC Assessment as stating that any reduction in property value will be manifested in market evidence and taken into account accordingly. The Study does not explore the issue further.

- iii. Valuation of RRTZ as part of a Density Bonus calculation

The Study does not address this question directly. There is reference to the difference between a “*developer’s willingness*” to pay less for PBR density than for condominium development (page 22). The measure of this difference is cited as being the difference between condominium building value per sq. ft. and PBR building value per sq. ft. As we have noted, this is not an appropriate way of measuring the value of density and does not address the question of how the value of RRTZ density is actually measured.

- iv. Impact on delivering affordability

The Study does address this issue as such.

The Study does conclude that the pace of “housing supply” will be slowed (page 2, bullet 1.) but the issue of delivering affordability is not addressed.

- v. Ability to leverage value of existing housing stock.

The main part of the Study is devoted to this issue. As we have noted previously, while the Study does explain the economic forces affecting borrowing capacity and does identify the

circumstances in which borrowing capacity might be adversely affected, it does not provide guidance as to the scale of this potential impact.

On the basis discussed above, it can be concluded that the Study has only partly met the assumed terms of reference.

b) Appropriateness of Analytical Methods

We have identified several concerns relating to the analytical methods used in the Study. These include:

- The use of building values per sq. ft. does not measure development profitability and, in the absence of considering other factors, is not a measure of the values of relative densities.
- The basis on which the values used in the illustrative examples and graphs have been derived are not adequately explained in the Study.
- The Study cites the “*lack of rental data for newly completed*” PBR buildings and the fact that “*transactions are not very common*” (page 8) as being “*an important limitation to this and any other study anticipating the impacts of RRTZ.*” The Study’s lack of analysis of the then available market information relating to either rents or cap rates is a weakness the Study acknowledges.
- The Study identifies a number of other caveats which limit the reliability of the analysis and conclusions reached. For example, the parameters used to derive “*trigger values*” (for completed buildings that would stimulate redevelopment) are described in a limited way in the Study but are subject to the qualification that “*considerable uncertainty over these parameters must be recognized.*” (page 9). The footnote on page 9 further expresses concerns over an aspect of the analysis which “*is an important and unavoidable source of model uncertainty that plagues any similar analysis.*”
- Although the Study does not define what “RRTZ” is assumed to mean for the purpose of the Study, it appears to have been undertaken on the assumption that zoning to permit residential rental only (presumably at market rates) would replace zoning that permitted market condominium at the same density. While this may have been the intent of the Study, identifying the difference between that assumption and the way in which RRTZ has been applied in practice would have assisted in understanding the practical applicability of the Study.

c) Consistency between analysis and conclusions

The conclusions do not always follow from the analysis. For example, the conclusion that RRTZ “*could destroy up to 40% of a landowner’s redevelopment value*” (page 2, bullet 2) is derived from the analysis on page 12. The numbers used in the equation are based on specific assumptions and the result is described as being “*intended as illustrative only*”. As shown in our earlier analysis, an illustrative example such as this is not a sound basis for the conclusion reached.

4 Certification

Effective Date: **December 4, 2020**
Subject of Report: **Review of report: “Residential Rental Tenure Zoning: The Economic Effect on the Delivery and Maintenance of Rental Housing” dated January 21, 2020.**

I certify that, to the best of my knowledge and belief that:

- ▼ The statements of fact contained in this report are true and correct.
- ▼ The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions.
- ▼ I have no present or prospective interest in the subject of this Report, and I have no personal interest with respect to the parties involved. I am therefore an independent and external professional.
- ▼ I am not in a conflict of interest to undertake this assignment.
- ▼ I have no bias with respect to the property or topic that is the subject of this Report or to the parties involved with this assignment.
- ▼ My engagement in and compensation for this assignment was not contingent upon developing or reporting predetermined results, or a conclusion favouring the client.
- ▼ My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Consulting Standard of the Canadian Uniform Standards of Professional Appraisal Practice, the Valuation - Professional Standards of the Royal Institution of Chartered Surveyors, the International Valuation Standards, and l'Ordre des évaluateurs agréés du Québec.
- ▼ I have the knowledge and experience to complete this assignment competently,
- ▼ No one provided professional assistance or third-party professional assistance to the undersigned.
- ▼ As of the date of this report, Carl Nilsen, B.Sc., AACI, P.App, FRICS has fulfilled the requirements of The Appraisal Institute of Canada Continuing Professional Development Program for designated and candidate members, and is a member in good standing of the Appraisal Institute of Canada.

Carl Nilsen, B.Sc., AACI, P.App, FRICS

AIC Member #: 44600

Signing Date: December 4, 2020

Appendix A

Ordinary Assumptions and Limiting Conditions

Ordinary Assumptions and Limiting Conditions

The following Ordinary Assumptions and Limiting Conditions apply to Consulting Reports prepared by Altus Group ("Altus"). Any Special Conditions have been added as required.

The certification that appears in this consulting report is subject to compliance with the Personal Information and Electronics Documents Act (PIPEDA), Canadian Uniform Standards of Professional Appraisal Practice ("CUSPAP"), Professional Standards of the Royal Institution of Chartered Surveyors (RICS), International Valuation standards (IVS), published by the International Valuation Standards Council and any other Appraisal Organization to which the consultant is a member and the following conditions.

1. This report is prepared at the request of the client and for the specific use referred to herein. It is not reasonable for any other party to rely on this consulting report without first obtaining written authorization from the client, the authors, subject to the qualification below. Liability is expressly denied to any person other than the client and those who obtain written consent and, accordingly, no responsibility is accepted for any damage suffered by any such person as a result of decisions made or actions based on this report. Diligence by all intended users is assumed.
2. This report is completed on the basis that testimony or appearance in court concerning this consulting report is not required unless specific arrangements to do so have been made beforehand. Such arrangements will include, but not necessarily be limited to, adequate time to review the report and data related thereto and the provision of appropriate compensation.
3. The analyses set out in this report relied on written and verbal information obtained from a variety of sources we considered reliable. Unless otherwise stated herein, we did not verify client-supplied information, which we believed to be correct.
4. The contents of this report are confidential and will not be disclosed by the author to any party except as provided for by the provisions of the CUSPAP and/or when properly entered into evidence of a duly qualified judicial or quasi-judicial body. The consultant acknowledges that the information collected herein is personal and confidential and shall not use or disclose the contents of this report except as provided for in the provisions of the CUSPAP and in accordance with the consultant's privacy policy. The client agrees that in accepting this report, it shall maintain the confidentiality and privacy of any personal information contained herein and shall comply in all material respects with the contents of the consultant's privacy policy and in accordance with the PIPEDA.
5. The consultant has agreed to enter into the assignment as requested by the client named in the report for the use specified by the client, which is stated in the report. The client has agreed that the performance of this report and the report format are appropriate for the intended use.
6. Written consent from the authors must be obtained before any part of the consulting report can be used for any use by anyone except the client and other intended users identified in the report. Liability to any other party or for any other use is expressly denied regardless of who pays the fee.
7. This consulting report, its content and all attachments/addendums and their content are the property of the AIC member(s) signing the report and all copyright is reserved to the author(s). The client, intended users and any facilitator are prohibited, strictly forbidden and no permission is expressly or implicitly granted or deemed to be granted, to modify, alter, merge, publish (in whole or in part) screen scrape, database scrape, exploit, reproduce, decompile, reassemble or participate in any other activity intended to separate, collect, store, reorganize, scan, copy, manipulate electronically, digitally, manually or by any other means whatsoever this report, addendum, all attachments and the data contained within for any commercial, or other, use.
8. If transmitted electronically, this report will have been digitally signed and secured with personal passwords to lock the consulting file. Due to the possibility of digital modification, only originally signed reports and those reports sent directly by the consultant, can be relied upon without fault.
9. Unless specifically stated, any references to value applies to the real estate only, and does not include personal property, machinery and equipment, trade fixtures, business value, goodwill or other non-realty items. Value is limited to surface rights only, and does

not include any inherent subsurface or mineral rights. Income tax considerations have not been included or valued unless so specified in the report. No representations are made as to the value changes that may be attributed to such considerations.

10. Consulting reports may contain estimates of future financial performance, estimates or opinions that represent the consultant's view of reasonable expectations at a particular point in time, but such information, estimates or opinions are not offered as predictions or as assurances that a particular level of income or profit will be achieved, that events will occur, or that a particular price will be offered or accepted.

Actual results achieved during the period covered by our prospective financial analyses will vary from those described in this report, and the variations may be material.

11. References to value are based on the purchasing power of the Canadian dollar as of that date.

12. The issuance of a draft report is for the initial review of findings [by the client] and is provided provisionally and subject to completion of the final report.

It is on no account to be published or disclosed or used for any other purpose than review [by the client].

Altus Group accepts no liability for the misuse of a draft report.

Amendments to the report may be considered if new information subsequently comes to light, although additional fees may accrue in the analysis of this information.

If within one week of delivery of the draft PDF there have been no further comments or queries, the consultant(s) and Altus Group considers this as the client's tacit approval of the contents and opinions expressed therein and the final report will be issued accordingly

Terms of the Engagement

Consulting assignments are accepted with the understanding that there is no obligation to furnish services after completion of the original assignment. If the need for subsequent service related to an assignment (e.g., testimony, updates, conferences, reprint or copy service) is contemplated, special arrangements acceptable to Altus must be made in advance. The working papers for this engagement have been retained in our stored files and are available for your reference.

Altus maintains policies with respect to the handling of complaints, disclosure of previous involvement and a rotation of report signatories. A copy of these policies is available upon request.

We take no responsibility for any events, conditions or circumstances affecting the subject property or its value, that take place subsequent to either the effective date of value cited in the consulting report or the date of the field inspection, whichever occurs first.

The Addressee agrees to indemnify Altus and its respective affiliates, agents and employees, and its successors and assigns (Altus and each such person being an "Indemnified Party") from and against any and all losses, claims, damages and liabilities, joint or several, to which such Indemnified Parties may be subject under any applicable federal, provincial and territorial law, related to, or arising out of, the subject consulting report and/or the engagement of Altus pursuant to the consulting assignment and will reimburse any Indemnified Party for all reasonable expenses (including counsel fees and expenses) as they are incurred in connection with the investigation of, preparation for, or defence of, any pending or threatened claim or action or proceeding arising therefrom, whether or not such Indemnified Party is a party. The Addressee will not be liable under the foregoing indemnification provisions to the extent that any loss, claim, damage, liability or expense is found in a final judgment by a court of competent jurisdiction to have resulted primarily from the bad faith, negligence or recklessness of an Indemnified Party.

The Client and Intended User(s) will not be liable under the foregoing indemnification provisions to the extent that any loss, claim, damage, liability or expense is found in a final judgment by a court of competent jurisdiction to have resulted primarily from the bad faith, negligence or recklessness of an Indemnified Party.

Altus' maximum liability relating to services rendered under this report (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to Altus for the portion of its services or work products giving rise to liability. In no event shall Altus be liable for consequential, special, incidental, or punitive losses, damages, or expenses (including, without limitation, lost profits, opportunity costs, etc.) even if it has been advised of their possible existence.

This engagement may be terminated whether by the client or Altus at any time upon written notice to that effect to the other parties, it being understood that, unless Altus shall unilaterally terminate the engagement without the client's consent and without reasonable cause, the provisions related to the payment of fees and expenses through the date of termination will survive any termination, and it being further understood that the indemnification and hold harmless provisions shall survive any termination thereof, whether or not such termination is unilateral.

Invoices are due upon receipt. Invoices not paid after 30 days from issuance will be subject to a late fee calculated at an 18% per annum rate of interest. The client is responsible for all costs of collection, including legal fees.

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"Confidential Information" means non-public, confidential, or proprietary information that a party provides to the other party or marks as "confidential" or "proprietary" or that otherwise should be understood by a reasonable person to be confidential in nature. Subject to the provisions hereof, neither party, nor its Representatives (as defined below) will disclose any Confidential Information provided by the other party or on its behalf and shall only use such Confidential Information for the purpose of performing this Agreement. Confidential Information does not include information which (i) was in the receiving party's lawful possession prior to receipt from the disclosing party; (ii) is lawfully disclosed to the receiving party by a third party; or (iii) is independently developed by the recipient without any use of or reliance on Confidential Information; or (iv) is disclosed to a party's employees, officers, directors, affiliates, manager, agents and representatives (collectively, "Representatives") consistent with the purposes hereof and who shall be directed by such party to keep the Confidential Information confidential in accordance herewith.

Notwithstanding the foregoing, either party and its Representatives may disclose Confidential Information (including, for the avoidance of doubt, the services and the deliverables) of the other to a third party as may be required by law, statute, rule or regulation, legal process, including any subpoena or other similar form of process, or to any governmental or regulatory authority (including any self-regulatory authority) exercising applicable jurisdiction over a party, provided that (and without breaching any legal or regulatory requirement) the party to which the request is made provides the other party with prompt written notice thereof and, if practicable under the circumstances, allows the other party to seek a restraining order or other appropriate relief at such party's cost and expense.

This provision shall survive termination of this agreement.

Other Matters

Neither party may assign or transfer this letter, or any rights, obligations, claims, or proceeds from claims arising under it, without the prior written consent of the other party. Any assignment without such consent shall be void and invalid. If any provision of this letter is found to be unenforceable, the remainder of this letter shall be enforced to the extent permitted by law. Altus may not use Client's or its investment manager's name or refer to either of them or any of their affiliates, directly or indirectly in any advertisement, news release, marketing materials, customer lists, or professional trade or trade publications or represent directly or indirectly, that any product or service of Altus has been approved or endorsed by Client, or refer to the existence of this Agreement in press releases, advertising or other materials without the prior consent of Client. This letter supersedes any prior understandings, proposals or agreements with respect to the Services, and any changes must be agreed to in writing.

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The report, and the opinions expressed therein, are intended for the information of the person or persons to whom they are addressed, solely for the purposes stated therein, and should not be relied upon for any other purpose.

Neither possession of this report nor a copy of it carries with it the right of publication. All copyright is reserved to the author and is considered confidential by the author and his client. This is subject only to confidential review by the Appraisal Institute of Canada and the Ordre des évaluateurs agréés du Québec.

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The consulting assignment applies only to the scope of work described and for the purpose so stated and should not be used for any other purpose. This report is prepared on the assumption that no other person will rely on it for any other purpose, and that all liability to all such persons is denied.

Neither the report nor any portions thereof (especially any opinions, the identity of the consultants or Altus or any reference to the AIC, The Royal Institution of Chartered Surveyors or other recognized appraisal organization or the designations they confer) shall be disseminated to the public through public relations media, news media, advertising media, sales media or any other public means of communication without the prior written consent and approval of the consultants and Altus. The date(s) of the valuation to which the analysis applies is set forth in the letter of transmittal and within the body of the report.