

Colliers Appraisal Presentation

# Land Valuation Challenges in a Shifting Market

Prepared for the International Right of Way Association Spring Conference

**Samuel Linds, AACI, P.App**

Executive Director  
+1 416 917 0960  
samuel.linds@colliers.com

**Matthew Bruchkowsky, AACI, P.App**

Executive Vice President  
+1 647 832 5462  
matthew.bruchkowsky@colliers.com



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Part 1

# Land Market, Where are we?

# Land Valuation

- The backbone of any land valuation is the ability to generate profit
- Key measures of determining profit are Revenues & Costs

# Revenues

- Unit Sales
- Rents (land or improved)
- Parking
- Lockers
- Commercial / Ancillary

# Costs

- Construction (Hard Costs)
- Financing
- Municipal Fees
- Consultant Fees
- Other Soft Costs

# What is Profit?

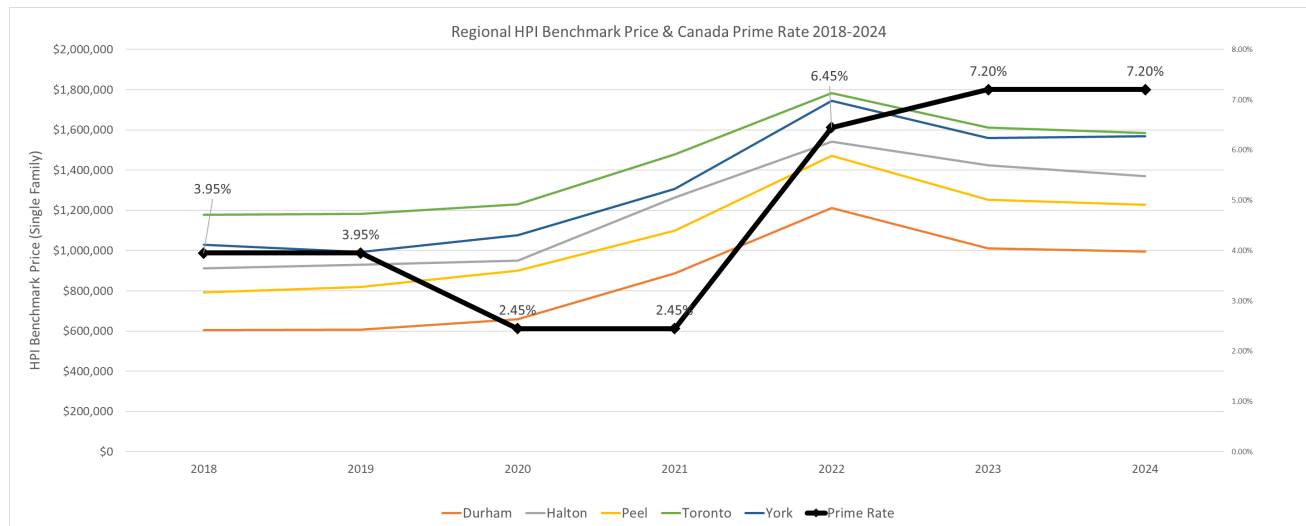
$$\text{Profit} = \text{Revenues} - \text{Costs}$$

# Current Headwinds

- Interest Rates / Financing
- Liquidity / Deal Structure
- Absorption Risk
- Government Costs
- Affordable Housing / Inclusionary Zoning

# Interest Rates / Financing

- Cost of Capital impacts development at all stages; financing/carrying of land acquisition, construction costs, end user purchasing power.

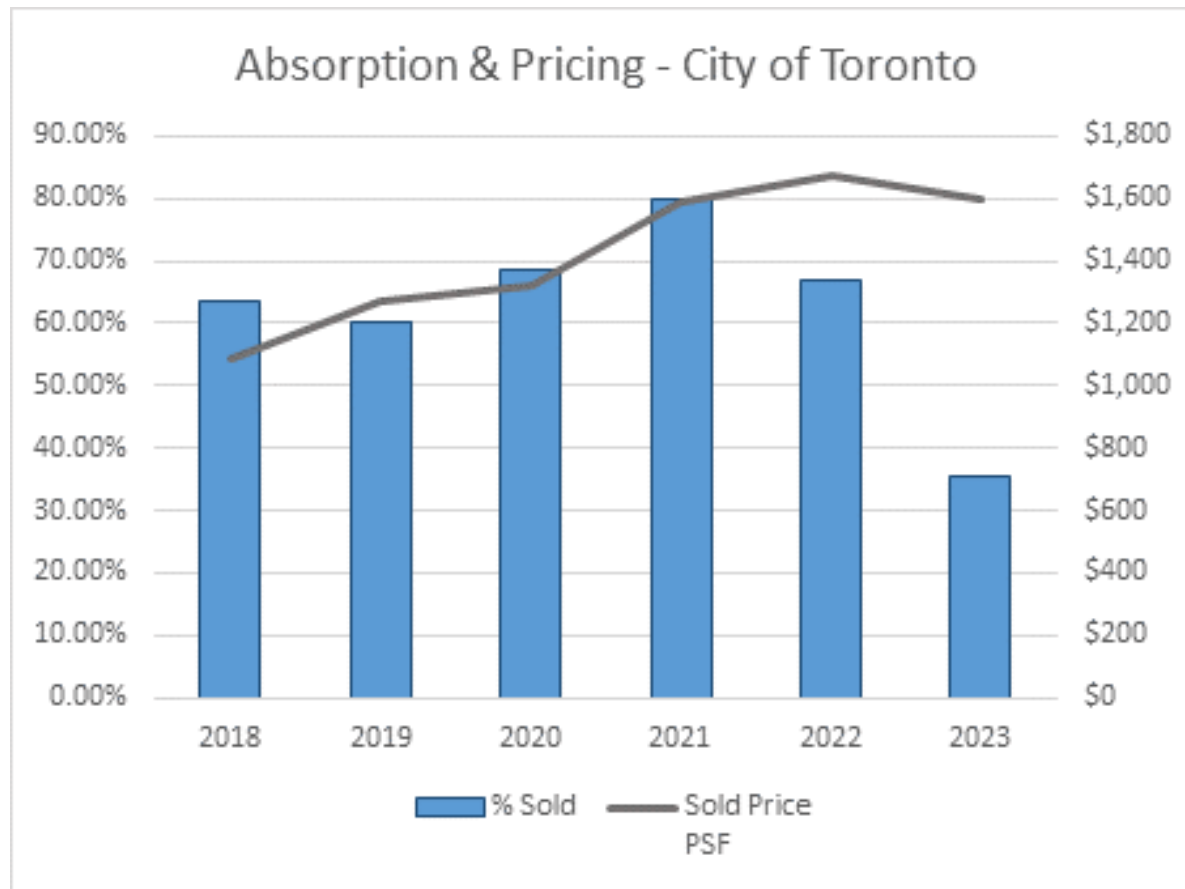




# Liquidity / Deal Structure

- Transaction volume is down
  - 1,080 land sales in the GTA in 2021
  - 968 land sales in the GTA in 2022
  - 668 land sales in the GTA in 2023
- Majority of deals include a significant Vendor Take Back (VTB) Mortgage
- Deferred closing of transactions

# Absorption Risk



# Construction Costs

- According to the Marshall and Swift, average costs for high-rise development has increased approximately 45% since 2018.
- These rising costs have generally been absorbed by developers given the ongoing rise in end unit pricing, however, given the increase in interest rates, it is likely that end unit pricing growth will either revert, or slow down measurably.
- Certain industry professionals have noted that given a slowdown in end unit pricing, less projects are likely to be developed, which will ultimately drive down construction costs.

# Construction Costs

Cost Increases – 30 storeys, Class A Apartment Building,  
Toronto

	2018	2019	2020	2021	2022	2023	2024
Hard Costs	\$390	\$419	\$423	\$429	\$530	\$559	\$566
YoY Change	---	7.67%	0.78%	1.47%	23.54%	5.54%	1.24%
Total Increase	45.34%						



# Government Costs

- HST included in advertised sales price for new build construction
- Development Charges (DCs) in Toronto, increased over 100% between 2018 and 2022, with another 46% increase occurring between 2022 and 2024
- Parkland dedication requirement
- Community Benefits Charge

# Affordable Housing & Inclusionary Zoning

- Inclusionary Zoning (IZ) requires new residential development to include affordable housing units if located in a Protected Major Transit Station Area (PMTSA) within an IZ Area.
  - Ministerial approval has yet to be adopted for any PMTSA
- New developments applications will require 5% to 7% of units to be affordable rental or 7% to 10% to be affordable condo units for condominium developments. This is to scale up to 8% to 16% and 11% to 22% by 2030, respectively.
- A site purchased today without a complete application already submitted to the City may be impacted by inclusionary zoning, should Ministerial approval occur prior to a full application being submitted to the City of Toronto.

# Affordable Housing & Inclusionary Zoning

Line Item	Market Scenario		Affordable Scenario		Diminution in Value	
	Value (PSF)	Value (Market, \$)	Value (PSF)	Value (Affordable, \$)		
Gross Floor Area	485,000 SF					
Total Saleable Area	424,858 SF					
Market Pricing Area	277,955 SF	\$1,300	\$361,341,500	\$1,300	\$361,341,500	---
Affordable Pricing Area	136,903 SF	\$1,300	\$177,973,900	\$390	\$53,450,760	\$124,523,140
Parking	79	\$75,000	\$5,925,000	\$75,000	\$5,925,000	---
Lockers	233	\$7,000	\$1,631,000	\$7,000	\$1,631,000	---
Grade-Level Retail / Daycare	10,000 SF	\$1,200	\$12,000,000	\$0	\$0	\$12,000,000
Less: HST (Market)	9%	\$99	\$48,174,586	\$67	\$32,563,429	\$15,611,157
Less: HST (Affordable)	0%	\$0	\$0	\$6	\$3,036,547	\$3,036,547
<b>Net Revenue</b>		<b>\$1,053</b>	<b>\$510,696,814</b>	<b>\$797</b>	<b>\$386,748,283</b>	<b>\$123,948,531</b>
Municipal Charges		\$91	\$44,371,935	\$53	\$25,825,031	\$18,546,904*
Pre-Development / Consulting		\$22	\$10,828,214	\$22	\$10,828,214	---
Soft Costs		\$147	\$71,427,359	\$124	\$60,324,211	\$11,103,148**
Hard Costs		\$364	\$176,564,160	\$364	\$176,564,160	---
Miscellaneous Costs		\$8	\$3,799,331	---	\$0	\$3,799,331
<b>Sub Total Costs</b>		<b>\$633</b>	<b>\$306,990,999</b>	<b>\$564</b>	<b>\$273,541,616</b>	<b>\$33,449,383</b>
Profit (% of Net Revenue)	12.00%	\$126	\$61,283,618	\$96	\$46,409,794	\$14,873,824
<b>Total Costs</b>		<b>\$759</b>	<b>\$368,274,616</b>	<b>\$660</b>	<b>\$319,951,410</b>	<b>\$48,323,206</b>
<b>Residual Land Value (Rounded)</b>		<b>\$294</b>	<b>\$142,400,000</b>	<b>\$138</b>	<b>\$66,800,000</b>	<b>(\$75,600,000)</b>

\* - The sum of savings attributed to Development Charges, Educational Levies, and Section 37 Costs

\*\* - The sum of savings attributed to Financing and Sales Commissions

# Challenges of Paired Sales

- Paired sales do not always paint a pretty picture

Transaction Data	276 & 290 Merton Street	1488 Queen Street West
Municipality	Toronto	Toronto
Transaction Date 1	12/1/2021	2/15/2022
Sale Price 1	\$10,500,000	\$7,900,000
Transaction Date 2	7/28/2023	10/5/2023
Sale Price 2	\$14,900,000	\$6,100,000
Delta in Value	42%	-23%
Property Comments	OPA & ZBA approved at first transaction date	SPA approval at first sale date



Part 2

# Pro Forma Inputs

# Introduction

- Revenues
  - Units Sales / Unit Rents
  - Parking / Lockers
  - Commercial
- Costs
  - Construction (Hard Costs)
  - Financing
  - Municipal Fees
  - Consultant Fees
  - Other Soft Costs
- Profit

# Revenue Sensitivity Analysis

		Value (PSF)	Per Unit	Value (\$)
Gross Floor Area	263,872 SF			
Residential Units	220,943 SF	\$1,050	\$729,529	\$231,990,150
Parking Stalls	333	\$40,000	\$41,887	\$13,320,000
Lockers	213	\$4,000	---	\$852,000
Retail	9,002 SF	\$750		\$6,751,500
Closing Adjustments				\$78,624
Less HST	-9%	-\$82	\$67,816	(\$21,565,557)
<b>Net Revenue</b>		<b>\$877</b>	<b>\$727,757</b>	<b>\$231,426,717</b>
Soft Costs		\$277	\$229,735	\$73,055,680
Construction		\$432	\$358,740	\$114,079,269
<b>Sub Total</b>		<b>\$709</b>	<b>\$588,475</b>	<b>\$187,134,949</b>
Profit	12.50%	\$110	\$90,970	\$28,928,340
<b>Total</b>		<b>\$819</b>	<b>\$679,444</b>	<b>\$216,063,289</b>
<b>Residual Land Value (Rounded)</b>		<b>\$58</b>	<b>\$48,428</b>	<b>\$15,400,000</b>

\$25 PSF (2.4%)  
Decline in Revenue



**28% Decrease in  
Land Value**

		Value (PSF)	Per Unit	Value (\$)
Gross Floor Area	263,872 SF			
Residential Units	220,943 SF	\$1,025	\$712,159	\$226,466,575
Parking Stalls	333	\$40,000	\$41,887	\$13,320,000
Lockers	213	\$4,000	---	\$852,000
Retail	9,002 SF	\$750		\$6,751,500
Closing Adjustments				\$78,624
Less HST	-9%	-\$79	\$65,818	(\$20,930,102)
<b>Net Revenue</b>		<b>\$859</b>	<b>\$712,386</b>	<b>\$226,538,597</b>
Soft Costs		\$277	\$229,735	\$73,055,680
Construction		\$432	\$358,740	\$114,079,269
<b>Sub Total</b>		<b>\$709</b>	<b>\$588,475</b>	<b>\$187,134,949</b>
Profit	12.50%	\$107	\$89,048	\$28,317,325
<b>Total</b>		<b>\$817</b>	<b>\$677,523</b>	<b>\$215,452,274</b>
<b>Residual Land Value (Rounded)</b>		<b>\$42</b>	<b>\$34,906</b>	<b>\$11,100,000</b>

# Cost Sensitivity Analysis

		Value (PSF)	Per Unit	Value (\$)
Gross Floor Area	263,872 SF			
Residential Units	220,943 SF	\$1,050	\$729,529	\$231,990,150
Parking Stalls	333	\$40,000	\$41,887	\$13,320,000
Lockers	213	\$4,000	---	\$852,000
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Profit	12.50%	\$110	\$90,970	\$28,928,340
<b>Total</b>		<b>\$819</b>	<b>\$679,444</b>	<b>\$216,063,289</b>
<b>Residual Land Value (Rounded)</b>		<b>\$58</b>	<b>\$48,428</b>	<b>\$15,400,000</b>

2.0% Cost Increase



25% Decrease in Land Value

		Value (PSF)	Per Unit	Value (\$)
Gross Floor Area	263,872 SF			
Residential Units	220,943 SF	\$1,050	\$729,529	\$231,990,150
Parking Stalls	333	\$40,000	\$41,887	\$13,320,000
Lockers	213	\$4,000	---	\$852,000
Retail	9,002 SF	\$750		\$6,751,500
Closing Adjustments				\$78,624
Less HST	-9%	-\$82	\$67,816	(\$21,565,557)
<b>Net Revenue</b>		<b>\$877</b>	<b>\$727,757</b>	<b>\$231,426,717</b>
Soft Costs		\$282	\$234,330	\$74,516,794
Construction		\$441	\$365,915	\$116,360,854
<b>Sub Total</b>		<b>\$723</b>	<b>\$600,244</b>	<b>\$190,877,648</b>
Profit	12.50%	\$110	\$90,970	\$28,928,340
<b>Total</b>		<b>\$833</b>	<b>\$691,214</b>	<b>\$219,805,988</b>
<b>Residual Land Value (Rounded)</b>		<b>\$44</b>	<b>\$36,478</b>	<b>\$11,600,000</b>

# Profit Sensitivity Analysis

		Value (PSF)	Per Unit	Value (\$)
Gross Floor Area	263,872 SF			
Residential Units	220,943 SF	\$1,050	\$729,529	\$231,990,150
Parking Stalls	333	\$40,000	\$41,887	\$13,320,000
Lockers	213	\$4,000	---	\$852,000
Retail	9,002 SF	\$750		\$6,751,500
Closing Adjustments				\$78,624
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Soft Costs		\$277	\$229,735	\$73,055,680
Construction		\$432	\$358,740	\$114,079,269
<b>Sub Total</b>		<b>\$709</b>	<b>\$588,475</b>	<b>\$187,134,949</b>
Profit	12.50%	\$110	\$90,970	\$28,928,340
<b>Total</b>		<b>\$819</b>	<b>\$679,444</b>	<b>\$216,063,289</b>
<b>Residual Land Value (Rounded)</b>		<b>\$58</b>	<b>\$48,428</b>	<b>\$15,400,000</b>

1.0%  
Increase in Profit



16% Decrease in  
Land Value

		Value (PSF)	Per Unit	Value (\$)
Gross Floor Area	263,872 SF			
Residential Units	220,943 SF	\$1,050	\$729,529	\$231,990,150
Parking Stalls	333	\$40,000	\$41,887	\$13,320,000
Lockers	213	\$4,000	---	\$852,000
Retail	9,002 SF	\$750		\$6,751,500
Closing Adjustments				\$78,624
Less HST	-9%	-\$82	\$67,816	(\$21,565,557)
<b>Net Revenue</b>		<b>\$877</b>	<b>\$727,757</b>	<b>\$231,426,717</b>
Soft Costs		\$277	\$229,735	\$73,055,680
Construction		\$432	\$358,740	\$114,079,269
<b>Sub Total</b>		<b>\$709</b>	<b>\$588,475</b>	<b>\$187,134,949</b>
Profit	13.50%	\$118	\$98,247	\$31,242,607
<b>Total</b>		<b>\$828</b>	<b>\$686,722</b>	<b>\$218,377,556</b>
<b>Residual Land Value (Rounded)</b>		<b>\$49</b>	<b>\$40,881</b>	<b>\$13,000,000</b>

# Combined Sensitivity Analysis

		Value (PSF)	Per Unit	Value (\$)
Gross Floor Area	263,872 SF			
Residential Units	220,943 SF	\$1,050	\$729,529	\$231,990,150
Parking Stalls	333	\$40,000	\$41,887	\$13,320,000
Lockers	213	\$4,000	---	\$852,000
Retail	9,002 SF	\$750		\$6,751,500
Closing Adjustments				\$78,624
Less HST	-9%	-\$82	\$67,816	(\$21,565,557)
<b>Net Revenue</b>		<b>\$877</b>	<b>\$727,757</b>	<b>\$231,426,717</b>
Soft Costs		\$277	\$229,735	\$73,055,680
Construction		\$432	\$358,740	\$114,079,269
<b>Sub Total</b>		<b>\$709</b>	<b>\$588,475</b>	<b>\$187,134,949</b>
Profit	12.50%	\$110	\$90,970	\$28,928,340
<b>Total</b>		<b>\$819</b>	<b>\$679,444</b>	<b>\$216,063,289</b>
<b>Residual Land Value (Rounded)</b>		<b>\$58</b>	<b>\$48,428</b>	<b>\$15,400,000</b>

Combined Changes



67% Decrease in Land Value

		Value (PSF)	Per Unit	Value (\$)
Gross Floor Area	263,872 SF			
Residential Units	220,943 SF	\$1,025	\$712,159	\$226,466,575
Parking Stalls	333	\$40,000	\$41,887	\$13,320,000
Lockers	213	\$4,000	---	\$852,000
Retail	9,002 SF	\$750		\$6,751,500
Closing Adjustments				\$78,624
Less HST	-9%	-\$79	\$65,818	(\$20,930,102)
<b>Net Revenue</b>		<b>\$859</b>	<b>\$712,386</b>	<b>\$226,538,597</b>
Soft Costs		\$282	\$234,330	\$74,516,794
Construction		\$441	\$365,915	\$116,360,854
<b>Sub Total</b>		<b>\$723</b>	<b>\$600,244</b>	<b>\$190,877,648</b>
Profit	13.50%	\$116	\$96,172	\$30,582,711
<b>Total</b>		<b>\$839</b>	<b>\$696,416</b>	<b>\$221,460,359</b>
<b>Residual Land Value (Rounded)</b>		<b>\$19</b>	<b>\$16,038</b>	<b>\$5,100,000</b>

Part 3

Questions?

Matthew Bruchkowsky, AACI, P.App  
Executive Vice President  
+1 647 832 54620  
matthew.bruchkowsky@colliers.com

Samuel Linds, AACI, P.App  
Executive Director  
+1 416 917 0960  
samuel.linds@colliers.com

[collierscanada.com](http://collierscanada.com)

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