PRO FORMA

SITE:

6575 – 196 Street, Surrey, BC
96,398 sf FSR 2.5 on the gross site area; No Tier 2 CACs payable
220,000+ buildable s.f. [Upper Bldg 84,000 sf; Lower Bldg 136,000 sf)
4,820 sf of parkland (5% statutory parkland contribution)
Actual Buildable Allowable (without Tier 2 CACs) is (96,398 – 4,820) x 2.5
Which is (91,578) x 2.5 = 228,945 bsf (Note this is FSR 2.4 on the gross site area)

COSTS (as of current day)**:**

Hard Costs (for two 6 Storey wood frame buildings, each with 2 levels of U/G parking south of the Fraser: $285 – $310/bsf. [Use $310 (this includes contingencies]

Soft Costs (including financing and sales & marketing): $110 – $130/bsf [Use $130 (includes contingencies)]. The financing is based on present day higher interest rates even though interest rates will be significantly lower at the time of start of construction in 2026.

Land Costs: $25M purchase price and deduct $1M for 5% parkland provided = $24M.
[Note this $1M gets credited to the soft costs as a payment for the parkland]
$24M/220,000 bsf = $109/bsf

Total Costs: $310 + $130 + $109 = $549/bsf

REVENUE:

Selling price (blended) if coming to market today: $980 – $1,000/ saleable sf [Use $980]

[Based on 1. Nearby current pre-sale pricing for equivalent sized units but at long term large projects (12 – 15 years) Park & Maven and Jericho by Essence – both of which are not as desirable locations (Park & Maven is walkable to Skytrain and amenities, but not a very nice walk to amenities nor in a nice neighbourhood location; and Jericho is non-Skytrain and not at all amenity rich); 2. Substandard used product in our area is selling for significantly higher prices for equivalent unit standards and age in comparison to other areas of Surrey and the Langleys; and 3. Current listing prices on the MLS of re-sellers of the neighbouring Harlo project completing late 2024/early 2025.]

Efficiency for Upper Building: 85%
Efficiency for Lower (larger) Building: 86%
Efficiency combined for both buildings: use 85.6%

Unit mix is 70% - 1 bdr and 30% - 2 bdr + (27% - 2 bdr and 3% - 3 bdr) as per City guidelines.

Selling prices of 1 bdr average $1,025/sf and $875/sf for 2 bdr +

Therefore, blended selling price is $1,025 x 0.70 + $875 x 0.30 = $717.50 + $262.50 = $980/sf.

$980/sf x 85.6% efficiency = $838.88/bsf

PROFIT:

Revenue – Total Costs

$838.88/bsf – $549/bsf = $289.88/bsf

Profit is therefore: $289.88/bsf x 220,000/bsf = **$63,773,600**
Project time frame to complete is 3 years (from the time of land transaction completion).

RATE OF RETURN (ROR) [on land purchase price]**:**

$63,773,600/$24,000,000 = 265.7%

Annual ROR = 265.7%/3 = 88.6%

COMMON ALTERNATIVE WALKUP CONDO PROJECT AREAS:

1. PROFIT for sub-prime locations:

104 Ave. Corridor (140 – 142 St.) or Ravine Rd. by 132 St. Area (in Surrey City Centre north of Gateway Station)

Selling prices in these sub- prime areas is between $750 – $775/sf [Use $750]

$750/sf x 85.6% = $642.00/bsf [Revenue]

Land cost, hard and soft costs will be the same (though financing will actually cost more as project will draw out over a longer time period but will assume it being the same for this calculation here).

Profit: $642 – $549 (total costs) = $93/bsf

Profit for these areas is therefore: $93/bsf x 220,000/bsf. = **$20,460,000**

Project time frame to complete will be longer (estimated 5 years) due to slower selling rate due to sub-prime area (And there may be further delays and additional costs incurred due to off-site servicing issues. Expedited approvals are not available in the 104 Ave. Corridor and Ravine Rd. requires connection into the City's own energy system which adds complications).

RATE OF RETURN (ROR) [on land purchase price] **for these other sub-prime locations:**

$20,460,000/$25,000,000 = 81.8%

Annual ROR = 81.8%/5 = 16.4%

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2. PROFIT for Langley Township 200 St. Bus Corridor with density upgrades:

Purchase townhouse land or 4 storey 1.6 FSR walkup apartment land in this corridor within 400 metres of 200 St. (the shoulder areas 200-400 metres away from 200 St. are less expensive to purchase there if looking for the cheapest land – although not the most profitable). Density upgrades to 6 storey 2.5 FSR max. available with payment of CAC's under new planning for this bus corridor. Parking requirements are higher than that of Surrey so harder to achieve 2.5 FSR gross with 2 levels of U/G parking [unless do larger units but that results in lower selling prices/s.f.].

Land cost is approx. $7.5 Million/gross acre. Assume due to extra parking requirements that approximately 2.3 FSR is achievable with 2 levels U/G parking (or alternately forced to go with excessively large units with lower selling prices/sf due to limited parking). This is 100,000 bsf/acre. Or $75/bsf.

CAC payable is approx. $15/overall bsf typically ($1-2 Million/acre depending on the initial base density).

Extra costs for off-site servicing as the site will be in an undeveloped area with little infill development nearby currently. On average estimated to be about $10/bsf in these shoulder areas in unrecoverable latecomers and costs; interest charges; and municipal, engineering, and legal fees; etc.

DCCs are much higher in Langely Township with the recent very large increase in the Township - $38,934 per unit for walkup apartments. For a typical average unit size of 710 s.f., this works out to 38,934/710 = $54.84/sf. Convert to per bsf: $54.84 x 0.856 = $46.94/bsf

DCCs for Surrey in their most commonly used zone for 6 storey walk-ups, RM-70, the DCC is $33.47 per sf area of dwelling units (updated and increased very recently by the City of Surrey in May 2024) – this is about $33.47/sf x 0.856 (efficiency) = $28.65/bsf

Therefore, DCCs in the Township of Langley are $46.94 - $28.65 = $18.29/bsf more than in the City of Surrey.
Therefore the land cost will be $75 + $15 + $10 + $18 = $118/bsf.

Therefore a $75/bsf site actually costs $118/bsf in the Township of Langley when buying walkup condo land in the 200 St. bus corridor shoulder areas (if want to make a fair and true comparison).

Selling prices in these shoulder areas are quite variable with a low of $750 (worst locations of which there are quite a few) to a high of say $810 (for the best located ones). Use $800/sf for the purposes of this calculation for an overall price for the bus corridor shoulder areas. Note that prime corridor locations on 200 St. which are master planned communities and with shopping and commercial services built into the project like Essence's Jericho Park or Hayer Builders Group's Hayer Town Centre will command the highest prices in the corridor and expected to be quite a bit higher (in excess of $900/sf) than these shoulder areas if built at the same time.

$800/sf x 85.6% = $648.80/bsf [Revenue]

Land costs will end up being higher at $118/bsf

Hard and soft costs will be the same (though financing will actually cost more as project will draw out over a longer time period but will assume it being the same for this calculation here).

Total costs = $310 + $130 + $118 = $558/bsf

Profit: $648.80 – $558 (total costs) = $90.80/bsf

Profit for these areas is therefore: $90.80/bsf x 220,000/bsf = **$19,976,000**

Project time frame to complete will be longer (estimated 6 years) due to slower selling rate due to over supplied area with too many large long term competing projects at the same time and shoulder areas will see slow sales unless greatly reduce prices as too far from amenities and bus stop. And there may be further delays and additional costs incurred due to off-site servicing issues.

RATE OF RETURN (ROR) [on land purchase price] **for bus corridor shoulder areas:**

Note that the actual land cost will be $118/bsf x 220,000 bsf = $25,960,000

$19,976,000/$25,960,000 = 76.95%

Annual ROR = 76.95%/6 = 12.8%

OTHER CONSIDERATIONS:

- West Coquitlam 178 unit project in 2 six storey buildings is estimated to be currently selling for a blended pricing of about $960/sf and the land was purchased for $186/bsf in April 2022. So here with the 6575 – 196 St. Property you would be getting West Coquitlam selling prices at a far cheaper land price. Construction costs also are probably a bit higher in Coquitlam than

south of the Fraser. Parking requirements in West Coquitlam are also a bit higher than they are in the Surrey Langley Skytrain Corridor.

(See - https://www.mikestewart.ca/presale/level-by-jayen-presale-condos/)

- The time value of money is an important consideration which is somewhat overlooked by some. Therefore the optimal growth of capital is not achieved in long drawn out projects whereas in projects with quicker turnaround times, profits can be re-invested quicker. Two projects similar to the 6575 one could be done in about the same time as some of the longer drawn out projects (i.e. do the 6575 project and then right after do another project on another high quality serviced site).

- Sites that are not quite ready to develop yet, one needs to take into account the time value of money and the holding costs of that land.

So that would mean you would have to: 1) account for the opportunity cost of your money – what would be a reasonable return you are missing out on if you had invested elsewhere and 2) account for interest paid on land loan (plus property taxes – rents received).

So let's take 3 scenarios for West Clayton: a) 3 year hold; b) 5 year hold; c) 10 year hold

For a 6 storey development at 2.5 FSR, assume a purchase price of $85/bsf .

Assume lost opportunity cost of 10% ROR/year on capital used for land purchase (i.e. cash put in) and/or land loan effective interest charge (inclusive of fees) of 10%/year [as applicable].

Assume property taxes = rent received.

Lost opportunity cost and land loan interest rate are roughly equal for the purposes of this calculation.

We have to account for compounding. So the effective cost of land would equal the purchase price $85/bsf X $(1+0.1)^y$, where y is the number of extra years held as compared to a site that is ready to be rezoned and constructed on (i.e. a non-holding property that is fully serviced and ready for application).

For a) 3 year hold: the effective land cost is $85/bsf X 1.1^3= $85/bsf X 1.331 = $113/bsf

For b) 5 year hold: the effective land cost is $85/bsf X 1.1^5= $85/bsf X 1.611 = $137/bsf

For c) 10 year hold: the effective land cost is $85/bsf X 1.1^{10}= $85/bsf X 2.594 = $220/bsf

So in effect buying a holding property at $85/bsf that you have to hold for 10 years winds up in the end costing you $220/bsf. Also, there is the consideration of what other developments could have been done in that 10year time period and the profit made from them instead of just going with a longer term hold and then developing a single project.

Warren Buffet & Charlie Munger:

A large portion of developers haven't elevated themselves to the financial analysis level of Warren Buffet and Charlie Munger's thinking. The Buffet/Munger approach we believe is the optimum one for selecting the right sites for development.

In 2015, Buffett wrote in the conglomerate's 50th annual letter: "The blueprint he [Munger] gave me was simple: Forget what you know about buying fair businesses at wonderful prices; instead, buy wonderful businesses at fair prices."

See - https://www.forbes.com/sites/bill_stone/2022/05/08/four-lessons-from-warren-buffett-and-charlie-munger/

In these, Warren Buffet and his long time business partner, Charlie Munger, talk about how it is much smarter and more profitable to buy wonderful businesses at fair prices rather than fair businesses at wonderful prices. So buying land for development equates to buying a business - substitute wonderful development sites at fair prices instead of buying average development sites at cheap prices, as the exact same reasoning applies. Following this strategy is what made Buffet so rich and successful and realized much greater annual returns than the rest of the investment community.