DISTRICT OF SQUAMISH
ECONOMIC DEVELOPMENT

SQUAMISH
HARDWIRED *for* BUSINESS

Squamish Employment Space Viability Analysis

2021

Contents

Background

With its unique geography at the foot of the Coast Mountains at the northern tip of Howe Sound, Squamish has a limited supply of flat land to accommodate its diverse employment space needs. To support economic development and policy decisions that can make the most effective use of available land and space, the District of Squamish has been conducting research and strategic planning to support adequate employment space for several years.

Key actions in the District's employment space research and strategy work include:

- An Employment Lands Strategy (ELS) completed and endorsed by Council on March 17, 2015
- An update by Economic Development and Planning staff on November 17, 2017, on the status of recommendations contained within the ELS, including a forward approach in accessing employment land and space demand via the development of a model and set of guiding principles to support land use and development-related decisions
- The Employment Space Demand Model, endorsed by Council on May 12, 2020, and used to inform data-driven recommendations for policy and economic development, such as in the 2020 Zoning Bylaw Update

Staff have recently focused on producing additional insights and tools to complement the Employment Space Demand Model. This includes a qualitative research report, *Space Needs Insights for Business*, and this analysis, which looks at the financial viability of development and businesses accessing new space throughout the District.

Research objectives

The District's *Squamish Employment Space Viability Analysis* is intended to provide insights into the financial viability of employment space development throughout Squamish while assessing the financial viability of potential occupants by industry. Insights do not replace specific pro forma analyses that should be considered on a project-to-project basis or for individual business planning purposes. Instead, they are intended to provide direction into the viability of development and access to new space throughout the District.

In summary, research insights broadly estimate the financial viability of both **developing various employment space forms** within the District of Squamish and **specific Squamish industries** based on employment space type and financial performance.

While these initial insights are meant to help identify potential challenges and opportunities concerning employment space throughout the District, the developed tool serves as a basis for future modelling the District may elect to complete. This includes further analysis to identify the **impact of changes to development-related costs, industry performance and municipal policy on the financial viability** of development and industries concerning land and space costs within the District.

Approach and methodology

In the fall of 2020, District Economic Development, in consultation with the District's Planning department, set out to develop a financial modelling toolkit. The resulting toolkit incorporates a pro forma model with scenario development capabilities to assess both the financial viability of real estate development and an industry's viability to lease or purchase such space.

The toolkit was developed in collaboration with G.P. Rollo and Associates and relies on several data inputs, including land and construction costs, industry revenue and expenses, vacancy and lease rates, floor space ratios, parking allocations, and zoning considerations. These inputs are used in the model and scenario tool to estimate financial viability.

Data sources

Data input sources for development viability

- Altus Canadian Construction Cost Guide (2021)
- District of Squamish custom survey (fielded Q4 2020-Q1 2021)
- District of Squamish fees and zoning bylaws
- G.P. Rollo industry standards calculations
- Spacelist
- District of Squamish staff expertise
- Third-party expertise from developers, realtors and land economists
- Q1 2021 Canadian Cap Rates & Investment Insights, CBRE
- Local Government Act, Part 14, Division 20
- Squamish 2020 property tax rates

Data sources for industry financial viability

- Industry Canada (IC)
- Spacelist
- Custom surveys, along with qualitative market insights used to triangulate employment space-related expenses with IC data

Data considerations

- Industry financial data for BC is derived from Industry Canada and can be analyzed at a two-, three-, four- or six-digit level North American Industry Classification System (NAICS).
- Financial performance data provides access to more than 1,000 industries across Canada, including more than 30 performance benchmarks to help small businesses determine how they measure up to their competitors.
- Data is available on an annual basis with 2019 as the latest reference year available and used for this analysis.
- To demonstrate the tool's application, a sample of industries was included for scenario development as part of this report.
- The scenario tool has the capability of using inputs (in this case, financial data) from any source, thereby making it possible to model any financial statement for any industry.

Data limitations

Industry inputs and scenario development

- Industry financial performance data is for all of BC, rather than Squamish specifically.
- Data may include imputation and therefore vary in quality by industry or revenue and expense category.
- Data quality considerations used for scenario development are available on a case-by-case basis.
- Developed scenarios are meant for illustrative purposes only. They are not accurate representations of local industry revenue and expense profiles.

Development inputs and scenario development

- Data is based on current industry standards and average costs derived from varying sources. Model outputs should be interpreted with this in mind. They do not replace pro forma evaluation on a project-by-project basis.

Financial modelling toolkit overview

The toolkit provides the opportunity to assess the financial viability of various scenarios, including employment space developed and then sold or leased on completion, and purchased or leased space based on the financial performance profile of a company.

Development scenarios can be modelled to assess impact resulting from changes to:

- Land costs
- Development costs
- Construction costs
- Density and space usage
- Parking requirements
- Municipal policy and fees
- Development timelines
- Vacancy rates
- Tenure
- Lease rates and sale price
- Interest rates
- Capitalization rates
- Operating costs
- Business performance
- Development performance

Development scenarios

The following development scenarios were built to solve for:

- Land cost
- Development performance
- Lease rate
- Purchase price

Scenarios were completed for the following type of developments:

Table 1: Development scenarios

Scenario	Space Type	Composition
1)	Light industrial	100%
2)	Medium industrial	100%
3)	Mixed-use development (retail/residential)	70% residential 30% retail
4)	Mixed-use development (office/retail)	80% office 20% retail

The model relies on several underlying assumptions as a basis for forming scenario outputs. The main assumptions for each developed scenario for context purposes include:

- Development size
- Tenure
- Development composition
- Floor area ratio
- Parking requirements
- Planning and development timelines
- Land costs
- Development costs
- Construction costs
- Municipal fees
- Interest costs
- Revenue and expenses
- Lease rates
- Sale prices
- Target internal rate of return
- Target profit to cost/profit to equity

Industry scenarios

The resulting insights from each development scenario were used as a basis for industry analysis to understand the impact of changing sale prices and lease rates on a company's profit margin.

Two scenarios were produced for each industry based on the financial performance of an average business and a top-quartile business within each industry category.

Only industry profiles with a break even or profit were used as a basis for analyzing the impact of changing lease rates or purchase prices on profit margin.

The NAICS included in this analysis have been chosen to reflect a sample of local medium industrial firms. However, these codes are not always perfect representations, especially in emerging industries such as clean technology. It's important to bear in mind that the codes selected may incorporate several sub-sectors that may have very different business models.

Scenarios were completed for the following industries for each development scenario:

Table 2: Light industrial industry scenarios

Light industrial development			
Industry	**description**	**NAICS***	**Rationale**
1)	Bakery and tortilla manufacturing	3118	Target sector
2)	Fitness and recreational sport centres	71394	See below*
3)	Amusement and sporting goods merchant wholesalers	41447	Target sector
4)	Clothing manufacturing	315	Target sector
5)	Breweries	31212	Target sector
6)	Wood kitchen cabinet and countertop manufacturing	33711	Significant category of users aligned to zoning intent
7)	Sporting and athletic goods manufacturing	33992	Target sector

*These businesses include climbing gyms and fitness centres, which typically require light industrial space but are often constrained by where they can operate due to their more commercial/retail use.

Table 3: Medium industrial industry scenario

Medium industrial development			
Industry	**description**	**NAICS**	**Rationale**
1)	Prefabricated wood building manufacturing	321992	Target sector
2)	Other specialty trade contractors	2389	Target sector
3)	General freight trucking, local	48411	Supply chain
4)	Other wood product manufacturing	3219	Target sector
5)	Lumber, millwork, hardware and other building supplies merchant wholesalers	4163	Supply chain
6)	Waste management and remediation services	562	Target sector
7)	Construction of buildings	236	Target sector

Table 4: Mixed-use retail industry scenario

Mixed-use retail development			
Industry	**description**	**NAICS**	**Rationale**
1)	Specialty food stores	4452	Agrifoods supply chain
2)	Sporting good retailers	45111	Outdoor rec supply chain
3)	Full-service restaurants	722511	Agrifoods supply chain
4)	Limited-service eating places	722512	Agrifoods supply chain
5)	Clothing stores	4481	Outdoor rec supply chain
6)	Child day care	6244	Employment enabler
7)	Cosmetics, beauty supplies and perfume stores	44612	Agrifoods supply chain

Table 5: Mixed-use office industry scenario

Mixed-use office development			
Industry	**description**	**NAICS**	**Rationale**
1)	Software publishers	5112	Target sector
2)	Architectural, engineering and related services	5413	Target sector
3)	Motion picture and video industries	5121	Emerging sector
4)	Residential building construction	2361	Supply chain
5)	Scientific research and development services	5417	Target sector
6)	Computer systems designs and related services	5415	Target sector
7)	Management, scientific and consulting services	5416	Target sector

SUMMARY INSIGHTS

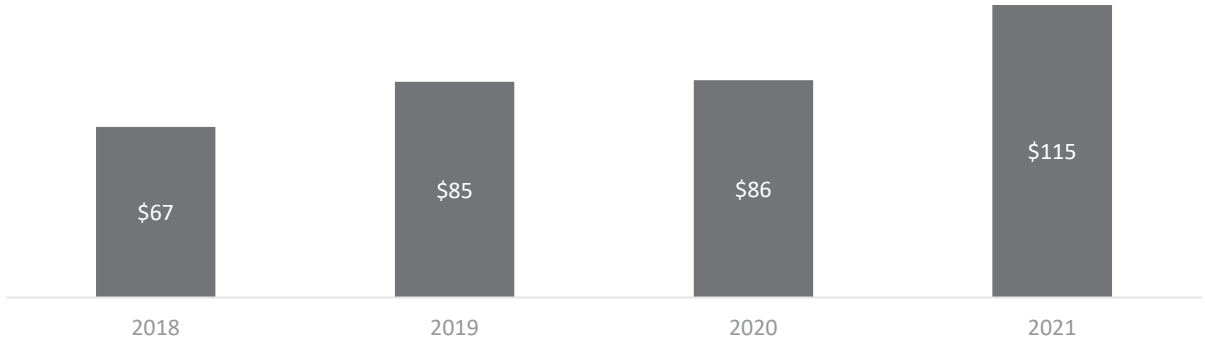
Summary insights

Development analysis

The analysis concluded that the financial viability of developing employment space within the District of Squamish is decreasing due to rising land values and development costs.

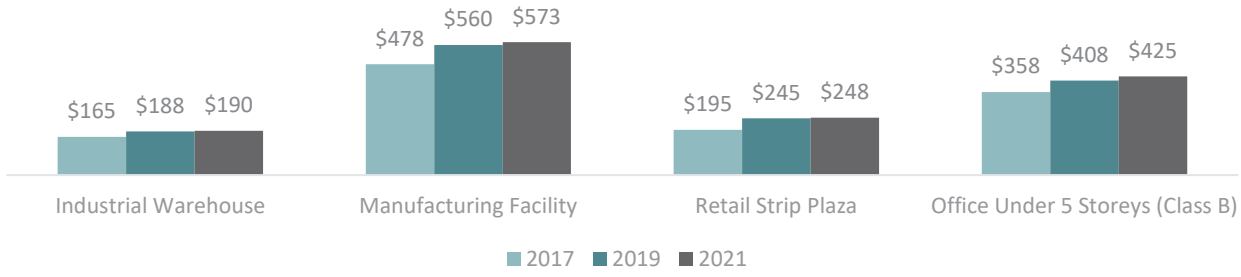
Land sale costs climbed steadily between 2018 and 2021, rising 72% over this period. Construction Cost Guides, produced yearly by Atlus Group, show increases to hard costs associated with development projects, and these costs are deemed conservative with the current market.

Figure 1: Recent employment land transactions (2018-2021) ($ PSF)



Source: Spacelist Data, 2021. Note: based on limited number of transactions reported for each year 2018 n=2, 2019 n= 12, 2020 n=11, 2021 n=6.

Figure 2. Median construction costs PSF



Source: Construction Cost Guide, Altus Group. * Vancouver is used as a proxy for Squamish, as data is only published for major urban centres. ** Costs only include hard costs related to construction. Soft costs such as land, architectural and engineering fees, insurance, legal, etc. are in addition to the ranges provided.

Additionally, based on current land and development costs, all project scenarios analyzed failed to meet adequate financial returns. For a development project to be viable for financing, a certain level of return must be achieved. For projects that are sold on completion, this return is typically in the range of 10% to 20% of the project cost and three times that of the equity invested by the developer. For projects that are leased when completed, the return on investment is typically in the range of 2% to 3% above capitalization rates.

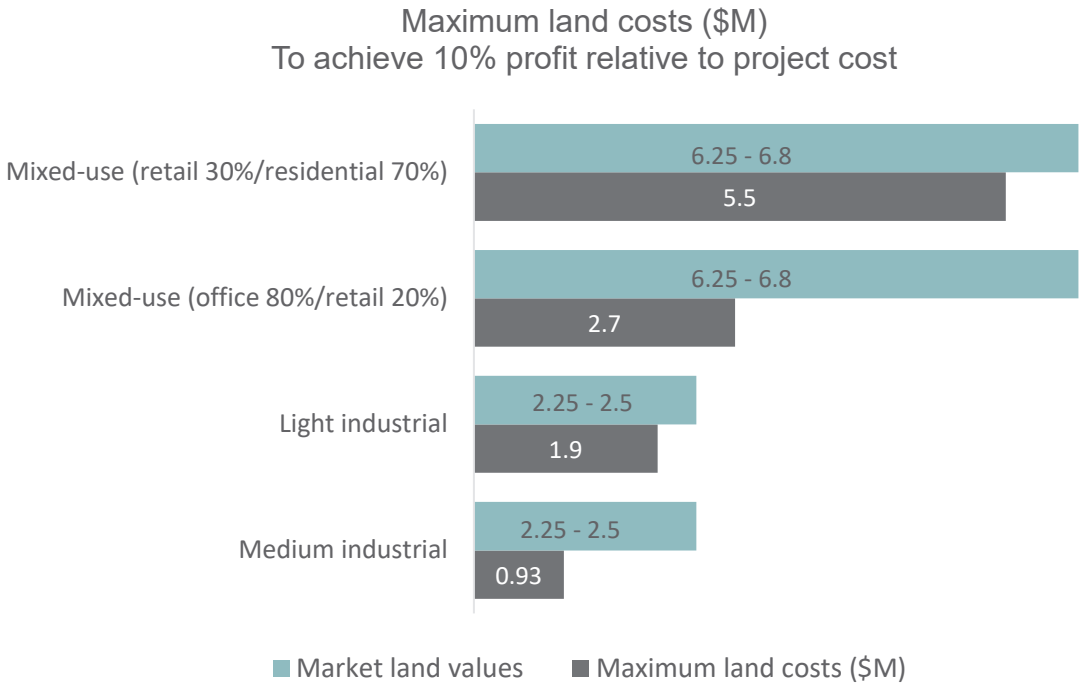
Table 6: Estimated returns required by development form (2021)

	Q1 2021 target	Q1 2021 cap rate
Industrial (A)	5.25%-6.00%	3.25%-4.00%
Suburban office (A)	6.75%-7.25%	4.75%-5.25%
High street retail	5.50%-6.00%	3.50%-4.00%

Source: Cap Rate: CRBC Cap Rate Report Q1 2021/ Target Return: G.P. Rollo and Associates

Analysis was completed to assess the maximum land cost each scenario could bear before target returns are not achieved. The graph below depicts maximum land costs for a development sold on completion while comparing them to market land values obtained via a review of recent land transactions.

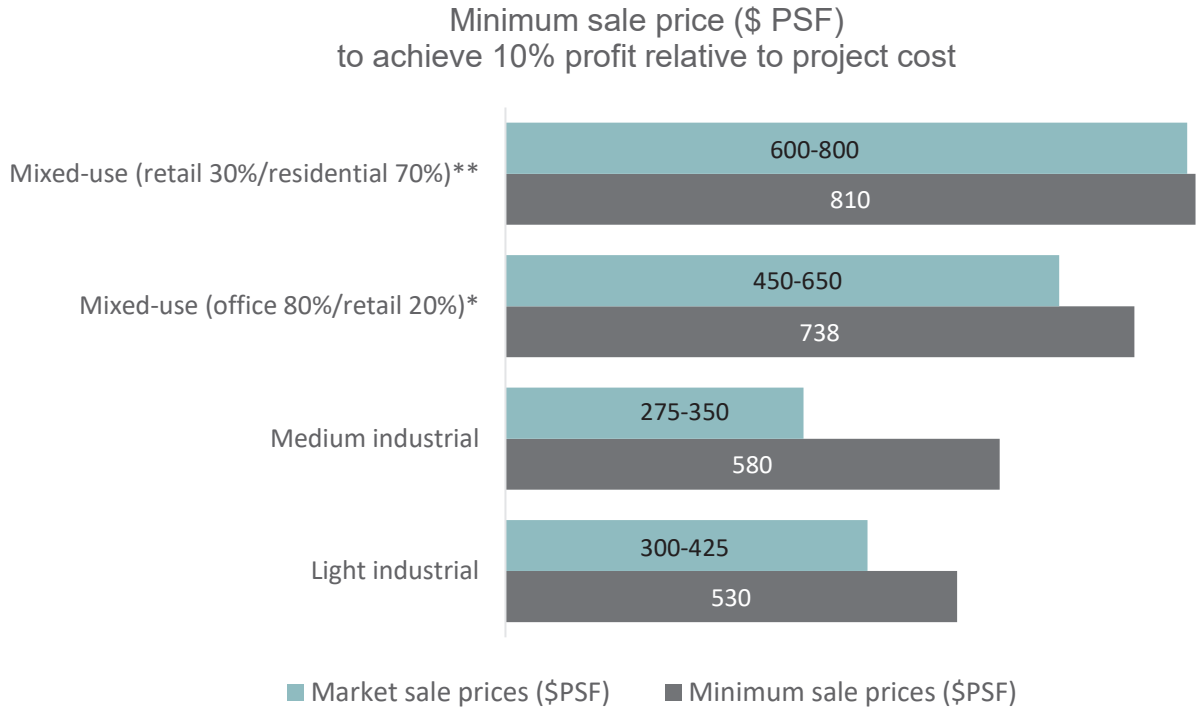
Figure 3: Maximum land costs for development sold on completion



If market land values are maintained, to meet target returns developments must reduce other costs associated with the development, increase sale or lease prices and/or seek regulatory variances, such as increased density or reduced parking requirements.

The analysis concluded that if land and development costs are reflective of today's market and the current regulatory environment, sale and lease rates would need to increase to above current market rates for developments to reach target returns. The tables and graphs below depict the required sale prices and lease rates required to achieve desirable returns compared to current market prices/rates.

Figure 4. Minimum sale prices for developments sold on completion



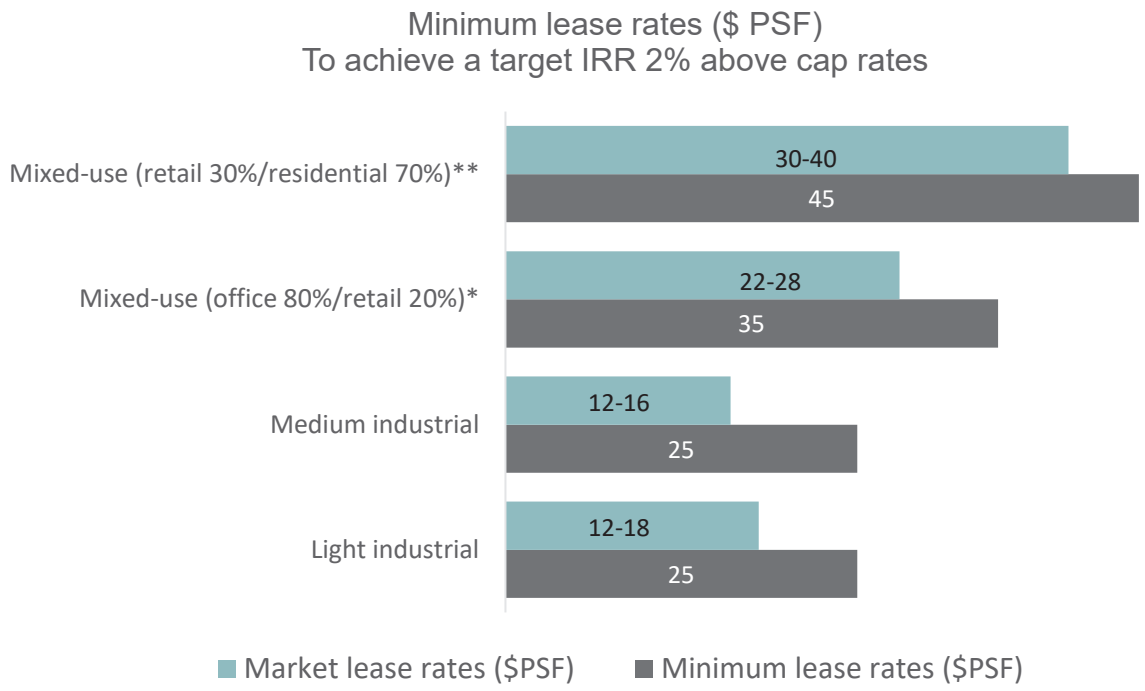
*Retail minimum sale price is $750 PSF in this scenario and market sale prices are $600-$800 PSF ** Residential minimum sale price is $1,000 PSF in this scenario and market sale prices are $750-$800 PSF

Table 7: Sale price to achieve required returns

	Land cost (M)	Sale price (PSF)	Profit to cost	Profit to equity
Light industrial	$2.3	$530	10.04%	32.58%
Medium industrial	$2.3	$580	10.72%	33.25%
Retail*	$6.25	$810	10.01%	35.93%
Office**	$6.25	$738	10.07%	35.55%

*Based on a mixed-use scenario with 30% retail gross floor area (GFA), 70% residential GFA and a residential price of $1,000 PSF. ** Based on a mixed-use scenario with 80% office GFA, 20% retail GFA and a retail price of $750 PSF.

Figure 5. Minimum lease rates for developments leased on completion



*Retail minimum lease rate is $45 PSF in this scenario and market lease rates are $30-$40 PSF ** Residential minimum lease rate is $2,000/month under this scenario and the average market lease rate is $1,636/month

Table 8. Lease rates to achieve required returns

	Land cost (M)	Lease rate (PSF)	Levered IRR	Unlevered IRR
Light industrial	$2.3	$25	5.70%	4.99%
Medium industrial	$2.25	$26	5.20%	4.91%
Retail*	$6.25	$45	5.7%	5.2%
Office**	$6.25	$30	6.9%	5.60%

*Based on a mixed-use scenario with 30% retail gross floor area (GFA), 70% residential GFA and a residential price per unit per month of $2,500. ** Based on a mixed-use scenario with 80% office GFA, 20% retail GFA and a retail price of $40 PSF.

The following figures summarize the general viability of developing employment space across scenarios considering the base assumptions used for analysis (current market costs, fees and regulations). The analysis completed for the four scenarios modelled concluded that Squamish employment space achieves target returns if developers command higher sale or lease prices or seek regulatory variances.

Figure 6. Relative development viability projects sold on completion

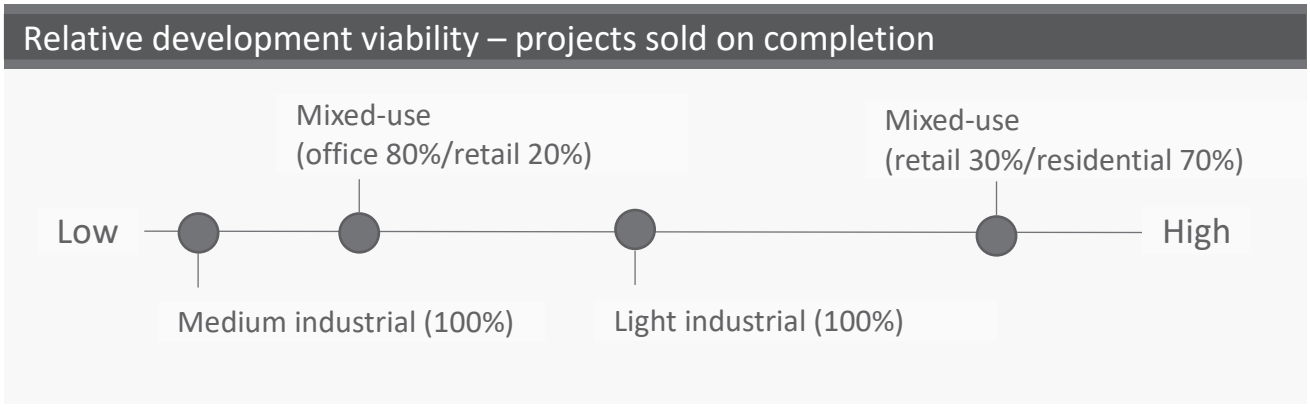
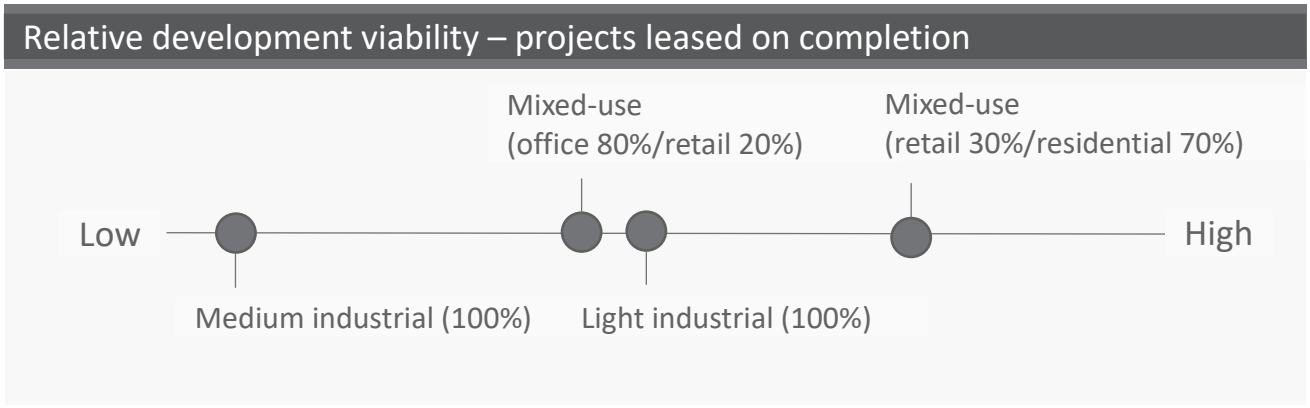


Figure 7. Relative development viability projects leased on completion



Industry analysis

The analysis also considered the industries which occupy the modelled employment space forms. A subset of industry user groups was selected to analyze the viability of purchase prices and lease rates in comparison to the revenue and expense profiles of businesses in each industry category. Financial profiles obtained from Industry Canada for both average and top-performing businesses in BC were assessed against purchase prices and lease rates consistent with achieving target market returns for the development scenarios. To assess viability, the total space occupied by a business was derived by dividing the space expense reported as part of financial profiles by current market lease rates. Of note, is that this analysis produced the amount of space that a business could conceivably purchase or lease based on current market rates in Squamish. As the financial profiles covered all businesses in B.C. in a given category, this may not be reflective of the true size of a premise used by a business within the category. For instance, if average market lease rates were lower or higher than those of Squamish's, the total space would increase or decrease accordingly.

Overall, broad insights from this analysis indicate that of businesses with average financial performance profiles:

- Medium industrial users demonstrated lower financial viability relative to other user groups that rely on other employment space forms. Medium industrial users tend to rely on large amounts of space for their operations, including bare land for storage and logistics. The high cost of land coupled with high development costs leads to non-viable sale prices and lease rates if no regulatory variances are not considered.
- While light industry users demonstrated greater viability in relation to sale and lease prices, three of the seven industries modelled did not break even until year six of operating on-premise, signalling that sale and lease prices are eroding general viability for these industries.
- Of the retail industry users assessed, the three food-oriented businesses demonstrated lower viability compared to the other retail categories assessed. Food-oriented businesses did not achieve break even until at least year six of operating on-premise.
- Of all industry groups modelled, those occupying office space were the most resilient with all breaking even by year two of operating on-premise.

The financial profile of businesses comprising the top quartile of financial performers demonstrated similar viability except for cosmetic and beauty supply stores and software publishers which demonstrated poorer viability compared to their counterparts with average financial performance profiles. Poorer financial viability is related to the larger space modelled for these users and diminishing profitability. Businesses with these financial profiles would likely opt for smaller-sized premises to compensate for the cost.

The following break even analysis provides the relative viability of each industry modelled under each scenario. For a summary table of viability across all scenarios, please refer to Appendix 2.

Industry break even analysis

Industry break even analysis for light industry users

Purchase viability of light industrial space

A sale price of $530 PSF (to achieve a 10% target profit relative to the cost of development) results in bakeries and fitness centres breaking even in year 10 and sporting good wholesalers in year 9 of operation.

Figure 8. Break-even analysis for light industrial users with average financial performance profiles at a purchase price of $530 PSF

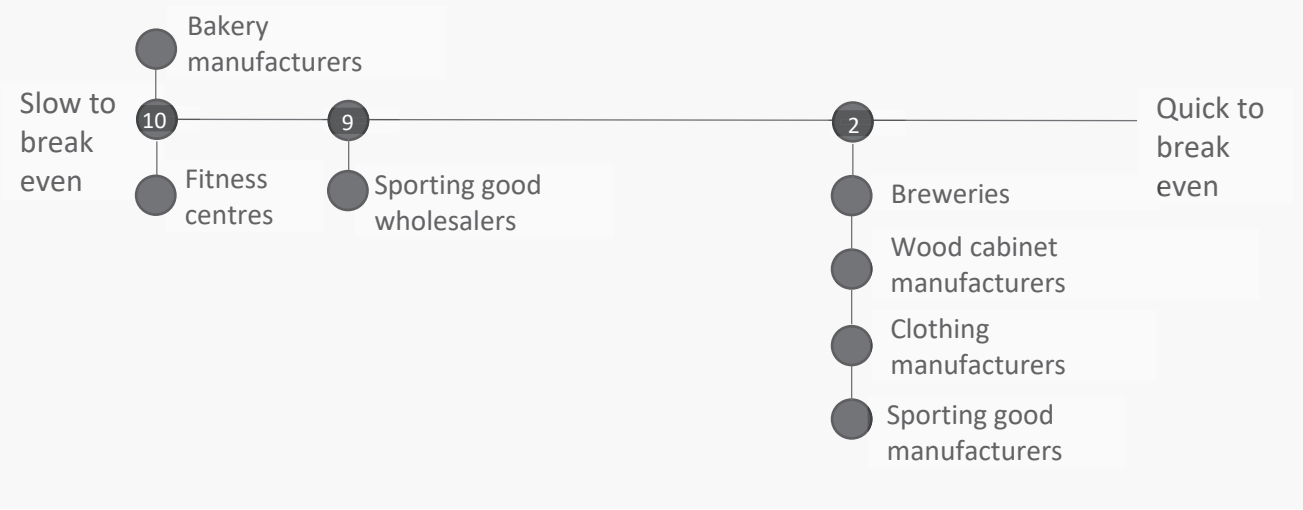
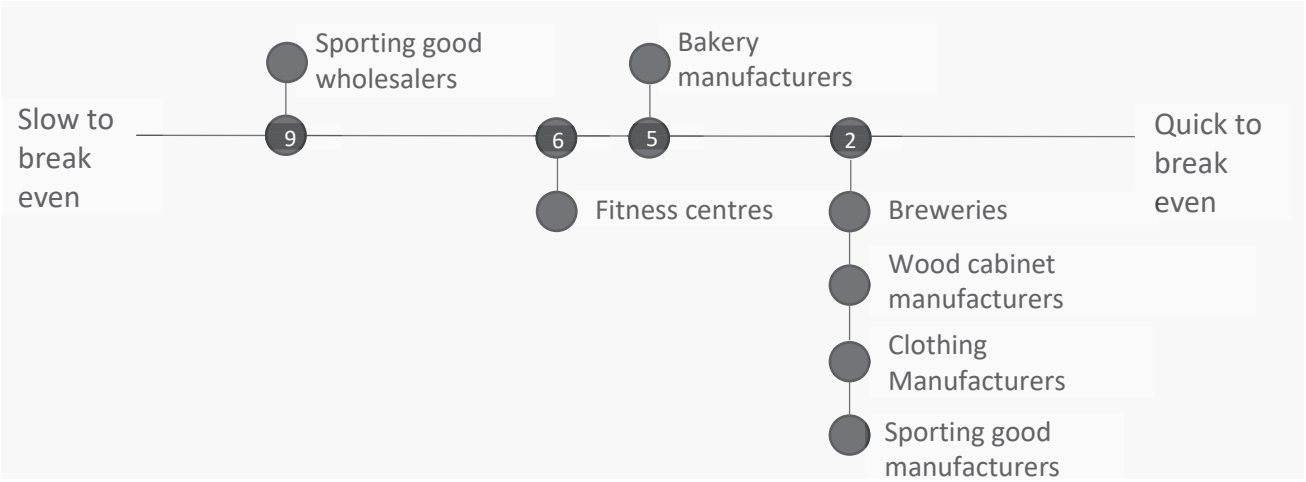


Figure 9. Break-even analysis for light industrial users with top quartile financial performance profiles at a purchase price of $530 PSF



Lease viability of light industrial space

Under a scenario where the lease rate is $25 PSF, several industries with average financial profiles break even in year one or year two of operation. However, $25 PSF is above current market lease rates for light industrial space and would significantly erode profitability for companies. For instance, at $18 PSF, a market-rate more reflective of the current lease rates, all industries with an average financial profile break even by year two of operation.

Unlike bakeries with an average financial performance profile, which break even in year 10, those making up the top quartile break even in year two of operation. However, $25 PSF is above the current market lease rates for light industrial space and would significantly erode profitability for companies. For instance, at $18 PSF, a market-rate more reflective of the current lease rates, all businesses modelled with top quartile financial profiles break even by year two of operation.

Figure 10. Break-even analysis for light industrial users with average financial performance profiles at a lease rate of $25 PSF

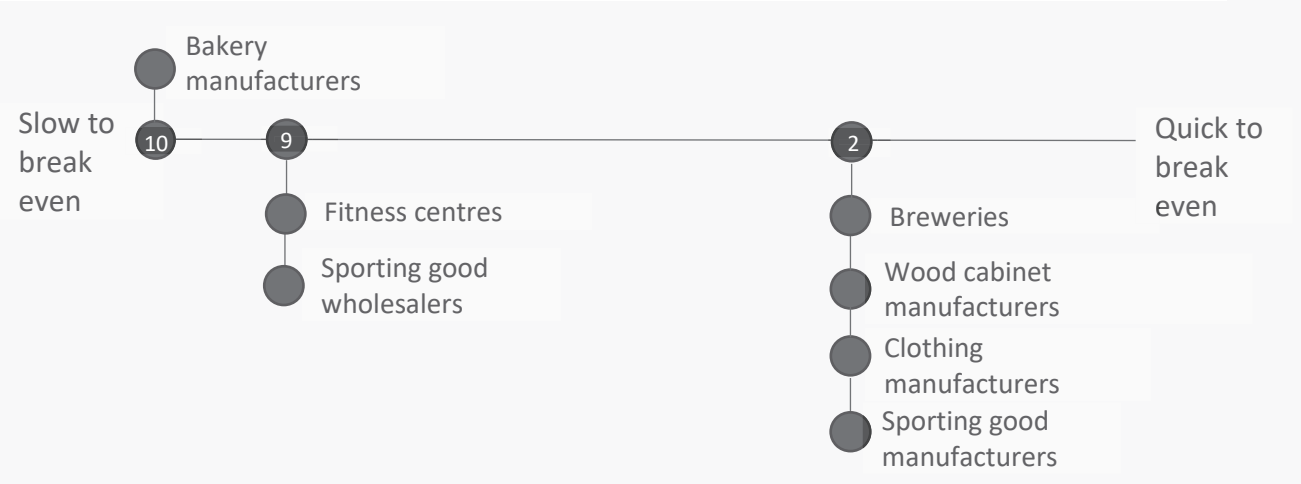
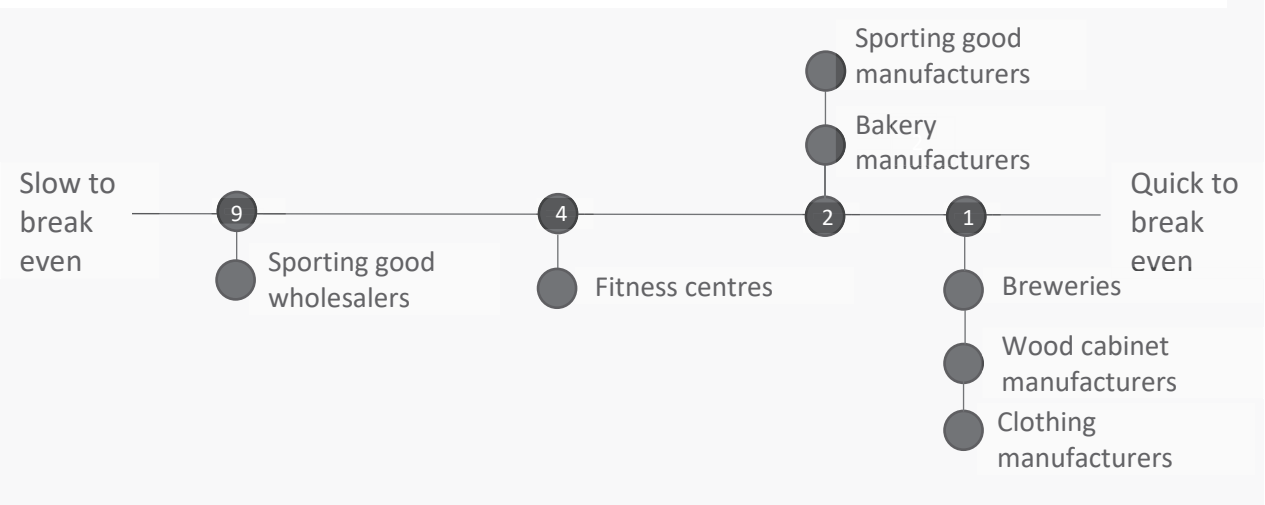


Figure 11. Break-even analysis for light industrial users with top quartile financial performance profiles at a lease rate of $25 PSF



Industry break even analysis for medium industry users

Purchase viability of medium industrial space

A purchase price of $580 PSF (to achieve a 10% target profit relative to the cost of development) results in a prolonged scenario for businesses with average financial performance profiles to break even, such as prefabricated wood building and other wood products (year 24) and waste management and remediation (year nine).

Under a scenario where the purchase price is $580 PSF, top-quartile financial performance profiles for prefabricated wood building manufacturing break even in year 15, other wood product manufacturing in year 17, and waste management and remediation in year six of operation.

Figure 12. Break-even analysis for medium industrial users with average financial performance profiles at a purchase price of $580 PSF

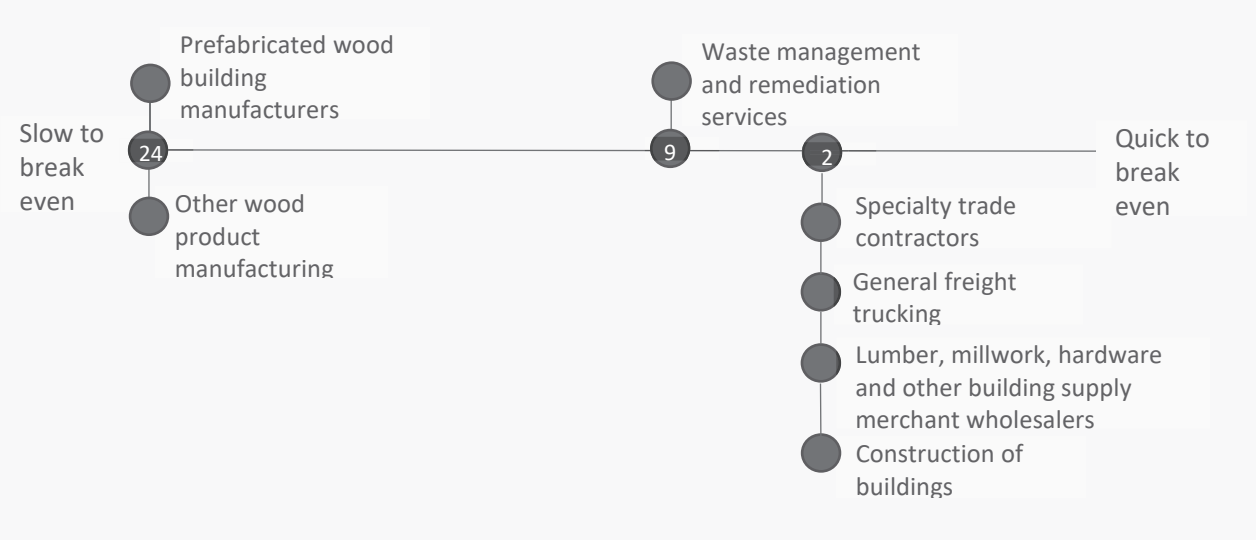
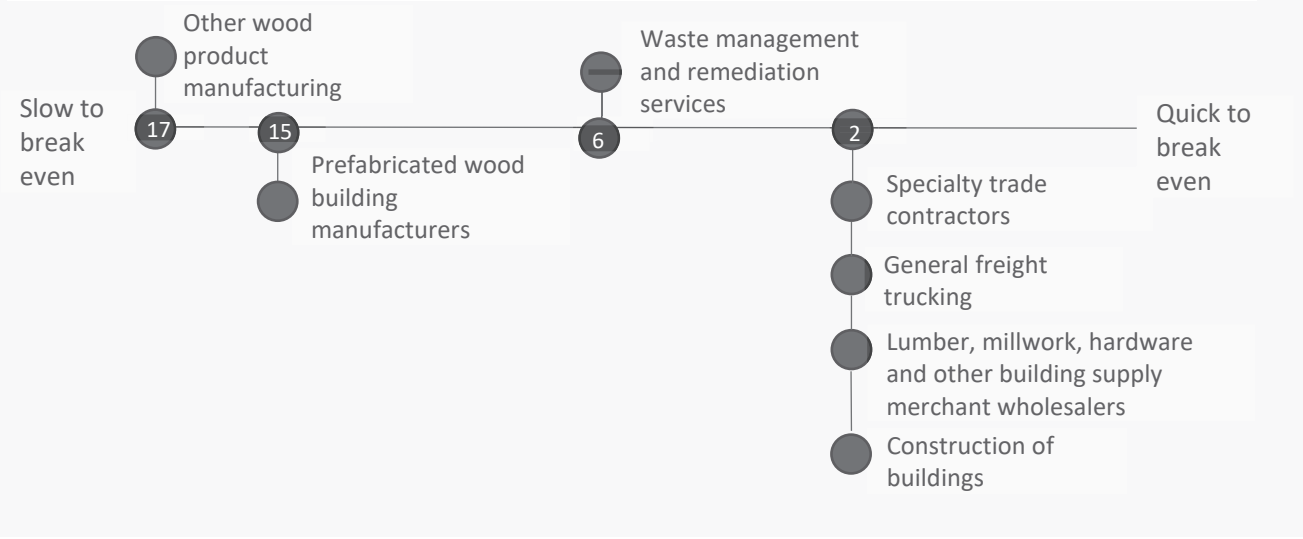


Figure 13. Break-even analysis for medium industrial users with top quartile financial performance profiles at a purchase price of $580 PSF



Lease viability of medium industrial space

At a lease rate of $25 PSF (above current market rates), average financial performance business profiles for prefabricated wood building manufacturers and other wood product manufacturers fail to break even over the timeframe modelled while waste management and remediation businesses break even in year five of operation.

At a lease rate of $25 PSF, profitability is significantly eroded and some industry top quartile financial profiles fail to break even over the period modelled (e.g. prefabricated wood building manufacturing and other wood product manufacturing). All other industries modelled break even in year two of operation.

Figure 14. Break-even analysis for medium industrial users with average financial performance profiles at a lease rate of $25 PSF

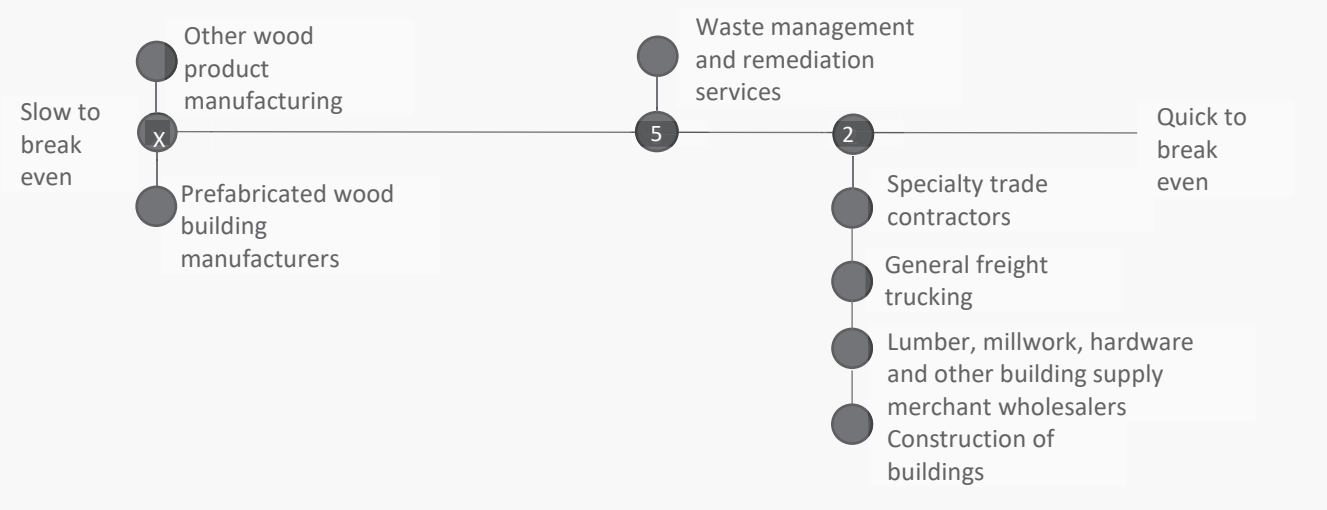
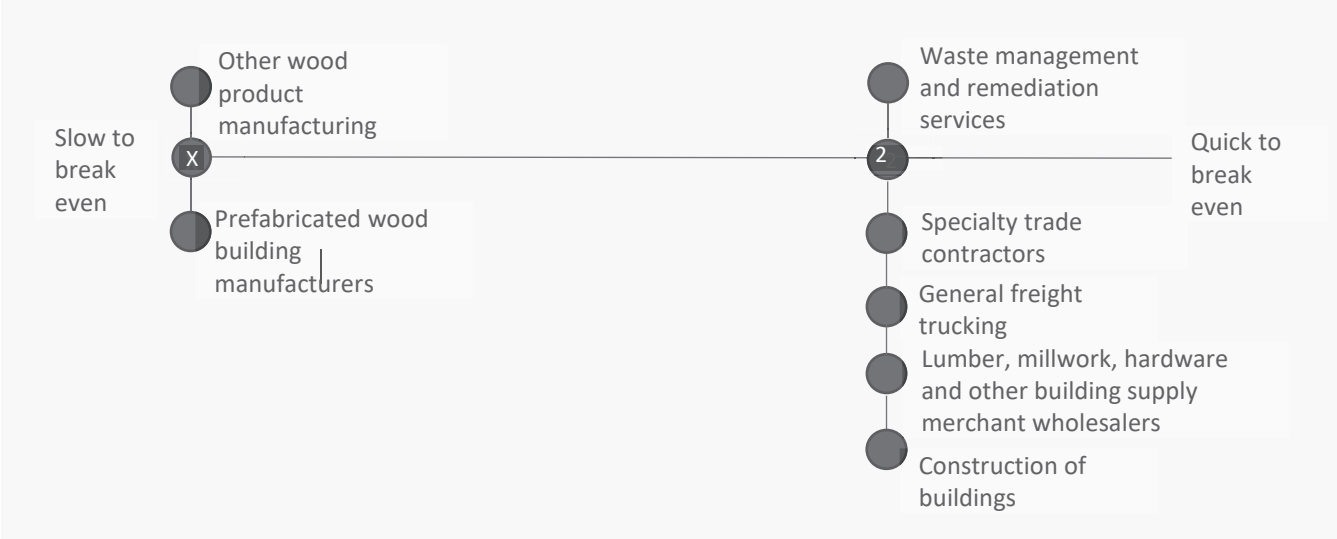


Figure 14. Break-even analysis for medium industrial users with top quartile financial performance profiles at a lease rate of $25 PSF



Industry break even analysis for retail users

Purchase viability of retail space

At a purchase price of $810 PSF (to reflect the sale price needed to achieve a target profit of 10% relative to the cost of the development), specialty food stores break even in year five, full-service restaurants in year six and limited-services eating places in year four of operation. Child-care centres fail to break even until the mortgage is paid in full after 25 years.

Figure 16. Break-even analysis for retail users with average financial performance profiles at a purchase price of $810 PSF

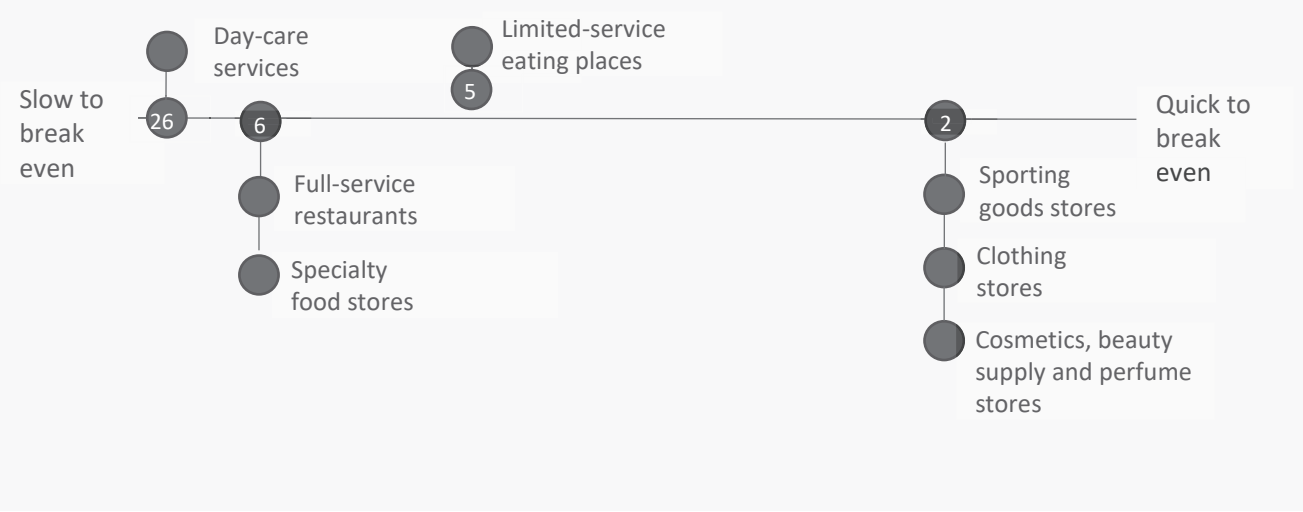
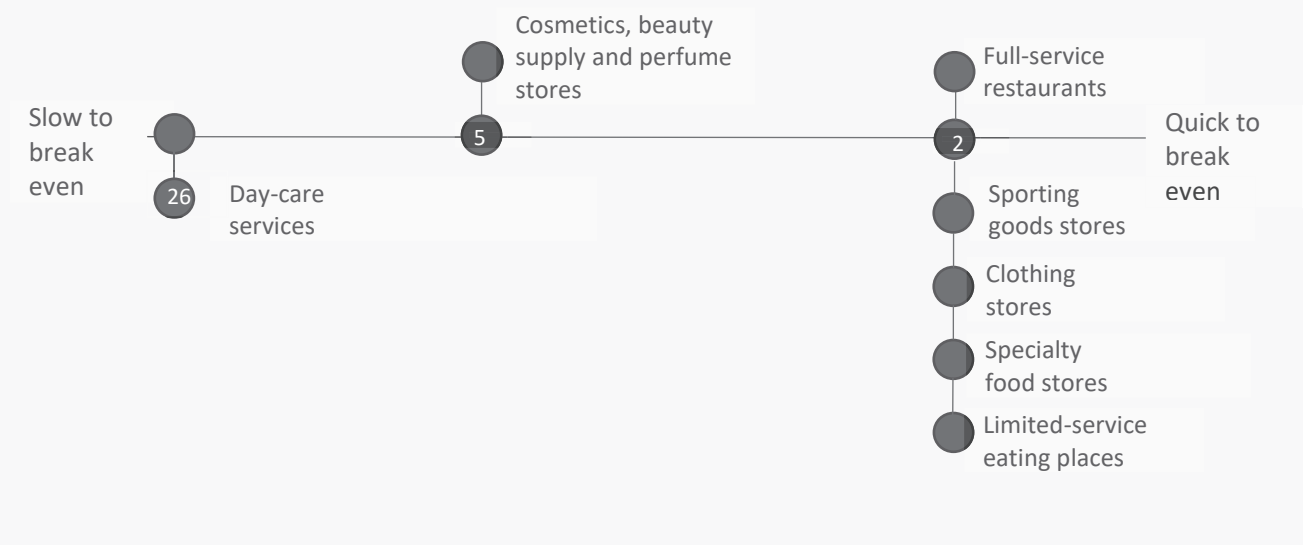


Figure 17. Break-even analysis for retail users with top quartile financial performance profiles at a purchase price of $810 PSF



Lease viability of retail space

Based on a scenario where land is purchased for development at $6.25M/acre and retail lease rates are $45 PSF, businesses with average financial performance profiles do not achieve break even until year eleven (specialty food stores and limited-service eating-places) and year ten (full-service restaurants) of operation. All other business categories assessed are profitable in year two of operation.

Based on a scenario where land is purchased for development at $6.25M/acre and lease rates are $45 PSF, all business categories with top quartile financial profiles are profitable in year two of operation except cosmetics and beauty supply stores, which break even in year four of operation.

Child-care centres with average and top quartile financial performance profiles fail to break even over the period modelled.

Figure 18. Break-even analysis for retail users with average financial performance profiles at a lease rate of $45 PSF

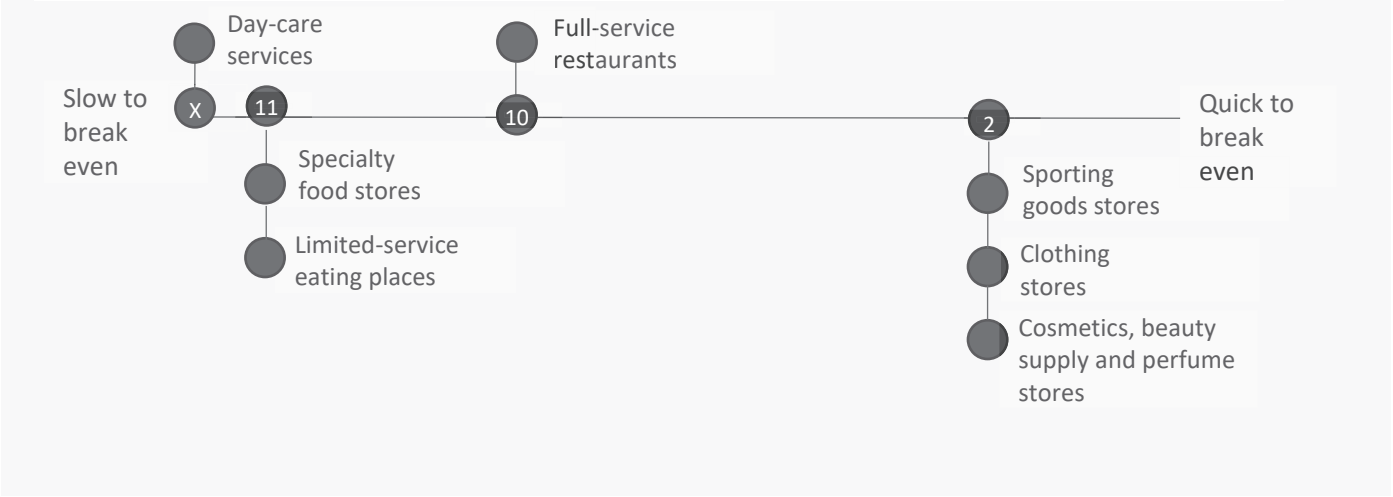
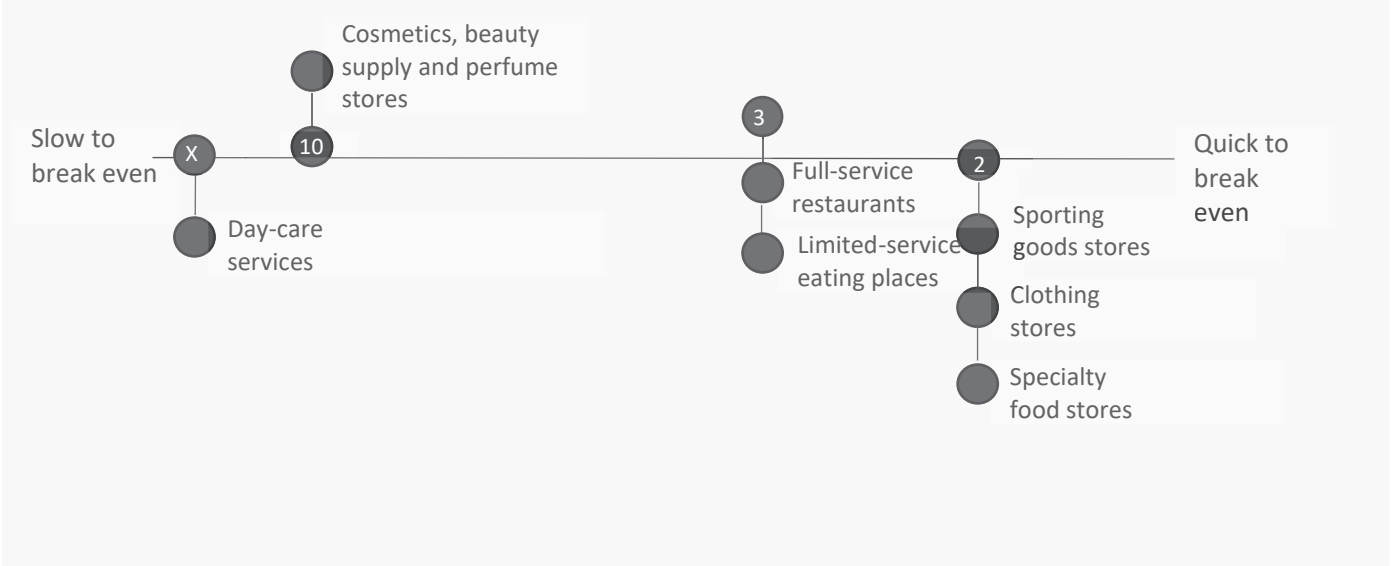


Figure 19. Break-even analysis for retail users with top quartile financial performance profiles at a lease rate of $45 PSF



Industry break even analysis for office users

Purchase viability of office space

At a purchase price of $738 PSF, all industries break even in year two of operation regardless of financial profile. Of note is the relatively small premise size for some industries, a result of dividing a market rate of $22 PSF by the total space expense reported for each category. A likely scenario based on current lease rates for a business with an average financial performance profile is co-location with another company or companies and/or the use of a storage facility along with a home-based office location.

Figure 20. Break-even analysis for office users with average financial performance profiles at a purchase price of $738 PSF

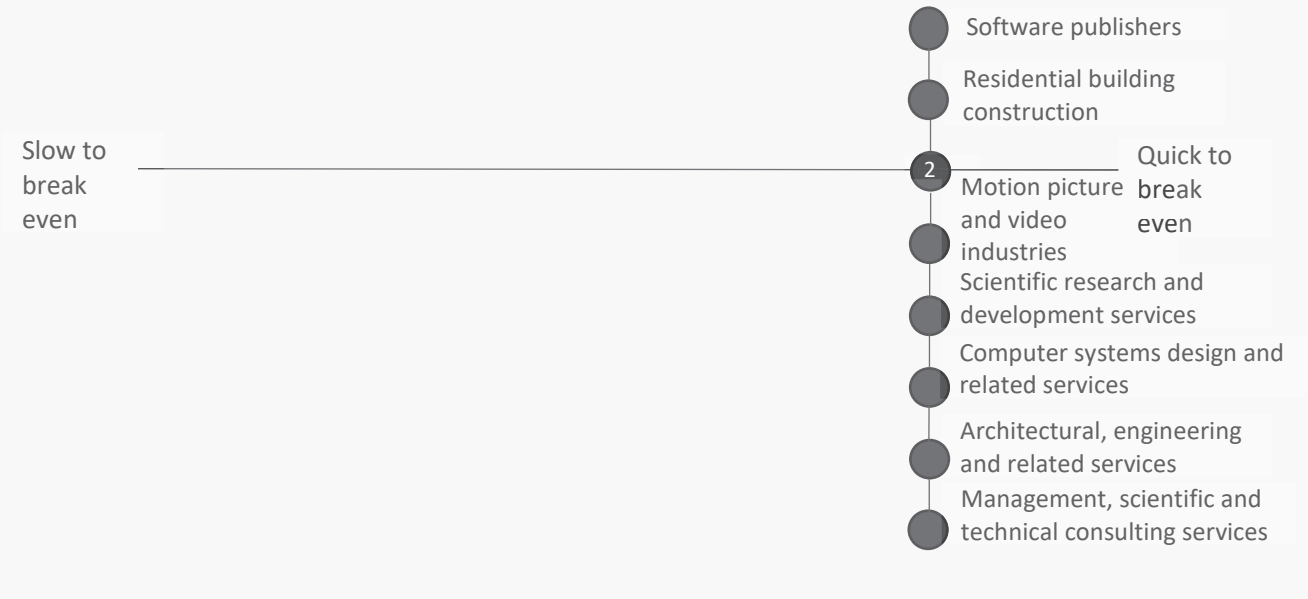


Table 8. Premise size used for office space scenarios

Industries	Premise size for average financial profiles (SF)	Premise size for top financial profiles (SF)
Software publishers	1,541	3,464
Architectural, engineering and related services	500	1,595
Motion picture and video industries	518	1,582
Residential building construction	214	550
Scientific research and development services	1,359	3,236
Computer systems design and related services	453	1,255
Management, scientific and technical consulting	214	595

Lease viability of office space

For businesses with average financial performance profiles, based on a scenario where land is purchased for development at $6.25M/acre, retail lease rates are $40 PSF and office space is $30 PSF, all business categories assessed break even in year two of operation except for software developers, which fail to break even.

While most industries demonstrate viability under this scenario, of note, is the small space size for certain industries.

When modelling industries based on top quartile financial performance, all industry categories break even in year two of operation.

Figure 21. Break-even analysis for office users with average financial performance profiles at a lease rate of $30 PSF

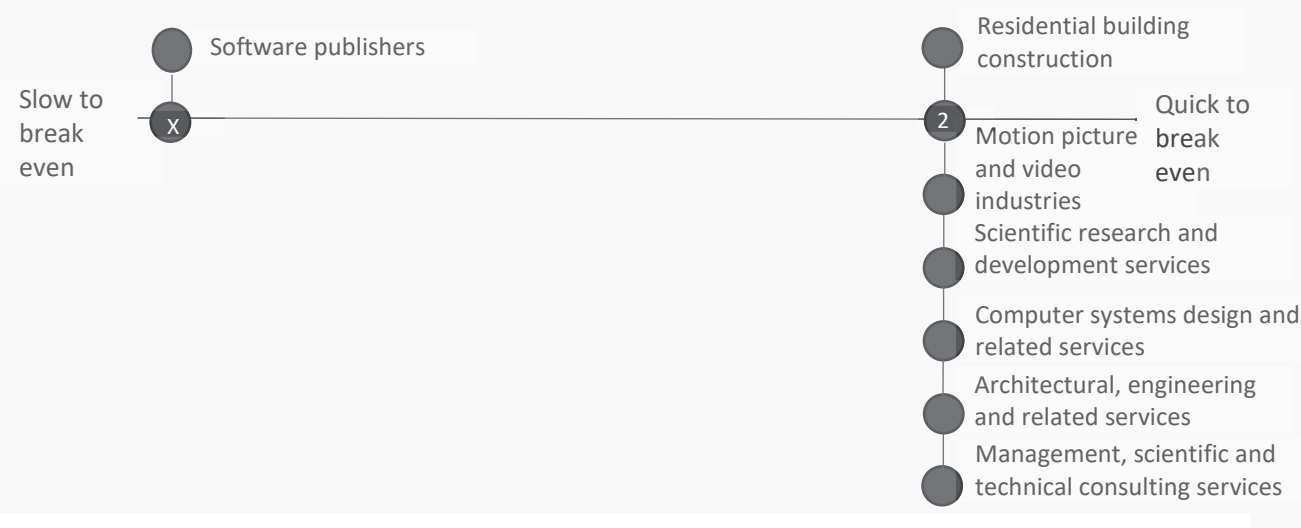
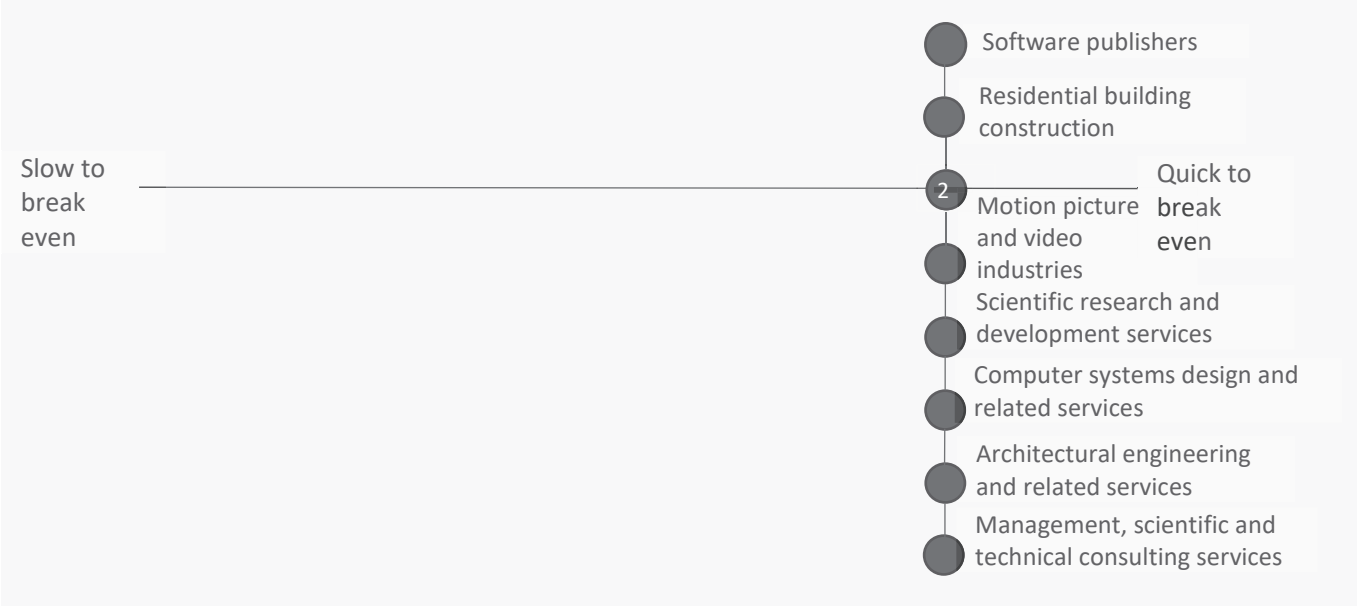


Figure 22. Break-even analysis for office users with top quartile financial performance profiles at a lease rate of $30 PSF



SPOTLIGHT ON CHILD-CARE SPACE

As part of this analysis, special consideration was given to day-care centres considering BC's regulatory space requirements which set out minimum space requirements based on the age and number of children in care.

Vancouver Coastal Health's *Design Resource for Child Care Facilities* specifies a net indoor area of 180m^2 for a group of 25 children 30 months of age to school age, with a minimum of 3.7m^2 of indoor activity space per child (excluding sleep areas and support areas). Outdoor space is also a requirement, with each child requiring 6m^2.

Based on an analysis considering the aforementioned space requirements, child-care centres demonstrate low viability in accessing new employment space within the District.

Analysis completed used total revenue of average ($219.6K) and top quartile ($673.7K) financial profiles divided by median child-care fees ($1,165/mo.) reported for 2021 to determine the number of children in care. Using the number of children, total space requirements were established which were then used as the basis for analysis.

For instance, using the average revenue ($673.7K) reported for top-quartile child-care businesses and median child-care fees ($1,165K), a child day-care centre would need to provide care to 48 children. Based on current regulations, this facility would need to be in the range of 7,000 SF to 8,000 SF. At a sale price of $810 PSF, purchasing this amount of space would result in a loss until the mortgage was paid in full (amortized over 25 years).

Child-care Centres (Toddler Care)

$1,165/mo.*
Median
child-care fees

3.7 m^{2} **
Indoor space
required per child

6.0 m^{2}
Outdoor space
required per child

* Source: Canadian Centre for Policy Alternatives. The median child day-care fees reported are for Vancouver for 2021.

** Excludes hallways, storage, bathrooms, fixed appliances. The operator must have one toilet and washbasin for every 10 kids.

DETAILED DEVELOPMENT SCENARIOS

SCENARIO 1: LIGHT INDUSTRIAL DEVELOPMENT

Light industrial: Land use for processing, fabricating, assembling, leasing, warehousing, transporting, distributing, wholesaling, testing, servicing or repairing of goods or materials, where the primary activity of such a use is carried out within or exterior to a building. Generally aligned with industrial activities located in District of Squamish Zones I-1, I-4, I-8, I-10 and I-11.

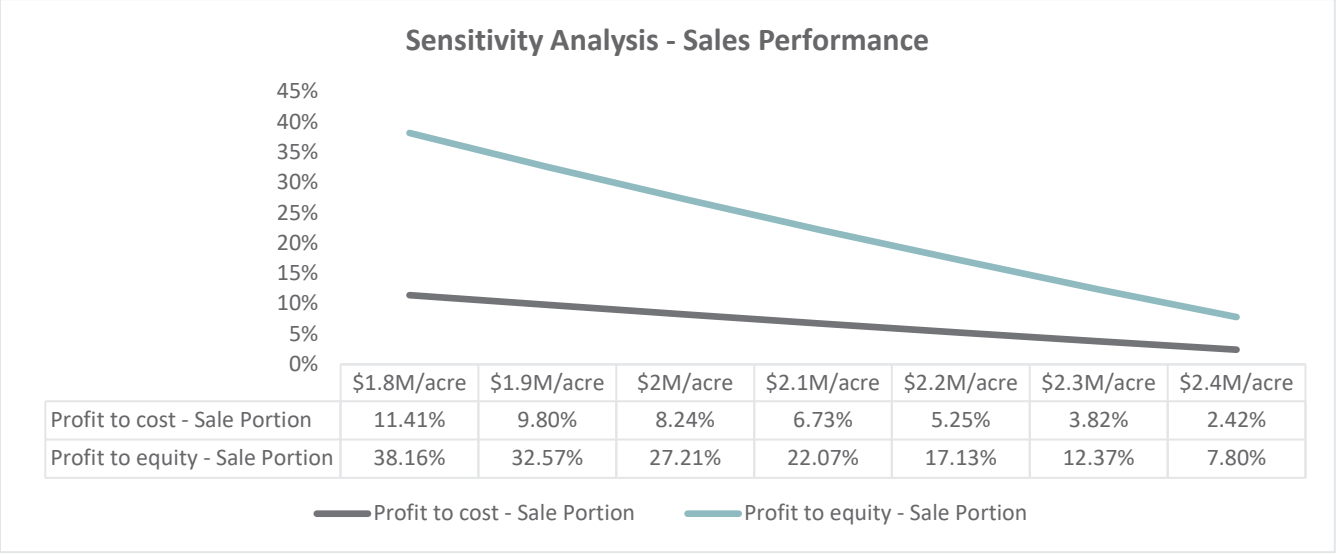
Light industrial development viability – sold on completion

- Profit to cost should generally be in the 10% to 20% range, and profit to equity will typically run three times that of profit to cost.
- Based on this light industrial scenario, factoring in all other development costs and revenue assumptions:
    - To achieve a 10% profit + relative to cost, the land purchase price cannot exceed $1.9M/acre.
    - To achieve a 30% profit + relative to equity, the land purchase price cannot exceed $1.95M/acre.
- A review of recent land transactions found that land intended for light industrial use is in the price range of $2.3M-$2.5M/acre, greatly eroding the viability of development in this scenario. At a land cost of $2.3M/acre, to achieve a 10% target profit-to-cost margin, the sale price would need to be $530 PSF.

Table 9. Key assumptions used for light Industrial development scenarios – sold on completion

Land size	217,800 SF
Gross floor area	108,900 SF
Floor space ratio	0.5
Surface parking stalls	111
Planning timeframe	12 months
Construction timeframe	12 months
Total project costs	$47.4M-$51.3M
Sale price	$500 PSF

Figure 23. Land price sensitivity analysis of light industrial development – sold on completion



	$1.8M/acre	$1.9M/acre	$2M/acre	$2.1M/acre	$2.2M/acre	$2.3M/acre	$2.4M/acre
Profit to cost - Sale Portion	11.41%	9.80%	8.24%	6.73%	5.25%	3.82%	2.42%
Profit to equity - Sale Portion	38.16%	32.57%	27.21%	22.07%	17.13%	12.37%	7.80%

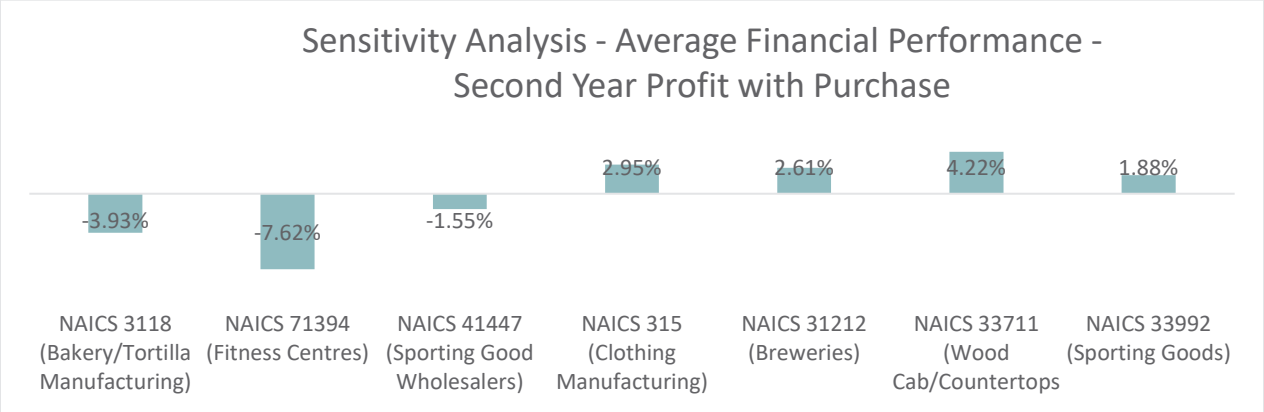
Purchase viability of light industrial space by industry – businesses with average financial performance profiles

- Under a scenario where land costs reflect today's market ($2.3M/acre), and profit to cost and profit to equity is still maintained at 10% and 33% respectively, the sale price would need to increase to $530 PSF.
- At this purchase price, bakeries and sporting goods wholesalers break even in year 10 and fitness centres break even in year nine of operation.
- At $ 530 PSF, clothing manufacturers, breweries, cabinet and countertop manufacturers, and sporting and athletic goods manufacturers break even in year two of operation.
- For businesses failing to break even in year two of operation, sale prices cannot exceed:
    - Bakers, $370 PSF
    - Fitness centres, $386 PSF
    - Sporting goods wholesalers, $376 PSF

Table 10. Key assumptions used for light Industrial industry scenarios with average financial performance profiles – sold on completion

Profit to cost	10%
Profit to equity	33%
Sale price	**$530 PSF**
Premise size (SF)	
Bakeries	2,617
Fitness centres	2,872
Sporting goods wholesalers	1,667
Clothing manufacturing	1,100
Breweries	3,761
Cabinet and countertop manufacturing	1,700
Sporting and athletic goods manufacturing	1,367

Figure 24. Sale price analysis for light industrial users with average financial performance profiles – sold on completion



The square footage of the premise for each industry was established by dividing the average total rent paid by a business in a given financial performance category by a lease rate of $18 PSF, reflecting current lease rates for light industrial space within Squamish.

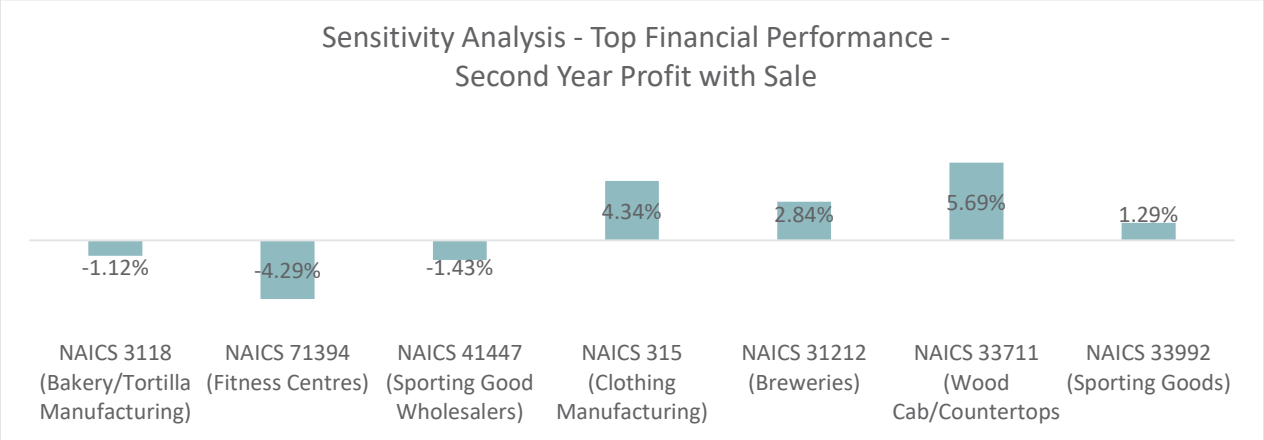
Purchase viability of light industrial space by industry – businesses with top quartile financial performance profiles

- Under a scenario where land costs reflect today's market ($2.3M/acre), and profit to cost and profit to equity is still maintained at 10% and 33% respectively, the sale price would need to increase to $530 PSF.
- At this purchase price, bakeries, fitness centres and sporting goods wholesalers break even in years five, six, and nine while all other industry categories break even in year two of operation.
- To break even in year two under this scenario, annual sale prices must not exceed:
    - Bakeries, $475 PSF
    - Fitness centres, $441 PSF
    - Sporting goods wholesalers, $386 PSF
- Of note is the square footage increase for businesses within the top financial performance category. The square footage was calculated using the total space expense reported for the category divided by a base lease rate of $18 PSF for comparability purposes. In this scenario, business premises are significantly larger than businesses with an average financial performance due to their financial profile, with higher space costs relative to businesses with average financial performance profiles.

Table 11. Key assumptions used for light industrial industry scenarios with top quartile financial performance profiles – sold on completion

Profit to cost	10%
Profit to equity	33%
Sale price	$530 PSF
Premise size (SF)	
Bakeries	5,722
Fitness centres	7,328
Sporting goods wholesalers	4,772
Clothing manufacturing	3,106
Breweries	7,494
Cabinet and countertop manufacturing	4,317
Sporting and athletic goods manufacturing	4,678

Figure 25. Sale price analysis for light industrial users with average financial performance profiles – sold on completion



The square footage of the premise for each industry was established by dividing the average total rent paid by a business in a given financial performance category by a lease rate of $18 PSF, reflecting current lease rates for light industrial space within Squamish.

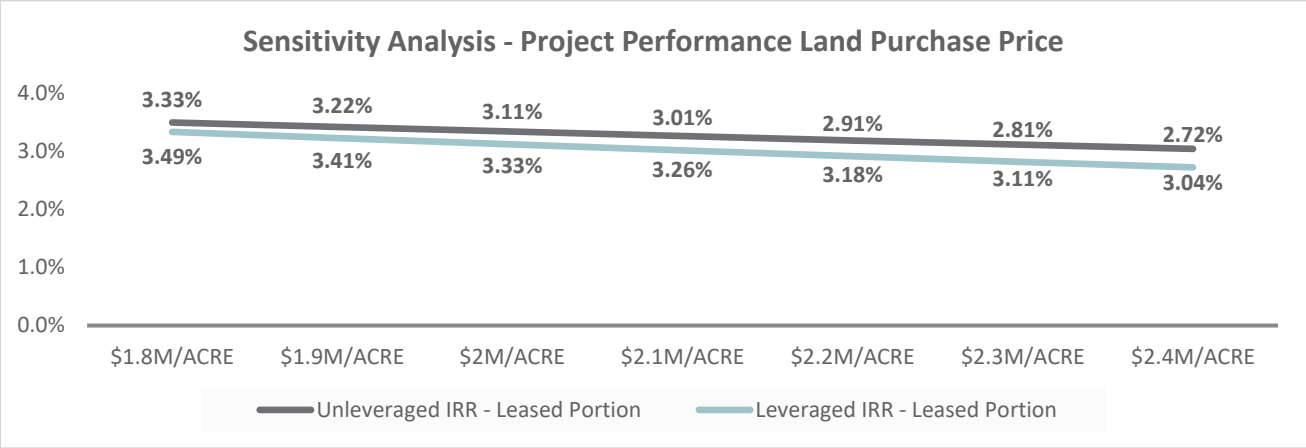
Light industrial development viability – leased on completion

- Target internal rate of return (IRR) is typically 2% above capitalization rates (cap rates). Based on an analysis of cap rates in Q1 2021, the target IRR for an industrial project should be 5.25%-6%.
- Based on this light industrial scenario, factoring in all other development costs and revenue assumptions, a lease rate of $18 PSF produces non-viable IRRs, as the land cost would need to be nil to achieve a target 6% IRR.
- A review of recent sales transactions found light industrial-zoned land in the range of $2.3M-$2.5M/acre, further eroding development viability under this scenario.
- A likely scenario is that lease rates would be increased to achieve target IRRs. For instance, an annual lease rate of $25 PSF would achieve an unlevered IRR of nearly 5%.

Table 12. Key assumptions used for light Industrial development scenarios – leased on completion

Land size	217,800 SF
Gross floor area	108,900 SF
Floor space ratio	0.5
Surface parking stalls	111
Planning timeframe	12 months
Construction timeframe	12 months
Total project costs	$49.7M-$53.9M
Lease price	$18 PSF

Figure 26. Land price sensitivity analysis of light industrial development – leased on completion



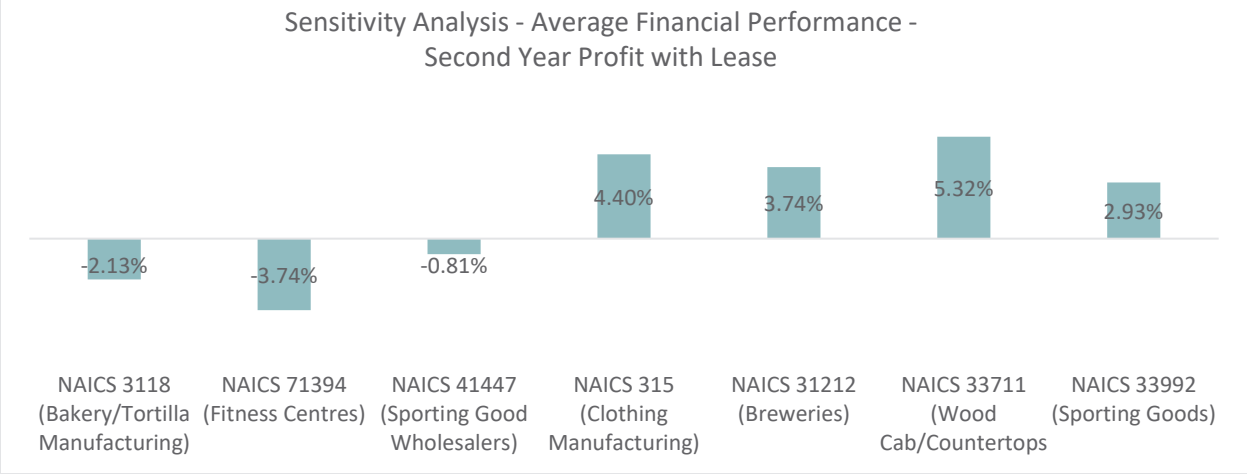
Lease viability of light industrial space by industry – businesses with average financial performance profiles

- Based on a scenario where land is purchased for development at market value ($2.3M/acre) and lease rates are $25 PSF, bakeries do not break even until year 10 while fitness centres and sporting goods wholesalers break even in year nine of operation. All other business categories are profitable in year two.
- To break even by year two of leasing the premise, annual lease rates cannot exceed:
    - Bakeries, $20 PSF
    - Fitness centres, $21 PSF
    - Sporting goods wholesalers, $20 PSF

Table 13. Key assumptions used for light Industrial industry scenarios with average financial performance profiles - leased on completion

Levered IRR	5.7%
Unlevered IRR	4.99%
Annual lease rate	$25 PSF
Premise size (SF)	
Bakeries	2,617
Fitness centres	2,872
Sporting goods wholesalers	1,667
Clothing manufacturing	1,100
Breweries	3,761
Cabinet and countertop manufacturing	1,700
Sporting and athletic goods manufacturing	1,367

Figure 27. Lease rate analysis for light industrial users with average financial performance profiles

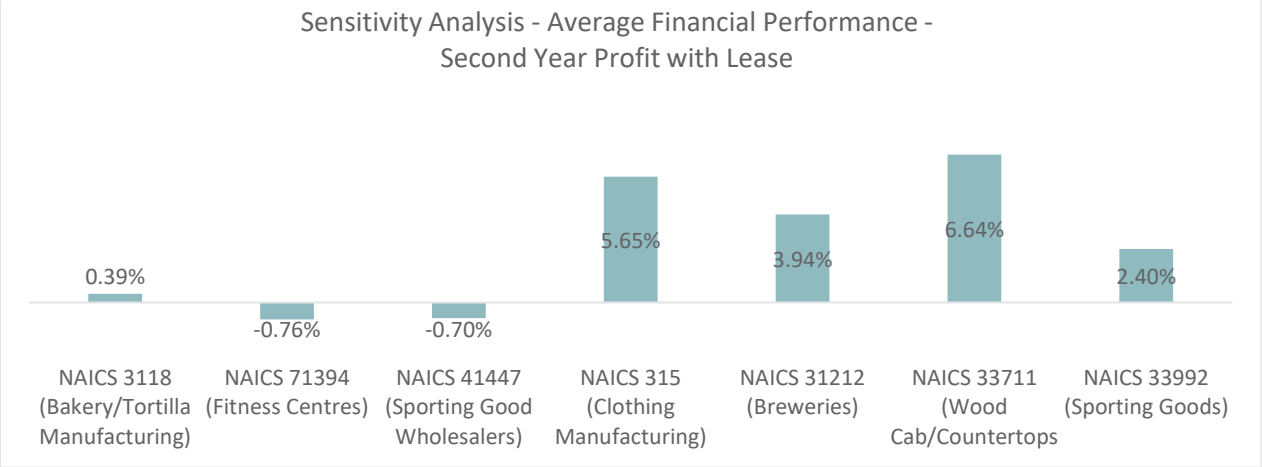


Lease viability of light industrial space by industry – businesses with top quartile financial performance profiles

- Modelling these industries based on top quartile financial performance profiles results in fitness centres and sporting goods wholesalers breaking even in years four and nine respectively of operation. All other business categories are profitable in year two.
- To break even in year two of operation under this scenario, annual lease rates must not exceed:
    - Bakeries, $26 PSF
    - Fitness centres, $24 PSF
    - Sporting goods wholesalers, $21 PSF

Table 14. Key assumptions used for light Industrial industry scenarios with top quartile financial performance profiles - leased on completion	
Levered IRR	5.7%
Unlevered IRR	4.99%
Annual lease rate	$25 PSF
Premise Size (SF)	
Bakeries	5,722
Fitness centres	7,328
Sporting goods wholesalers	4,772
Clothing manufacturing	3,106
Breweries	7,494
Cabinet and countertop manufacturing	4,317
Sporting and athletic goods manufacturing	4,678

Figure 28. Lease rate analysis for light industrial users with top quartile financial performance profiles



Conclusions – Light industrial development viability

- Project costs under existing market conditions are eroding market viability for both projects sold or leased on completion.
- To maintain acceptable target profit margins, required sale prices and lease rates lead to reduced viability for certain industries under conditions modelled (e.g. commercial bakeries, fitness centres and sporting goods wholesalers).
- These industries have three options: increase their profit margins; reduce the amount of space they occupy; or seek less expensive inventory, such as an older unit.
- While increasing sale prices are eroding industry viability, many businesses indicated (as part of the District's recent qualitative research, *Space Needs Insights for Business*) a preference for strata units over leased space, as purchasing space increases the financial certainty of their business, provides the business with a diversified exit strategy and provides more control over the property, its day-to-day management, and any upgrades.

SCENARIO 2: MEDIUM INDUSTRIAL DEVELOPMENT

Medium industrial: Land use for intensive, moderate-scale primary processing, manufacturing, wholesaling, warehousing and distribution uses, including storage and work-related activities that may occur outside of enclosed buildings that may cause noise or dust nuisances. Medium industrial uses typically require some buffering from residential and commercial uses. Generally aligned with industrial activities located in District of Squamish Zones I-3, I-5, I-6 and I-7.

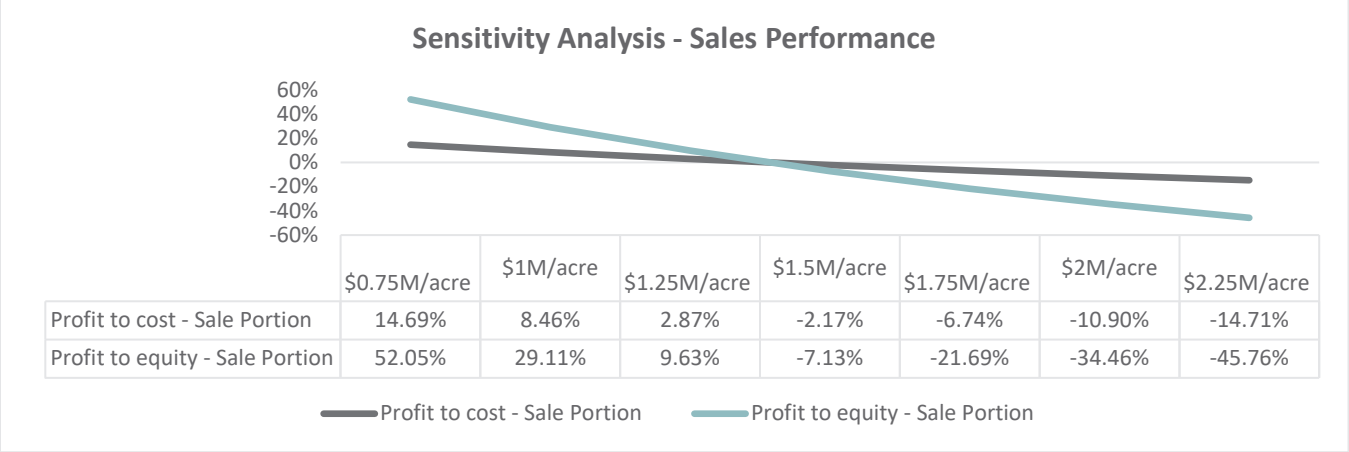
Medium industrial development viability – sold on completion

- Profit to cost should generally be in the 10% to 20% range, and profit to equity will typically run three times that of profit to cost.
- Based on this medium industrial scenario, factoring in all other development costs and revenue assumptions:
    - To achieve a 10% profit + relative to cost, the land purchase price should not exceed $0.93M/acre.
    - To achieve a 30% profit + relative to equity, the land purchase price should not exceed $0.99M/acre.
- A review of recent land transactions found that land intended for industrial use is in the price range of $2.3M-$2.5M/acre, greatly eroding the viability of development in this scenario.

Table 15. Key assumptions used for medium Industrial development scenarios – sold on completion

Land size	348,480 SF
Gross floor area	128,938 SF assuming 30% (104,544 SF) bare land for sale on completion
Floor space ratio	0.37
Surface parking stalls	132
Planning timeframe	12 months
Construction timeframe	12 months
Total project costs	$48.3M-$65.5M
Sale price	Blended rate $443 PSF (space: $400 PSF/land: $52.8 PSF)

Figure 29. Land price sensitivity analysis of medium industrial development – sold on completion



	$0.75M/acre	$1M/acre	$1.25M/acre	$1.5M/acre	$1.75M/acre	$2M/acre	$2.25M/acre
Profit to cost - Sale Portion	14.69%	8.46%	2.87%	-2.17%	-6.74%	-10.90%	-14.71%
Profit to equity - Sale Portion	52.05%	29.11%	9.63%	-7.13%	-21.69%	-34.46%	-45.76%

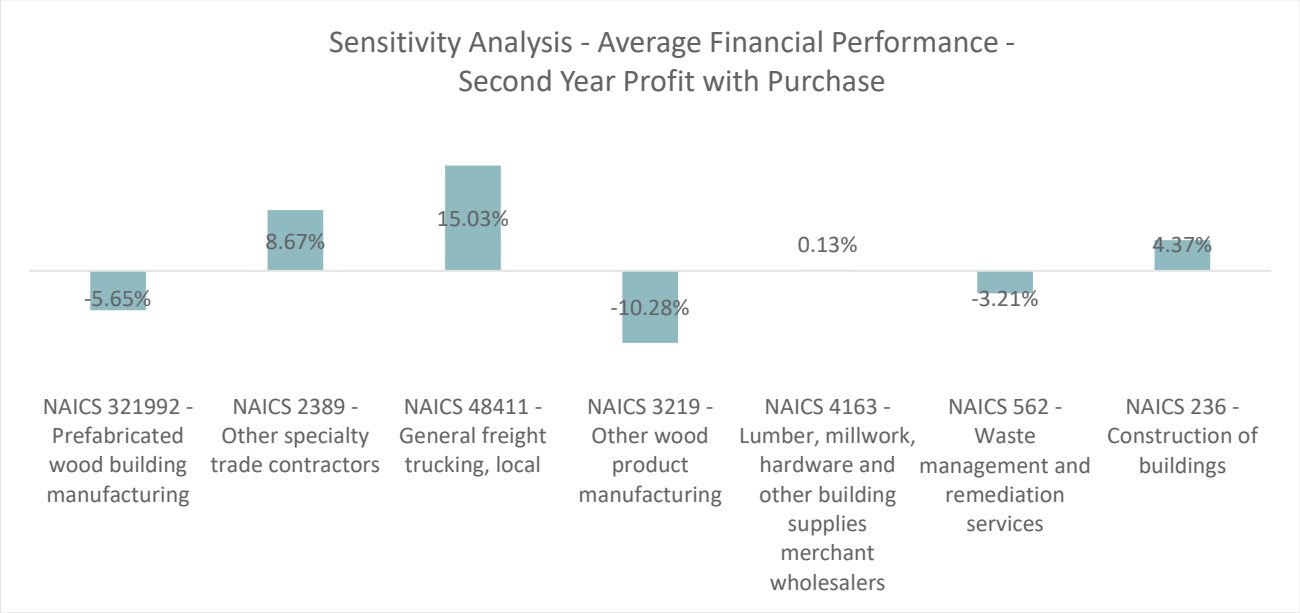
Purchase viability of medium industrial space by industry – businesses with average financial performance profiles

- Based on a scenario where land prices are reflective of market values ($2.3M/acre), the sale price is increased to $580 PSF to achieve a 10% profit-to-cost and 33% profit-to-equity scenario.
- Prefab manufacturers and wood product manufacturers with this financial profile break even in year 24 of operation from the time they purchase their space while waste management break even in year nine.
- All other industries modelled break even in year two of operation. Year two was used as a benchmark to assess viability as in year one extraordinary expense is incurred in a new space.

Table 16. Key assumptions used for medium industrial industry scenarios with average financial performance profiles – sold on completion

Profit to cost	10%
Profit to equity	33%
Sale price	$580 PSF
Premise size (SF)	
Prefab wood building manufacturing	3,275
Other specialty contractors	1,113
General freight trucking (local)	813
Other wood product manufacturing	3,875
Building supplies merchant wholesalers	4,100
Waste management and remediation	2,525
Construction of buildings	663

Figure 30. Sale price analysis for medium industrial users with average financial performance profiles



Purchase viability of medium industrial space by industry – businesses with top quartile financial performance profiles

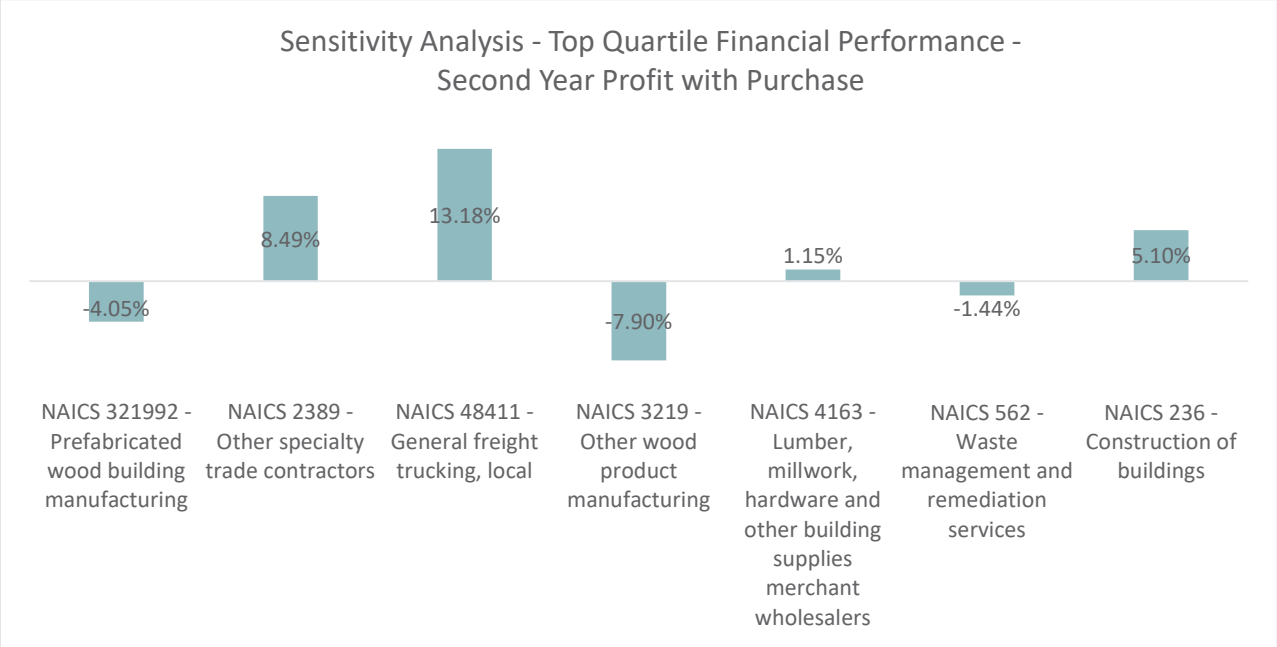
- Under a scenario where land costs are reflective of today's market ($2.3M/acre), and profit to cost and profit to equity are still maintained at 10% and 33% respectively, the sale price would need to increase to $580 PSF. At this purchase price, prefab manufacturers, wood product manufacturing and waste management break even respectively in years 15, 17 and six of operation, while the remaining industries modelled break even in year two.

Table 17. Key assumptions used for medium industrial industry scenarios with top quartile financial performance profiles – sold on completion

Profit to cost	10%
Profit to equity	33%
Sale price	$580 PSF
Premise size (SF)	
Prefab wood building manufacturing	7,288
Other specialty contractors	3,513
General freight trucking (local)	2,600
Other wood product manufacturing	10,663
Building supplies merchant wholesalers	10,563
Waste management and remediation	6,613
Construction of buildings	1,775

- Of note is the relatively small square footage allocated to certain industries, in particular general freight trucking and construction of buildings. Total square footage reflects low annual rents reported for businesses within each of these industries. This is probably due in part to the nature of these business operations, which require little built space and more sizeable outdoor storage leasing at a lower PSF. For modelling purposes, however, all industries used the same base lease rates for comparability. These were calculated by dividing annual rents reported for these industries by a blended base lease rate of $8 PSF (built space at $14 PSF and storage space at $4 PSF).
- Recent qualitative research conducted with these industries confirmed businesses were seeking larger parcels of at least one acre, which is considerably more than the assumptions modelled.

Figure 31. Sale price analysis for medium industrial users with top quartile financial performance profiles



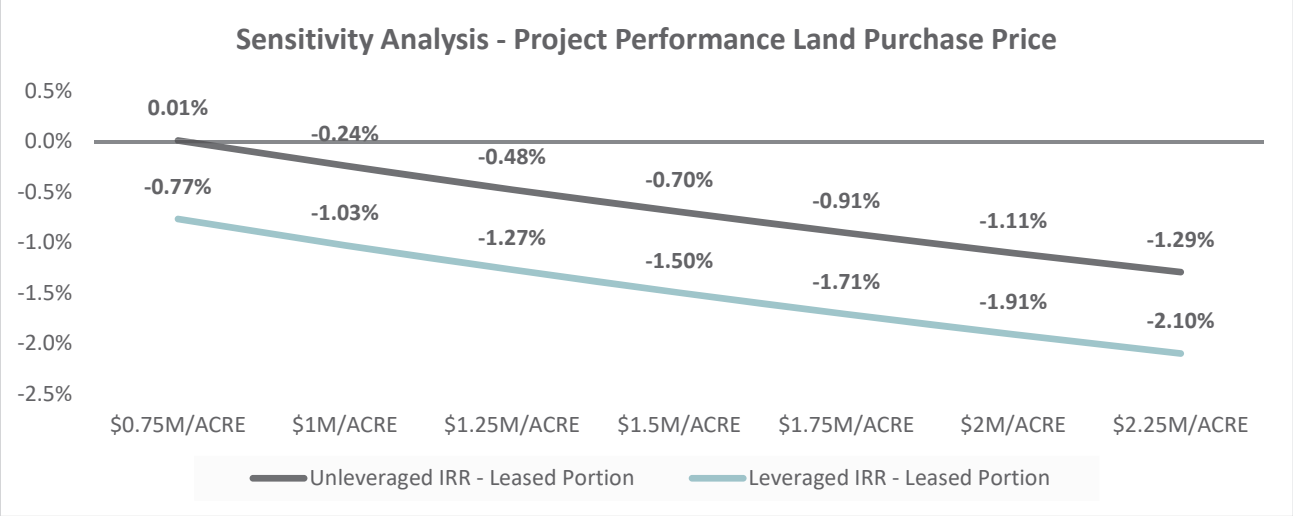
Medium industrial development viability – leased on completion

- Target IRR is typically 2% above cap rates. Based on an analysis of cap rates in Q1 2020, the target IRR for an industrial project should be 5.25%-6%.
- Based on this medium industrial scenario, and factoring in all other development costs and revenue assumptions, a lease rate of $8 PSF produces non-viable IRRs. Even if land costs were nil, the target IRR would not be achieved.
- A review of recent sales transactions found that industrial-zoned land was selling in the range of $2.3M-$2.5M/acre, thus further eroding development viability under this scenario.
- Under a scenario where land was purchased at a market rate of $2.25M/acre, a lease rate of $26 PSF would be required to achieve a levered IRR of 5.2% and an unlevered IRR of 4.7%.

Table 18. Key assumptions used for medium Industrial development scenarios – leased on completion

Land size	348,480 SF
Gross floor area	128,938 SF assuming 30% (104,544 SF) bare land for lease on completion
Floor space ratio	0.37
Surface parking stalls	132
Planning timeframe	12 months
Construction timeframe	12 months
Total project costs	$50.1M-$66.7M
Lease rate	Blended lease rate $8 PSF (built space of 14 PSF and storage space of $4 PSF)

Figure 32. Land price sensitivity analysis of medium industrial development – leased on completion



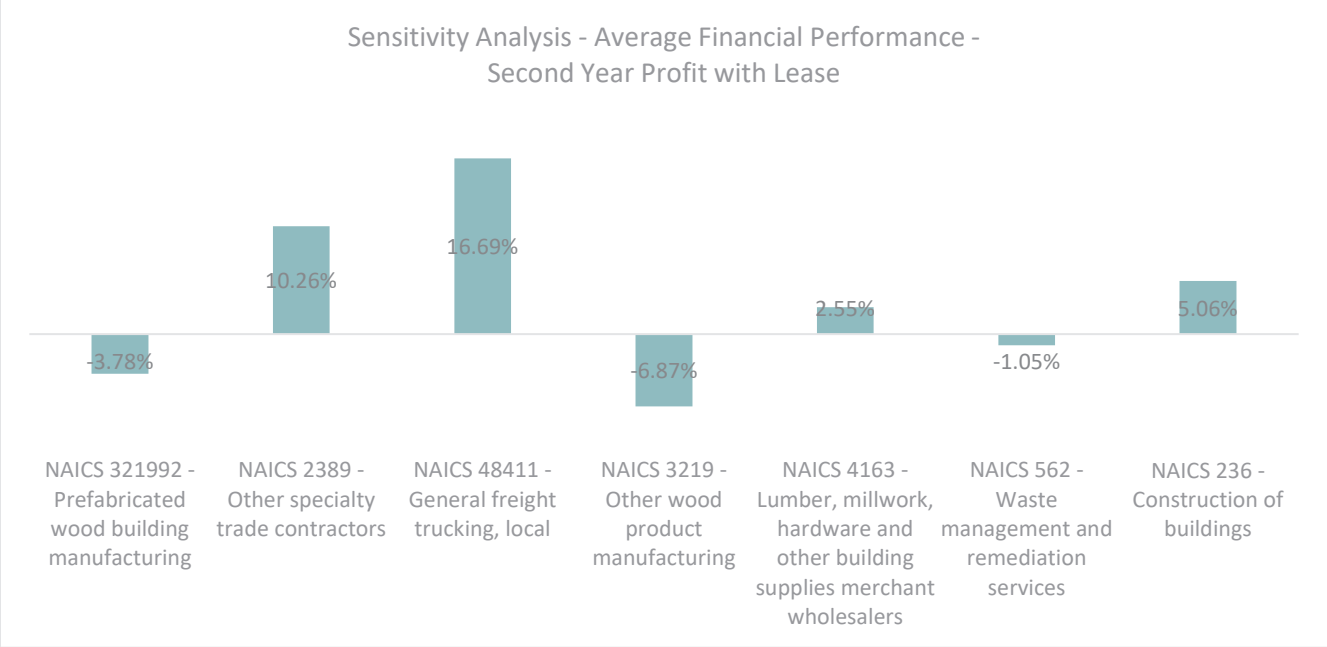
Lease viability of medium industrial space by industry – businesses with average financial performance profiles

- Based on a scenario where land is purchased for development at $2.3M/acre and lease rates are $26 PSF, prefabricated wood building and other wood product manufacturers do not break even over the period modelled while waste management companies break even in year seven of operation. All other business categories are profitable in year two of operation.
- To break even by year two of leasing the premise under this scenario, annual lease rates must not exceed:
    - Prefab wood building, $14 PSF
    - Other wood product manufacturing, $14 PSF
    - Waste management and remediation, $23 PSF
- High lease-rate thresholds do not indicate that it is feasible for businesses to pay this rate but do indicate that rent does not comprise a significant portion of their business expenses, resulting in less of a material impact from increasing rates.

Table 19. Key assumptions used for medium industrial industry scenarios with average financial performance profiles – leased on completion

Levered IRR	4.8%
Unlevered IRR	4.5%
Annual lease rate	$26 PSF
Premise size (SF)	
Prefab wood building manufacturing	3,275
Other specialty contractors	1,113
General freight trucking (local)	813
Other wood product manufacturing	3,875
Building supplies merchant wholesalers	4,100
Waste management and remediation	2,525
Construction of buildings	663

Figure 33. Lease rate analysis for medium industrial users with average financial performance profiles



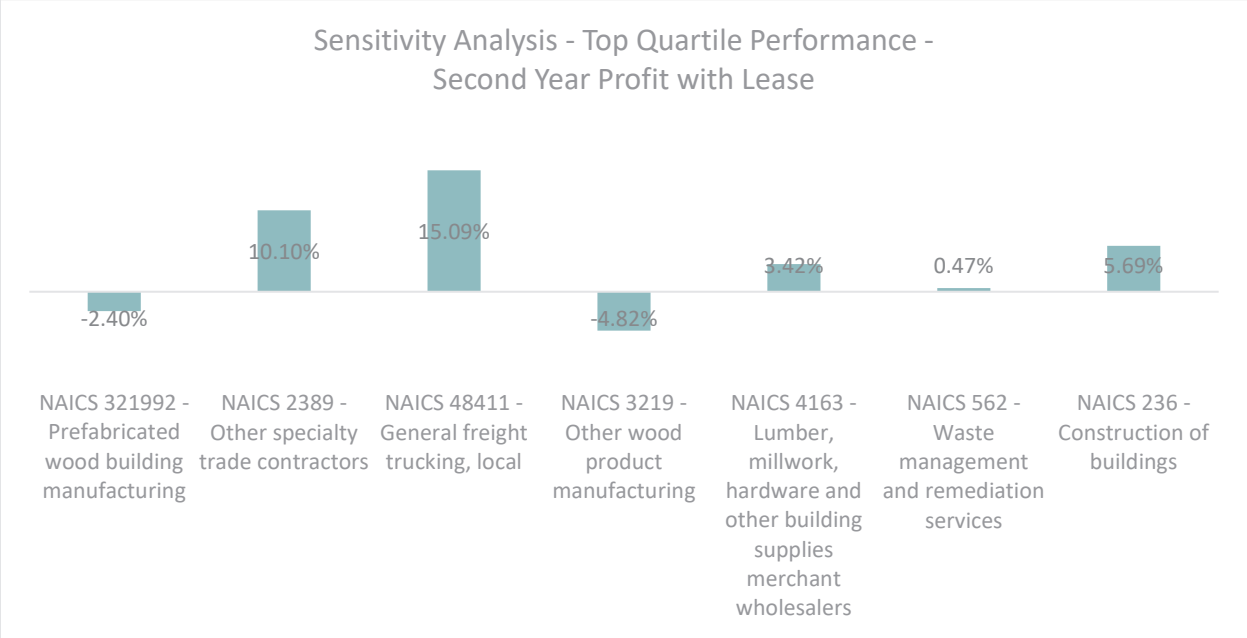
Lease viability of medium industrial space by industry – businesses with top quartile financial performance profiles

- Based on a scenario where land is purchased for development at $2.25M/acre and lease rates are $26 PSF, prefab wood building manufacturing and other wood product manufacturing don't break even while all other business categories are profitable in year two of operation.
- To break even by year two of leasing the premise under this scenario, annual lease rates must not exceed:
    - Prefab wood building, $17 PSF
    - Other wood product manufacturing, $17 PSF
- The resulting high lease-rate thresholds do not indicate that it is feasible for businesses to pay this rate but do indicate that rent does not comprise a significant portion of their business expenses, resulting in less of a material impact from increasing rates.

Table 20. Key assumptions used for medium industrial industry scenarios with top quartile financial performance profiles – leased on completion

Levered IRR	4.8%
Unlevered IRR	4.5%
Annual lease rate	$26 PSF
Premise size (SF)	
Prefab wood building manufacturing	7,288
Other specialty contractors	3,513
General freight trucking (local)	2,600
Other wood product manufacturing	10,663
Building supplies merchant wholesalers	10,563
Waste management and remediation	6,613
Construction of buildings	1,775

Figure 34. Lease rate analysis for medium industrial users with top quartile financial performance profiles



Conclusions – Medium industrial development viability

- Project costs, under existing market conditions, are eroding market viability for both projects sold or leased on completion.
- Based on the modelled scenario, a lease on completion is not a viable development option.
- To maintain acceptable target profit margins, required sale prices and lease rates lead to reduced viability for certain industries under conditions modelled (e.g. prefabricated wood building manufacturing, other wood manufacturers and waste management).
- Of note is the relatively small premise size the model produced for some industries, a reflection of the industries' expense profile and base lease rate used to estimate leased or purchased premises. In these instances, these industries likely rely on less built space and more lay down or storage area, or older product at lower market rates.
- These findings are consistent with recent qualitative insights where participating businesses identified the need for large outdoor storage areas to support storage, staging and truck/transport accessibility.
- Qualitative insights from existing medium industrial users, particularly construction equipment and wood manufacturing, identified the rising cost of real estate and development as a major barrier in their future sustainability, indicating that they would likely need to close their business or move out of the region should they be forced to find a new location for their operations.
- While these findings provide broad insights into the viability of medium industrial lands, industries comprising emerging growth areas of the local economy, such as renewable energy and green building, require purpose-built facilities, which prove difficult to model viability given their unique characteristics.

SCENARIO 3: MIXED USED DEVELOPMENT (RETAIL/RESIDENTIAL)

Retail - Commercial land use, generally at the ground-floor level, typically involves the selling of goods or services to the ultimate consumer. Multi-unit residential - means a residential use in a building divided into not less than three dwelling units.

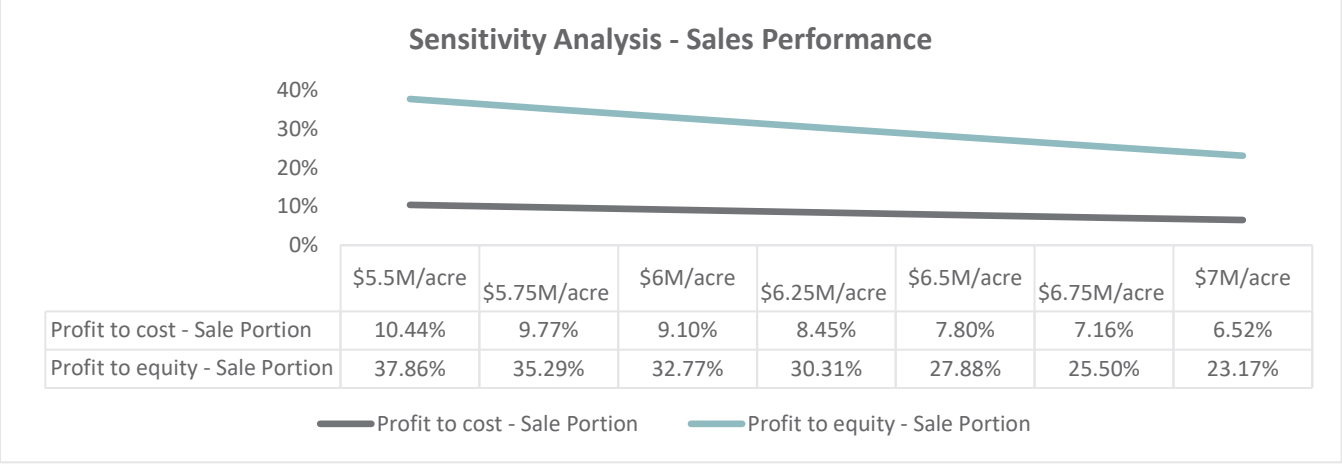
Mixed-use development viability – sold on completion

- Profit to cost should generally be in the 10% to 20% range, and profit to equity will typically run three times that of profit to cost.
- Based on this mixed-use scenario, factoring in all other development costs and revenue assumptions:
    - To achieve a 10% profit + relative to cost, the land purchase price should not exceed $5.5M/acre.
- A review of recent land transactions found that land intended for mixed-use development is in the price range of $6.25M-$6.8M/acre, thus indicating, under this scenario, that sale price must be increased to achieve project viability.
- For instance, when land is purchased at a market rate of $6.25M/acre, raising the sale price of the residential units to $1,025 PSF yields a 10.6% profit relative to project costs. Conversely, raising retail units to $810 PSF (above current market rates) yields a 10% profit relative to project costs.

Table 21. Key assumptions used for mixed-use retail development scenarios – sold on completion

Land size	23,087 SF
Gross floor area	40,402 SF 70% residential/ 30% retail
Floor space ratio	1.75
Parking garage stalls	60
Planning timeframe	12 months
Construction timeframe	12 months
Total project costs	$29.3M-$30.4M
Sale price	Residential $1,000 PSF Retail $750 PSF

Figure 35. Land price sensitivity analysis of mixed-use retail development – sold on completion



	$5.5M/acre	$5.75M/acre	$6M/acre	$6.25M/acre	$6.5M/acre	$6.75M/acre	$7M/acre
Profit to cost - Sale Portion	10.44%	9.77%	9.10%	8.45%	7.80%	7.16%	6.52%
Profit to equity - Sale Portion	37.86%	35.29%	32.77%	30.31%	27.88%	25.50%	23.17%

Purchase viability of retail space by industry – businesses with average financial performance profiles

Considering current market conditions to achieve a 10% profit-to-cost and 33% profit-to-equity scenario where the sale price required is $810 PSF:

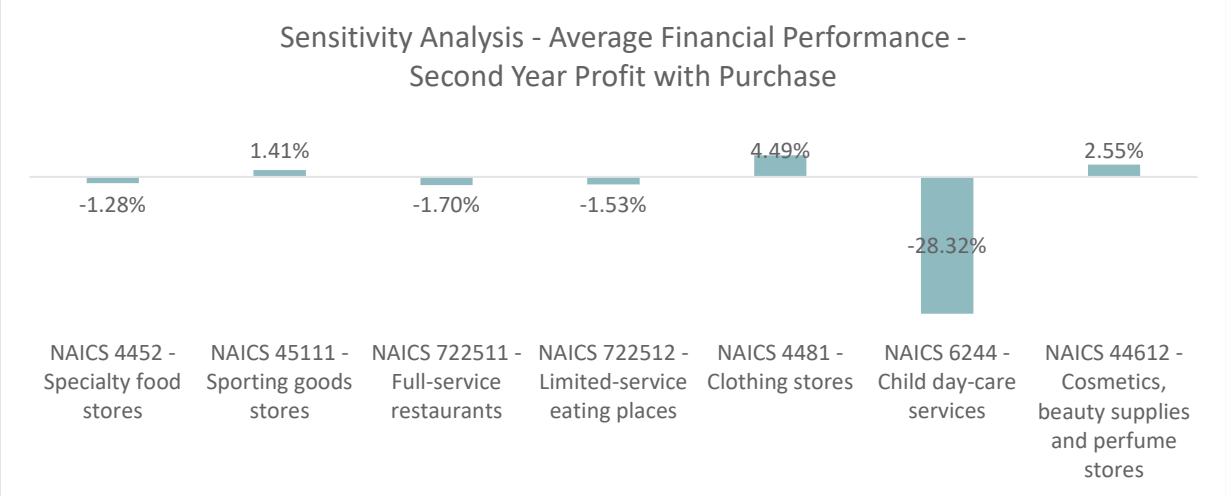
- Specialty food stores and full-service restaurants with this financial profile break even in year six of operation while limited-service eating places break even in year five from the time they purchase their space.
- Child-care centres, modelled based on BC child-care space requirements, fail to break even over the assessed period.
- All other industries modelled break even in year two of operation.
- To break even, those businesses facing an operating loss in year two would require maximum sale prices of:
  - Specialty food stores, $707 PSF
  - Full-service restaurants, $700 PSF
  - Limited-service eating places, $720 PSF
  - Child-care centres, $353 PSF

Table 22. Key assumptions used for mixed-use retail industry scenarios with average financial performance profiles – sold on completion

Profit to cost	10%
Profit to equity	33%
Sale price	$810 PSF
Premise size (SF)	
Specialty food stores	1,523
Sporting goods stores	1,600
Full-service restaurants	2,450
Limited-service eating places	2,217
Clothing stores	1,727
Child day-care services	2,537*
Cosmetics and beauty supply stores	787

* The size of child day-care centres is based on BC regulatory space requirements for toddler-age children in care.

Figure 36. Sale price sensitivity analysis of mixed-use retail users with average financial performance profiles



The square footage of the premise for each industry was established by dividing the average total rent paid by a business in a given financial performance category by a lease rate of $30 PSF, reflecting current lease rates for mixed-use industrial space within Squamish. For child-care centres, total revenue was divided by median child-care fees to determine an approximate number of children and then multiplied by BC's space requirements.

Purchase viability of retail space by industry – businesses with top quartile financial performance profiles

- Based on this scenario, where the base sale price is $810 PSF and a 10% profit to cost and 33% profit to equity is achieved, all businesses break even by year two of operation except cosmetics and beauty supply stores, which break even in year five and child-care.
- Child-care services, which have been modelled based on BC child-care space regulations demonstrate low financial viability. For instance, the average revenue reported for top-quartile businesses is $673.7K. The median fee for toddler care is $1,165/month in Vancouver (a proxy for Squamish). Based on these fees, a child day-care centre would need to provide care to 48 children to generate this revenue, and the facility would need to be in the range of 7,000-8,000 SF, considerably larger than that of the model. At a sale price of $810 PSF, purchasing this amount of space would result in a loss until the mortgage was paid in full (amortized over 25 years).

Table 23. Key assumptions used for mixed-use retail industry scenarios with top quartile financial performance profiles – sold on completion

Profit to cost	10%
Profit to equity	33%
Sale price	$810 PSF
Premise size (SF)	
Specialty food stores	3,097
Sporting goods stores	3,693
Full-service restaurants	5,127
Limited-service eating places	4,610
Clothing stores	4,420
Child day-care services	7,781*
Cosmetics and beauty supply stores	2,143

* The size of child day-care centres is based on BC regulatory space requirements for toddler-age children in care.

Figure 37. Sale price sensitivity analysis of mixed-use retail users with top quartile financial performance profiles

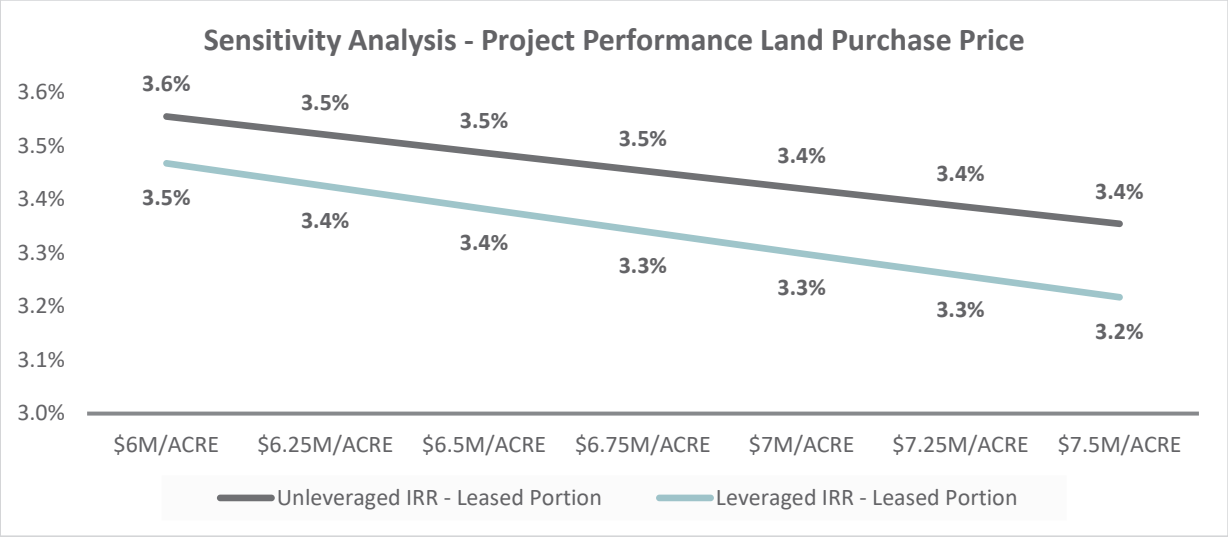
Mixed-use development viability – leased on completion

- Target IRR is typically 2% above cap rates. Based on an analysis of cap rates in Q1 2021, the target IRR for an office project should be 5.5%-6%.
- Based on this mixed-use scenario, factoring in all other development costs and revenue assumptions, lease rates produce non-viable IRRs.
- Even if land costs were nil, target IRRs would not be achieved. A more likely scenario is higher lease rates. For instance, if land costs were $6.25M/acre, a monthly average lease rate of $2,500 for residential units and $45 PSF for retail units yield a levered IRR of 5.5%.
- A review of recent sales transactions found that land zoned for mixed-use development has sold in the range of $5.4M-$6.75M/acre within Squamish.

Table 24. Key assumptions used for mixed-use development scenarios – leased on completion

Land size	23,087 SF
Gross floor area	40,402 SF 70% residential/30% retail
Floor space ratio	1.75
Parking garage stalls	60
Planning timeframe	12 months
Construction timeframe	12 months
Total project costs	$29.3M-$30.4M
Lease Rates	Residential $2,000/month Retail $30 PSF

Figure 38. Land price sensitivity analysis of mixed-use retail development – leased on completion



Lease viability of retail space by industry – businesses with average financial performance profiles

- Based on a scenario where land is purchased for development at $6.25M/acre and retail lease rates are $45 PSF and monthly residential rates are $2,500, specialty food stores and limited-service eating places do not break even until year eleven and twelve, respectively, while full-service restaurants break even in year ten of operation.
- Child-care centres fail to break even over the period modelled.
- All other business categories assessed are profitable in year two of operation.
- To break even by year two of leasing the premise under this scenario, annual lease rates must not exceed:
    - Specialty food stores, $38 PSF
    - Full-service restaurants, $38 PSF
    - Limited-service eating places, $39 PSF
    - Child-care centres $19 PSF
- In business interviews conducted with the retail sector, most businesses were looking to lease space, but several were looking for the right space first and foremost, and open to considering both lease arrangements and purchasing.

* The size of child day-care centres is based on BC regulatory space requirements for toddler-age children in care.

Table 25. Key assumptions used for mixed-use retail industry scenarios with average financial performance profiles – leased on completion

Levered IRR	5.7%
Unlevered IRR	5.2%
Annual lease rate	$45 PSF
Premise Size (SF)	
Specialty food stores	1,523
Sporting goods stores	1,600
Full-service restaurants	2,450
Limited-service eating places	2,217
Clothing stores	1,727
Child day-care services	2,537*
Cosmetics and beauty supply stores	787

Lease viability of retail space by industry – businesses with top quartile financial performance profiles

- Based on a scenario where land is purchased for development at $6.25M/acre and lease rates are
- $45 PSF and monthly residential rates are $2,500, specialty food stores and full-service restaurants break even in year three while cosmetics and beauty supply stores break even by year ten. Child-care centres fail to break even over the period modelled.
- All other categories break even by year two of operating on-premise.
- To break even by year two of leasing the premise under this scenario, annual lease rates must not exceed:
    - Specialty food stores, $44 PSF
    - Full-service restaurants, $44 PSF
    - Child day-care services, $13 PSF
    - Cosmetics and beauty supply stores, $39 PSF
- High lease-rate thresholds do not indicate feasibility for a business to pay this rate, but instead are a reflection of their profit margin. Higher thresholds may also suggest that rent does not comprise a significant portion of their business expenses, and therefore, has less of a material impact on profitability.

Table 26. Key assumptions used for mixed-use retail industry scenarios with top quartile financial performance profiles – leased on completion

Levered IRR	5.7%
Unlevered IRR	5.2%
Annual lease rate	$45 PSF
Premise size (SF)	
Specialty food stores	3,097
Sporting goods stores	3,693
Full-service restaurants	5,127
Limited-service eating places	4,610
Clothing stores	4,420
Child day-care services	7,783*
Cosmetics and beauty supply stores	2,143

* The size of child day-care centres is based on BC regulatory space requirements for toddler-age children in care.

Figure 39. Lease rate analysis for mixed-use retail users with average financial performance profiles

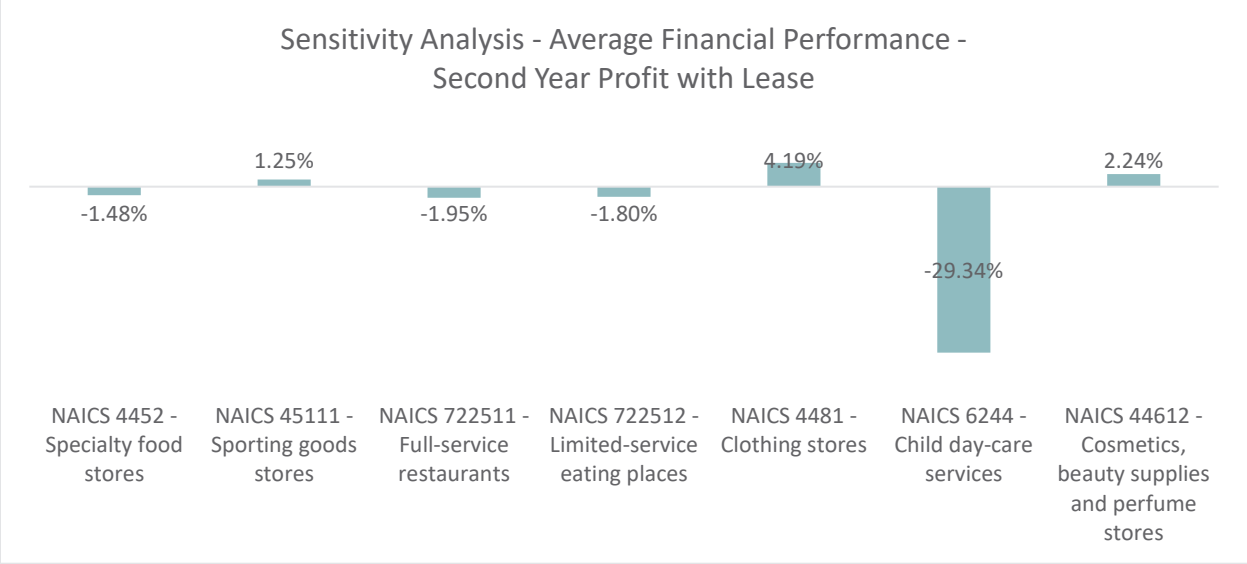
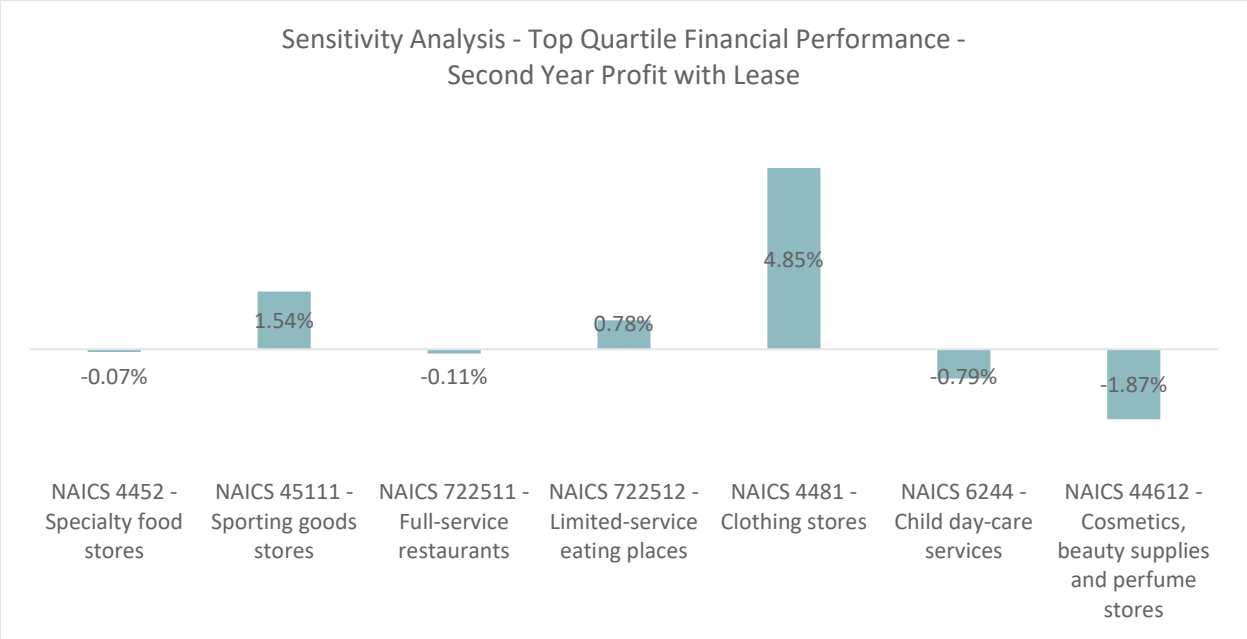


Figure 40. Lease rate analysis for mixed-use retail users with top quartile financial performance profiles



Conclusions – retail development viability

- Project costs, under existing market conditions, are eroding market viability for both projects sold or leased on completion.
- To maintain acceptable target profit margins, required sale prices and lease rates lead to reduced viability for certain industries under conditions modelled (e.g. specialty food stores, limited-service eating places and full-service restaurants).
- These industries have three options: increase their profit margin; reduce the amount of space they occupy; or seek less-expensive inventory, such as an older unit.
- The viability of leasing or purchasing space to offer child day-care services is low. Child day-care space facility requirements (dedicated nap rooms, separation of activity area from other common areas, food preparation areas, minimum indoor and outdoor space requirements per child and bathrooms). The amount of space required to generate the revenue profiles of both average and top quartile financial performing businesses results in a space expense that results in a business loss for either all or much of the period modelled.
- According to the Department of Finance Canada, median gross toddler-care fees were $1,165/month in Vancouver in 2021. Child day-care operators comprising the top quartile of businesses reported spending $74.6K annually on commercial space. Dividing an annual lease rate of $30 PSF by the annual commercial space expense results in a 2,487 SF commercial space. Considering amenity requirements, the total revenue potential is not reflective of what businesses reported within the top quartile ($673.7K) — the space they are operating in is likely larger.

SCENARIO 4: MIXED USED DEVELOPMENT (OFFICE/RETAIL)

Office - Commercial land use, generally above the ground floor that typically is used for conducting the affairs of a business, profession, service industry or government.

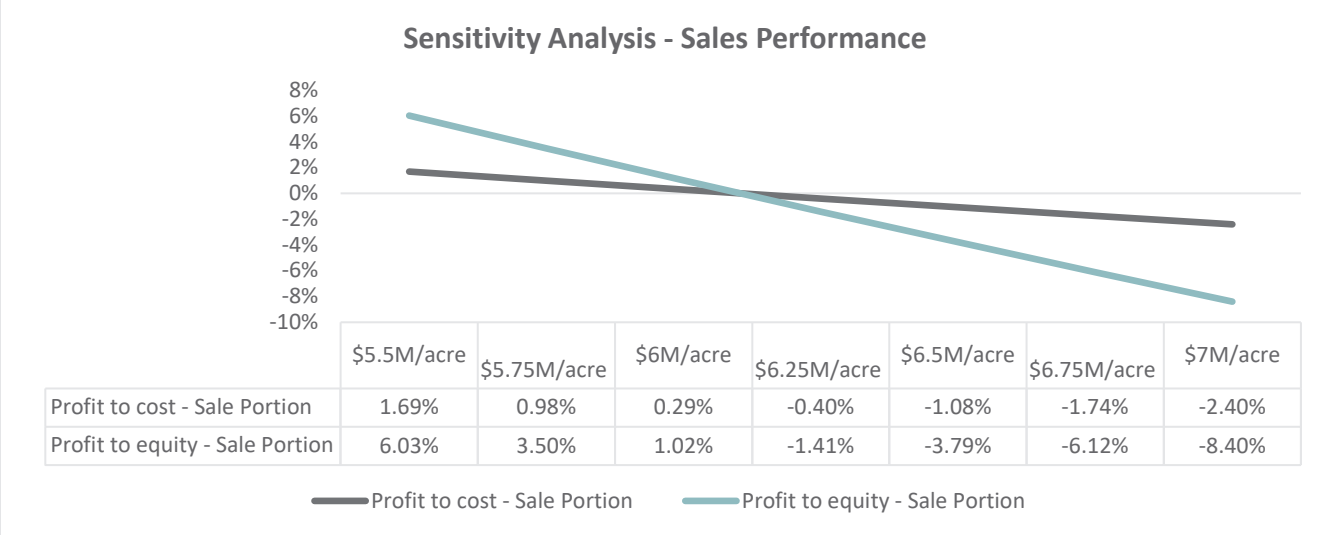
Office development viability – sold on completion

- Profit to cost should generally be in the 10% to 20% range, and profit to equity will typically run three times that of profit to cost.
- Based on this office development scenario, factoring in all other development costs and revenue assumptions:
    - To achieve a 10% profit + relative to the project cost, the land purchase price should not exceed $2.75M/acre.
- A review of recent land transactions found that land supporting office space development is in the price range of $6.25M-$6.8M/acre, thus indicating, under this scenario, that sale price must be increased to achieve project viability.
- For instance, when land is purchased at a market rate of $6.25M/acre, raising the sale price of the office units to $738 PSF and retail units to $750 PSF yields a 10% profit relative to project costs.

Table 27. Key assumptions used for mixed-use office development scenarios – sold on completion

Land size	9,583 SF
Gross floor area	16,771 SF 80% office/20% retail
Floor space ratio	1.75
Parking garage stalls	34
Planning timeframe	12 months
Construction timeframe	12 months
Total project costs	$10.7M-$11.2M
Sale price	Office $650 PSF Retail $750 PSF

Figure 41. Land price sensitivity analysis of mixed-use office development – sold on completion



	$5.5M/acre	$5.75M/acre	$6M/acre	$6.25M/acre	$6.5M/acre	$6.75M/acre	$7M/acre
Profit to cost - Sale Portion	1.69%	0.98%	0.29%	-0.40%	-1.08%	-1.74%	-2.40%
Profit to equity - Sale Portion	6.03%	3.50%	1.02%	-1.41%	-3.79%	-6.12%	-8.40%

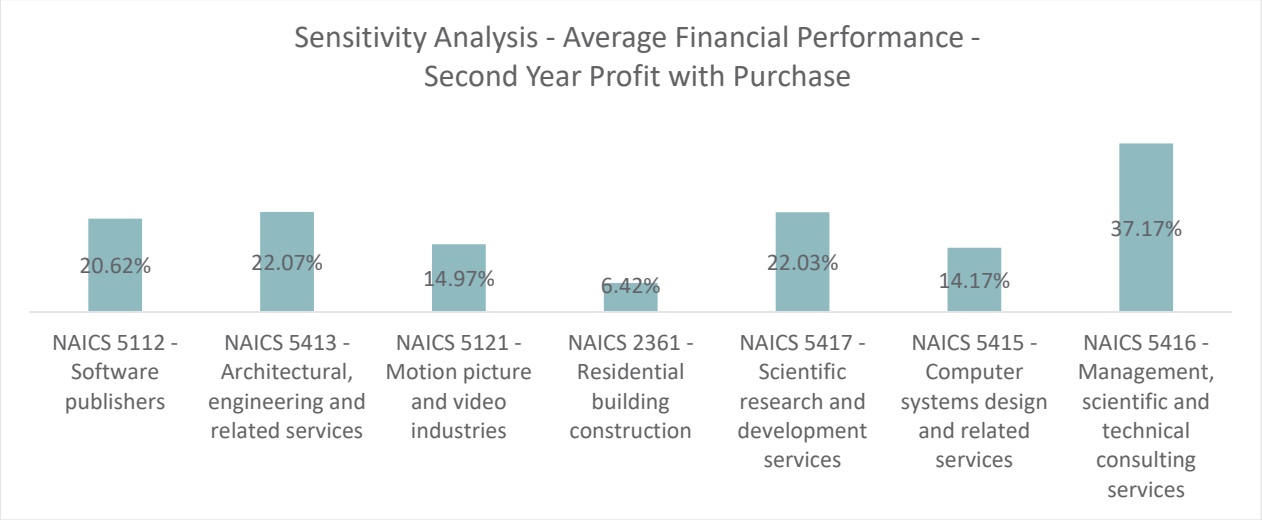
Purchase viability of office space by industry – businesses with average financial performance profiles

- Considering current market conditions to achieve a 10% profit-to-cost and 33% profit-to-equity scenario:
    - All industries modelled break even in year two of operation.
    - Year two of operation was used as a benchmark to assess viability as in year one extraordinary expense is incurred in a new space.
- Of note is the small premise size for many industries, a function of the calculation to estimate premise size (total space expense reported divided by a market lease rate of $22 PSF).
- A likely scenario based on current lease rates for a business with an average financial performance profile is co-location with another company or companies or the use of a storage facility along with a home-based office location.

Table 28. Key assumptions used for mixed-use office industry scenarios with average financial performance profiles – sold on completion

Profit to cost	10%
Profit to equity	33%
Office sale price	$738 PSF
Premise size (SF)	
Software publishers	1,541
Architectural, engineering and related services	500
Motion picture and video industries	518
Residential building construction	214
Scientific research and development services	1,359
Computer systems design and related services	453
Management, scientific and technical consulting	214

Figure 42. Sale price analysis for mixed-use office users with average financial performance profiles – sold on completion



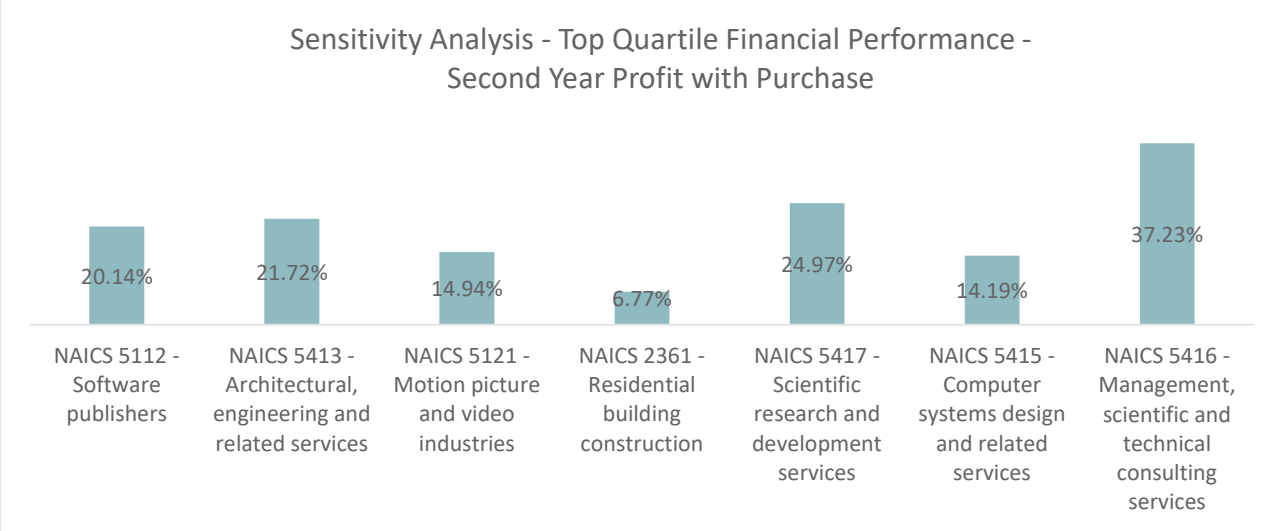
The square footage of the premise for each industry was established by dividing the average total rent paid by a business in a given financial performance category by a lease rate of $22 PSF, reflecting current lease rates for office space within Squamish.

- Based on this scenario, where the base sale price is $738 PSF and a 10% profit to cost and 33% profit to equity is achieved, all businesses break even by year two of operation.
- Again, based on the small premise size for the categories of residential building construction and management, scientific and technical consulting, co-location or home-based offices are likely scenarios.
- This is consistent with findings from our recent interviews with businesses, where we found that one-third of these office-based companies worked from a home-based office location. Several companies also expressed interest in space-sharing arrangements with other like-minded companies.

Table 29. Key assumptions used for mixed-use office industry scenarios with top quartile financial performance profiles – sold on completion

Profit to cost	10%
Profit to equity	33%
Sale price	$738 PSF
Premise size (SF)	
Software publishers	3,464
Architectural, engineering and related services	1,595
Motion picture and video industries	1,582
Residential building construction	550
Scientific research and development services	3,236
Computer systems design and related services	1,255
Management, scientific and technical consulting	595

Figure 43. Sale price analysis for mixed-use office users with top quartile financial performance profiles



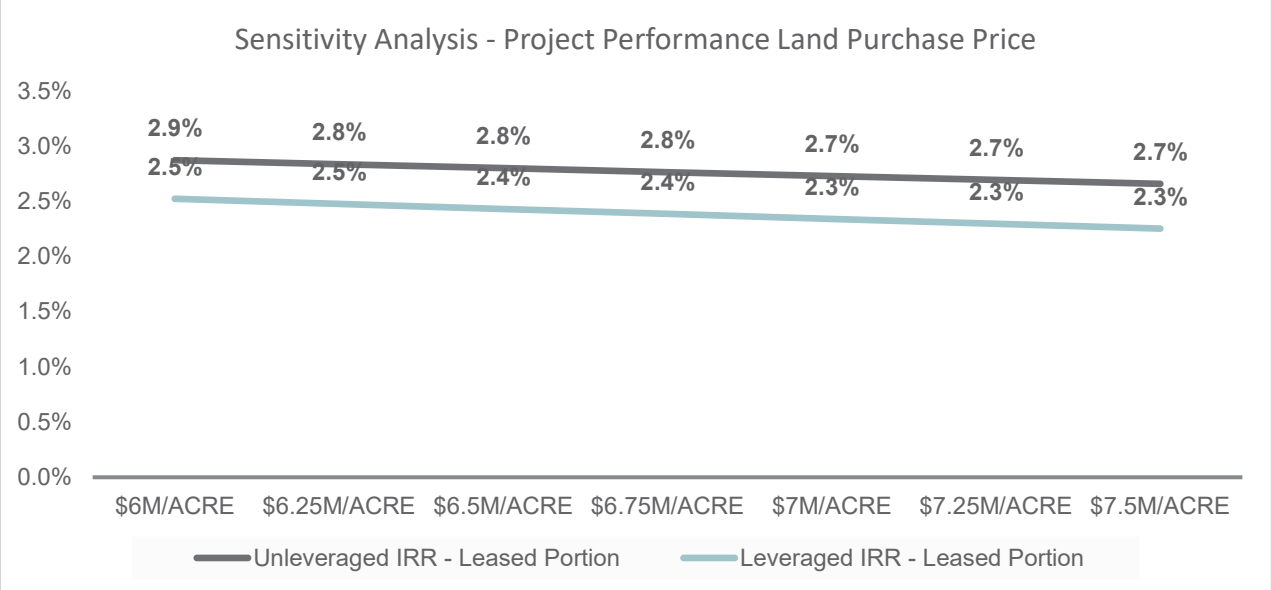
Office development viability – leased on completion

- Target IRR is typically 2% above cap rates. Based on an analysis of cap rates in Q1 2021, the target IRR for an office project should be 6.75%-7.25%.
- Based on this office development scenario, factoring in all other development costs and revenue assumptions, lease rates produce non-viable IRRs.
- Even if land costs were nil, target IRRs would not be achieved. A more likely scenario is that the developer would seek variances to increase the viability of the project, such as reducing parking requirements and increasing lease rates.
- A review of recent land transactions found that land supporting office space development is in the price range of $6.25M-$6.8M/acre within Squamish.
- For instance, if land costs were $6.25M/acre, an average lease rate of $45 PSF for retail units and $36 PSF for office units yields a levered IRR of 6.8%. At a lease rate of $35 PSF for retail and $30 PSF for office space, reducing parking requirements from 34 spots to 23 produces a levered IRR of 6.9%, exceeding the target IRR of 6.75%.

Table 30. Key assumptions used for mixed-use office development scenarios – leased on completion

Land size	9,583 SF
Gross floor area	16,771SF 80% office/ 20% retail
Floor space ratio	1.75
Parking garage stalls	34
Planning timeframe	12 months
Construction timeframe	12 months
Total project costs	$11.3M- $11.8M
Lease rates	Office $22 PSF Retail $30 PSF

Figure 44. Land price sensitivity analysis of mixed-use office development – leased on completion



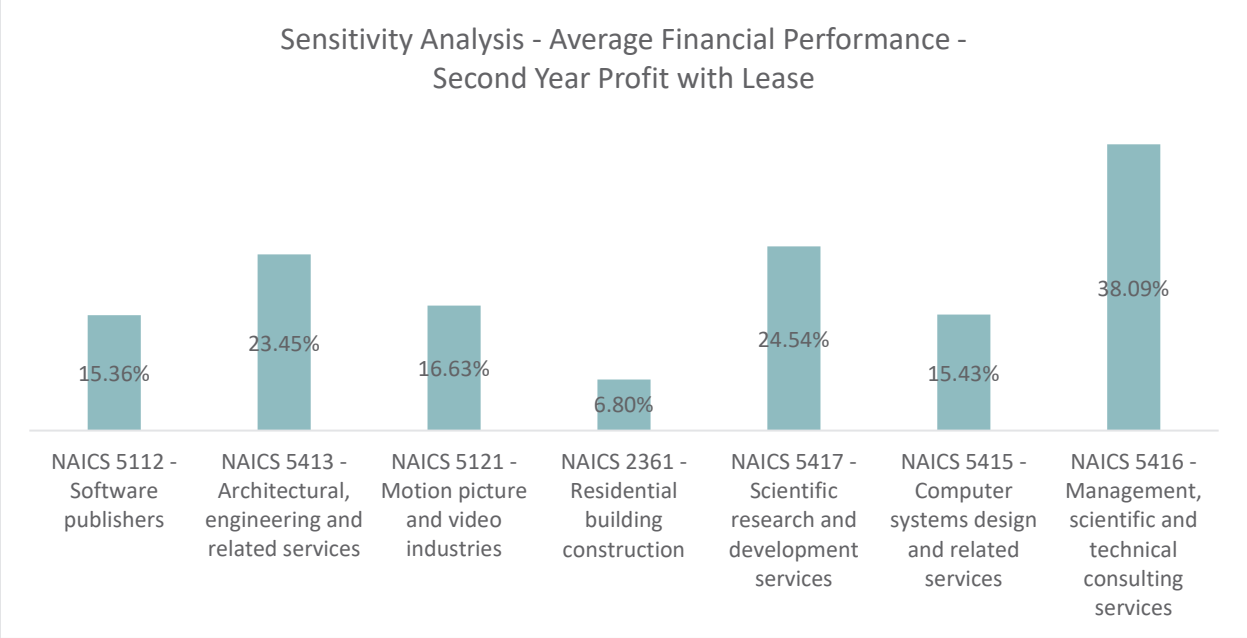
Lease viability of office space by industry – businesses with average financial performance profiles

- Based on a scenario where land is purchased for development at $6.25M/acre, with retail lease rates at $40 PSF and office space at $30 PSF, all business categories assessed are profitable in year two of operation except for software developers, which fail to break even.
- While most industries demonstrate viability under this scenario, of note, is the small space size for certain industries as an outcome of calculating annual reported space expenses by an office lease rate of $22 PSF. It is likely a result of a significant proportion of businesses reporting in this performance category operating from a home-based location rather than a brick-and-mortar location.

Table 31. Key assumptions used for mixed-use office industry scenarios with average financial performance profiles – leased on completion

Levered IRR	4.9%
Unlevered IRR	4.6%
Annual lease rate	$40 PSF (retail) $30 PSF (office)
Premise size (SF)	
Software publishers	1,541
Architectural, engineering and related services	500
Motion picture and video industries	518
Residential building construction	214
Scientific research and development services	1,359
Computer systems design and related services	453
Management, scientific and technical consulting	214

Figure 45. Lease rate analysis for mixed-use office users with average financial performance profiles



Lease viability of office space by industry – businesses with top quartile financial performance profiles

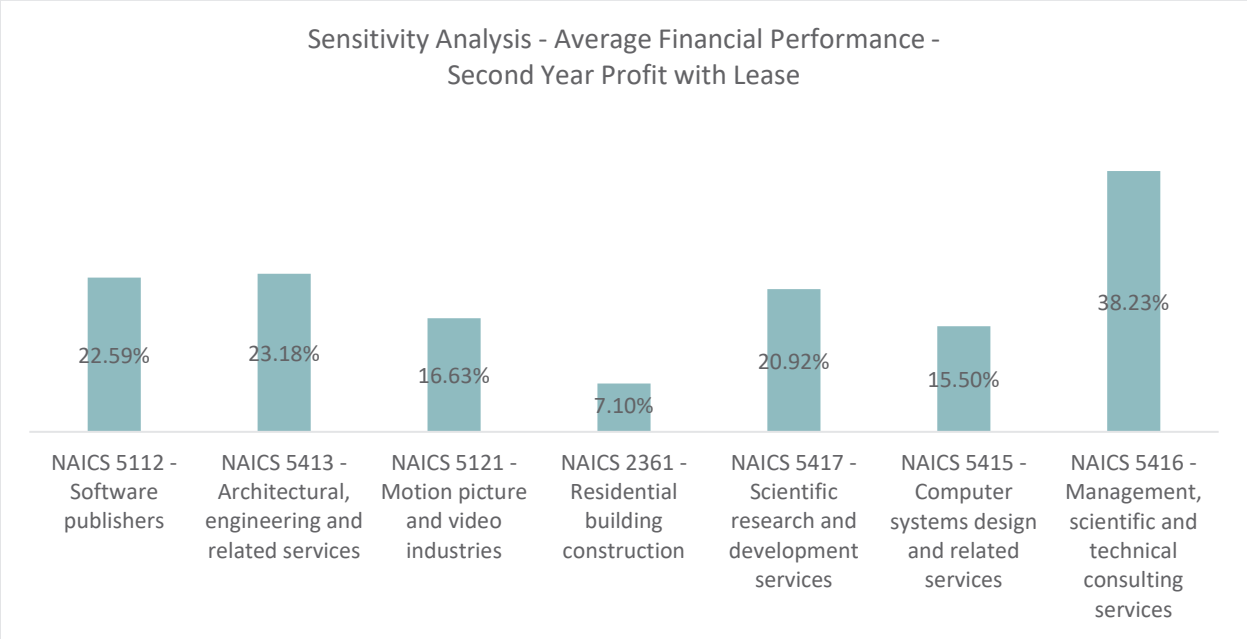
- Based on a scenario where land is purchased for development at $6.25M/acre and lease rates are $30 PSF, all business categories are profitable in year two of operation.
- The resulting high lease-rate thresholds do not indicate feasibility for businesses to pay this rate, but instead are a reflection of their profit margin. Higher thresholds suggest that rent does not comprise a significant portion of their business expenses, and therefore, has less of a material impact on profitability.

Table 32. Key assumptions used for mixed-use office industry scenarios with top quartile financial performance profiles – leased on completion

Levered IRR	5.0%
Unlevered IRR	4.6%
Annual lease rate	$40 PSF (retail) $30 PSF (office)
Premise size (SF)	
Software publishers	3,896
Architectural, engineering and related services	1,595

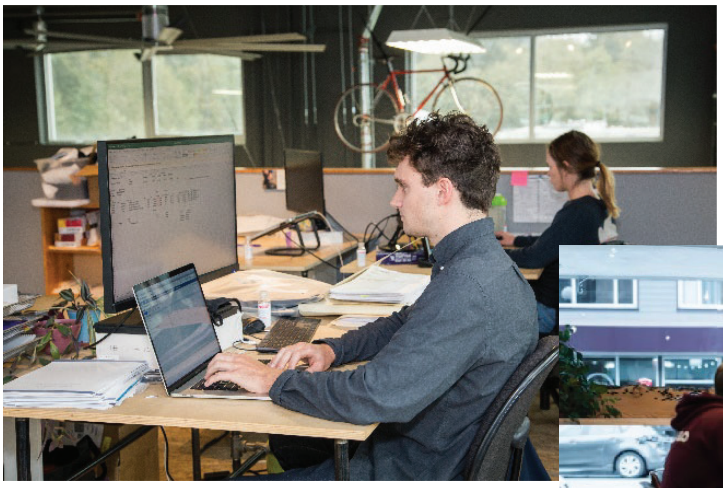
Motion picture and video industries	1,582
Residential building construction	550
Scientific research and development services	3,365
Computer systems design and related services	1,255
Management, scientific and technical consulting	595

Figure 46. Lease rate analysis for mixed-use office users with top quartile financial performance profiles



Conclusions – retail development viability

- Project costs, under existing market conditions, are eroding market viability for both projects sold or leased upon completion.
- Under the conditions modelled for a development sold upon completion, the developer would need to increase office sale prices to $738 PSF if maintaining retail sale prices at $750 PSF to achieve a target profit-to-cost ratio.
- Under the conditions modelled, a developer, to achieve a return in line with current market trends for a development leased on completion, would require office lease rates over $30 PSF, retail lease rates over $40 PSF and concessions such as a parking variance.
- Businesses with both average financial performance and top quartile profile break even in year two of operation under a scenario where the sale price is $738 PSF or annual lease rates are $30 PSF. However, given the small premise size of some industries (a result of total commercial space expense reported divided by current local market lease rates of $22 PSF), a likely scenario is that these businesses would co-locate or use a home-based office with some off-site storage. These findings are consistent with what we heard during business interviews conducted in winter 2020/21, where one-third of the office businesses were home-based.



Appendix 1: Sources & definitions

- Squamish Sales and Lease Transactions April 1, 2019, to May 5, 2021 Source: Spacelist
- NAICS Industry Definitions, Government of Canada
- Industry Financial Performance Profiles, Industry Canada, 2019

Appendix 2:
Summary of Industry Break Even Based on Purchase Price or Lease Rate

Tenure	Space Form	Less than 2 Years	3-5 Years	6-10 Years	11+ Years
Purchase					
Businesses with Average Financial Performance	Light Industrial ($530 PSF)	• Breweries • Wood Cabinet Manufacturers • Clothing Manufacturers • Sporting Goods Manufacturers		• Bakery Manufacturers • Fitness Centres • Sporting Goods Wholesalers	
Businesses with Top Quartile Financial Performance	Light Industrial ($530 PSF)	• Breweries • Wood Cabinet Manufacturers • Clothing Manufacturers • Sporting Goods Manufacturers	• Bakery Manufacturers	• Fitness Centres • Sporting Goods Wholesalers	
Businesses with Average Financial Performance	Medium Industrial ($580 PSF)	• Specialty Trade Contractors • General Freight Trucking • Lumber, millwork, hardware and other building supply merchant wholesalers • Construction of buildings		• Waste Management and Remediation Services	• Prefabricated Wood Building Manufacturers • Other wood product manufacturing

Tenure	Space Form	Less than 2 Years	3-5 Years	6-10 Years	11+ Years
Businesses with Top Quartile Financial Performance	Medium Industrial ($580 PSF)	• Specialty Trade Contractors • General Freight Trucking • Lumber, millwork, hardware and other building supply merchant wholesalers • Construction of buildings		• Waste Management and Remediation Services	• Prefabricated Wood Building Manufacturers • Other wood product manufacturing
Businesses with Average Financial Performance	Mixed-Use Retail ($810 PSF)	• Sporting Goods Stores • Clothing Stores • Cosmetics, beauty supply and perfume stores		• Limited-service eating places • Full-service restaurants • Specialty food stores	• Day-care Services
Businesses with Top Quartile Financial Performance	Mixed-Use Retail ($810 PSF)	• Sporting Goods Stores • Clothing Stores • Limited-service eating places • Full-service restaurants • Specialty food stores	• Cosmetics, beauty supply and perfume stores		• Day-care Services

Tenure	Space Form	Less than 2 Years	3-5 Years	6-10 Years	11+ Years
Businesses with Average Financial Performance	Mixed-Use Office ($738 PSF)	• Software Publishers • Residential Building Construction • Motion Picture and Video Industries • Scientific Research and Development • Computer Systems Design and Related Services • Architectural Engineering and Related Services • Management, Scientific and Technical Consulting Services			

Tenure	Space Form	Less than 2 Years	3-5 Years	6-10 Years	11+ Years
Businesses with Top Quartile Financial Performance	Mixed-Use Office ($738 PSF)	• Software Publishers • Residential Building Construction • Motion Picture and Video Industries • Scientific Research and Development • Computer Systems Design and Related Services • Architectural Engineering and Related Services • Management, Scientific and Technical Consulting Services			
Lease					
Businesses with Average Financial Performance	Light Industrial ($25 PSF)	• Breweries • Wood Cabinet Manufacturers • Clothing Manufacturers • Sporting Goods Manufacturers		• Bakery Manufacturers • Fitness Centres • Sporting Goods Wholesalers	
Businesses with Top Quartile Financial Performance	Light Industrial ($25 PSF)	• Breweries • Wood Cabinet Manufacturers • Clothing Manufacturers • Sporting Goods Manufacturers • Bakery Manufacturers	• Fitness Centres	• Sporting Goods Wholesalers	

Tenure	Space Form	Less than 2 Years	3-5 Years	6-10 Years	11+ Years
Businesses with Average Financial Performance	Medium Industrial ($25 PSF)	• Specialty Trade Contractors • General Freight Trucking • Lumber, millwork, hardware and other building supply merchant wholesalers Construction of buildings		• Waste Management and Remediation Services	• Prefabricated Wood Building Manufacturers • Other wood product manufacturing
Businesses with Top Quartile Financial Performance	Medium Industrial ($25 PSF)	• Specialty Trade Contractors • General Freight Trucking • Lumber, millwork, hardware and other building supply merchant wholesalers • Construction of buildings • Waste Management and Remediation Services			• Prefabricated Wood Building Manufacturers • Other wood product manufacturing
Businesses with Average Financial Performance	Mixed-Use Retail ($40 PSF)	• Sporting Goods Stores • Clothing Stores • Cosmetics, beauty supply and perfume stores	• Specialty food stores • Limited-service eating places	• Full-service restaurants	• Day-care Services

Tenure	Space Form	Less than 2 Years	3-5 Years	6-10 Years	11+ Years
Businesses with Top Quartile Financial Performance	Mixed-Use Retail ($40 PSF)	• Sporting Goods Stores • Clothing Stores • Limited-service eating places • Full-service restaurants • Specialty food stores	• Cosmetics, beauty supply and perfume stores		• Day-care Services
Businesses with Average Financial Performance	Mixed-Use Office ($30 PSF)	• Residential Building Construction • Motion Picture and Video Industries • Scientific Research and Development • Computer Systems Design and Related Services • Architectural Engineering and Related Services • Management, Scientific and Technical Consulting Services			• Software Publishers

Tenure	Space Form	Less than 2 Years	3-5 Years	6-10 Years	11+ Years
Businesses with Top Quartile Financial Performance	Mixed-Use Office ($30 PSF)	• Residential Building Construction • Motion Picture and Video Industries • Scientific Research and Development • Computer Systems Design and Related Services • Architectural Engineering and Related Services • Management, Scientific and Technical Consulting Services • Software Publishers			