

**HOUSING
ADVISORY
BULLETINS**

SERIES 01

**FUNDAMENTALS OF HOUSING
DEVELOPMENT ECONOMICS**

**ISSUE 1.2 - UNDERSTANDING THE
CORE ELEMENTS OF DEVELOPMENT
VIABILITY FOR PLANNING
PRACTITIONERS**



PIBC PLANNING
INSTITUTE
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FORWARD THINKING
SHAPING COMMUNITIES

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HOUSING ADVISORY BULLETINS

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HOUSING ADVISORY BULLETINS

ISSUE 1.2 - UNDERSTANDING THE CORE ELEMENTS OF DEVELOPMENT VIABILITY FOR PLANNING PRACTITIONERS

1.0 INTRODUCTION

This bulletin is part of PIBC's Peer Learning Network (PLN) Housing Advisory Bulletins Series 1, which provides planning practitioners with practical, economics informed guidance to support housing delivery in British Columbia. Issue 1.2 builds on the broader policy and legislative context introduced in Issue 1.1 and turns to the project level financial and economic fundamentals that determine whether housing development can proceed.

Recent provincial reforms have placed greater emphasis on aligning local planning tools with viable development outcomes. As local governments update Official Community Plans (OCPs), modernize zoning bylaws, and respond to new requirements related to housing targets, planners are increasingly expected to understand how policy choices interact with the financial reality of delivering new housing. This bulletin focuses on those core drivers of development viability and explains how they shape land use decisions, redevelopment potential, and the timing and feasibility of new supply.

The PIBC Peer Learning Network (PLN) Housing Advisory Bulletins are designed to equip planning practitioners with practical insights into the financial and policy dimensions of housing delivery in British Columbia.

The bulletins are organized into three parts:

- **Series 01:** Fundamentals of Housing Development Economics
- **Series 02:** The Cost of and Funding for Infrastructure and Amenities
- **Series 03:** Inclusionary Zoning and Inclusionary Housing Policies

Together, these bulletins bridge the gap between theory and practice, supporting planners in aligning housing objectives with economic realities and legislative requirements.



1.1 Purpose of the Bulletin

Issue 1.2 is designed to help planning practitioners:

- + Understand the key components that determine whether a project is viable, including revenues, costs, capital, profit requirements, and land value.
- + Recognize how local government policies influence these components and how financial outcomes shape redevelopment decisions.
- + Apply financial feasibility considerations when developing or updating OCPs, zoning bylaws, and servicing requirements to ensure that policy enabled capacity can translate into real, buildable housing supply.

By grounding planning decisions in a clear understanding of development economics, practitioners can more effectively calibrate policies, anticipate market responses, and support consistent progress toward local and provincial housing objectives.



Development Viability / Financial Feasibility

For the purposes of these bulletins, the terms development viability and financial feasibility are used interchangeably. Both refer to an assessment of whether a proposed development is reasonably expected to proceed, having regard to development costs, revenues, and prevailing market conditions.

Why Understanding Development Viability Matters for Planners

Understanding development viability is fundamental to sound planning and decision-making for planners, the public, and elected officials. Recent provincial reforms require local governments to demonstrate how their policies and planning tools support the delivery of financially feasible housing. These reforms place greater emphasis on aligning OCPs, zoning bylaws, and approval pathways with the economic realities of development, particularly as local governments respond to housing targets, new zoning requirements, and streamlined approval processes.

Market-based private sector development occurs only when proposed forms are capable of generating enough revenue to cover the full cost of construction, financing, and land, while also delivering an industry standard return. Affordable or social housing projects are considered viable when sufficient subsidies, grants, or donations are available to bridge the gap between project costs and the funding available through government programs that is supported by project revenues. **When policies do not allow for these financial conditions to be met, planned capacity may not translate into actual housing supply.** This is especially relevant in built up areas where the value of existing

buildings influences redevelopment potential and must be considered in policy decisions.

Current market conditions across British Columbia have tightened feasibility. Construction costs, interest rates, labour constraints, and limited land availability have increased project risk and reduced margins. In this environment, planners who integrate viability considerations into policy development are better positioned to identify where density increases will support redevelopment, adjust requirements that may impact feasibility, and anticipate where development activity is likely to occur.

A working understanding of viability also supports transparent communication with local government Councils and Boards and the public. Planners can demonstrate how zoning, density, and development standards influence the potential for redevelopment and why particular land use decisions are necessary to meet local and provincial housing objectives.

By grounding planning decisions in viability, practitioners help ensure that policy enabled capacity is realistic, financeable, and capable of producing the intended housing outcomes.



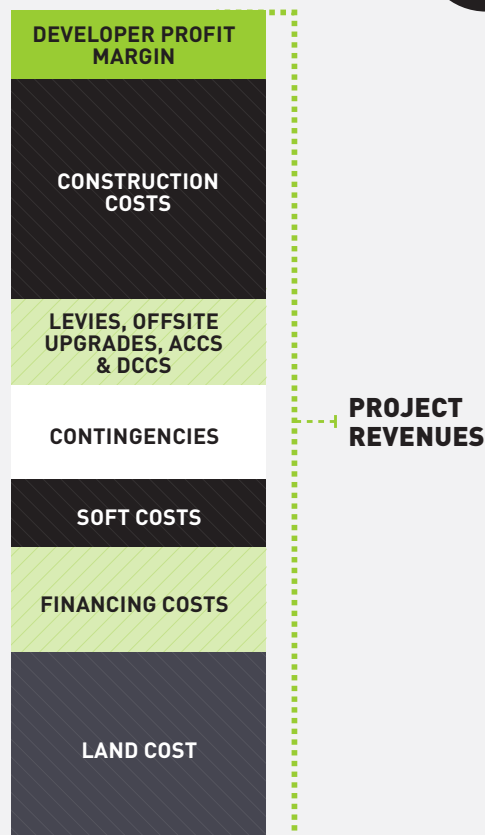
2.0 CORE ELEMENTS OF DEVELOPMENT VIABILITY

Development viability describes whether a real estate project can generate sufficient revenue to cover its full costs and produce an industry standard profit margin. These elements determine whether redevelopment will proceed and are essential to understanding how planning decisions influence housing delivery.

This section outlines the core financial components that shape viability. Together, they provide a framework for interpreting how changes to zoning, design requirements, parking standards, and servicing expectations affect the feasibility of development under real market conditions.

REVENUES & COSTS

01



Terms are explained in the following pages.



2.1 Revenues, Costs, Profits, and Land

Development viability is influenced by a wide range of cost and revenue factors. This section outlines the factors that determine whether the project is likely to proceed. It summarizes how planners can influence policy that will support feasible development.



Project Revenues

Project revenues include all income generated from selling or renting completed units, net of broker commissions. Revenue may come from unit sales or from the lease of residential or commercial space. These revenues set the upper boundary for what a project can support in terms of costs, land acquisition, and required returns.

Why this matters for planners:

Revenue potential is shaped by location, built form, and unit mix, all of which are influenced by local government land use policy. Understanding revenue drivers helps planners evaluate whether zoning and design requirements support feasible redevelopment.





Project costs

Project costs, as shown in Figure 01, include hard construction costs, soft development costs, levies and charges, contingencies, financing costs, and land. Costs vary across projects and market cycles and have a direct impact on feasibility.

- + **Hard construction costs** capture all materials and labour used to build a project and typically account for the largest share of overall costs. These costs are highly variable and sensitive to construction type, market conditions, labour costs, and site-specific factors. Changing design requirements, such as step codes, can also have a significant impact on hard costs.
- + **Soft development costs** include design, engineering, architecture, environmental studies, development management, insurance, and other professional fees. Early in feasibility testing, soft costs are often estimated as a percentage of hard costs.
- + **Levies and Charges** include permit fees, Development Cost Charges (DCC), Amenity Cost Charges (ACC), in kind contributions, and off site upgrades that may be required

to support infrastructure and amenities.

- + **Contingencies** account for risk in design, construction, and cost escalation. Contingencies are higher early in the process when information is limited and decrease as design advances and contractor pricing is secured. The more uncertainty in a development project, the greater the contingency allowance typically is.
- + **Financing costs** capture interest, fees and other carrying costs that accrue through the land acquisition and construction phases. These costs increase with longer approval timelines.

In the early stages of testing development viability, uncertainty across cost categories is typically high. When evaluating whether to acquire land, developers often rely on industry-standard cost percentages rather than detailed estimates. More accurate costing generally occurs only after the site is secured and technical consultants, such as environmental, geotechnical, and architectural teams have learned more about actual site conditions and constraints.

Why this matters for planners:

Many local government requirements directly affect project costs and revenues. Even small changes to project revenue potential or development costs can shift a project from viable to marginal, especially in weaker markets or on constrained sites.



Profit Margin

Private, market-based real estate development projects must achieve a profit margin that reflects the risks of development and meets industry and lender expectations. When expressed as a percentage of total development cost, a typical margin is approximately 15 percent. Although this can appear high, it compensates for entitlement risk, construction risk, market risk, and financing risk.

Profit margins are also essential for developers seeking financing. Banks and other lenders will not support a project unless it meets their required risk-adjusted rate of return. Even publicly funded or mission-driven lenders that support affordable housing have minimum thresholds that must be satisfied before they can proceed. When policies reduce profit margins, they can limit the amount of capital available for housing projects and decrease the number of developers willing or able to undertake them.

Why this matters for planners:

The required margin should be understood as a fixed cost for financial feasibility, not an optional premium. If policy requirements reduce achievable returns below this threshold, projects are unlikely to proceed.

As noted, non-market projects do not assess viability based on profit margins. Instead, viability is determined by whether the loan supported by project revenues, together with any subsidies, grants, or donations, is sufficient to cover total development costs, including land. Because grants and donations are typically fixed, and revenues (such as rents) are often policy-constrained, even small increases in costs can quickly undermine project viability.



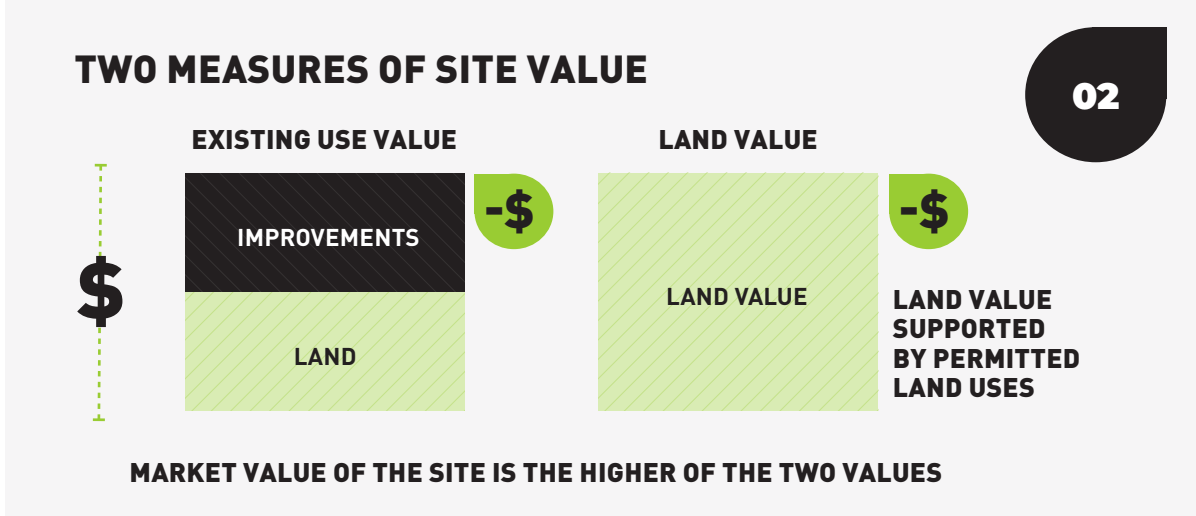
Land Value and Land Cost

One cost category that warrants additional explanation is land, as it behaves differently from other development inputs. In real estate economics, it is useful to distinguish between land cost and land value, as the two are related but not interchangeable.

Land Cost is the price a developer pays for a site and becomes fixed once acquired. It reflects existing use, zoning, risk tolerance, and market conditions. The rest of this section will discuss land value, which is distinct from land cost.

Multiple potential **land values** exist for a single property depending on the assumed use. The market value is set by the higher of the **residual land value** supported by development or the value of the existing use (inclusive of land and existing buildings).

Residual Land Value refers to amount a developer can afford to pay for land after accounting for all project revenues, less costs and required profit margin.



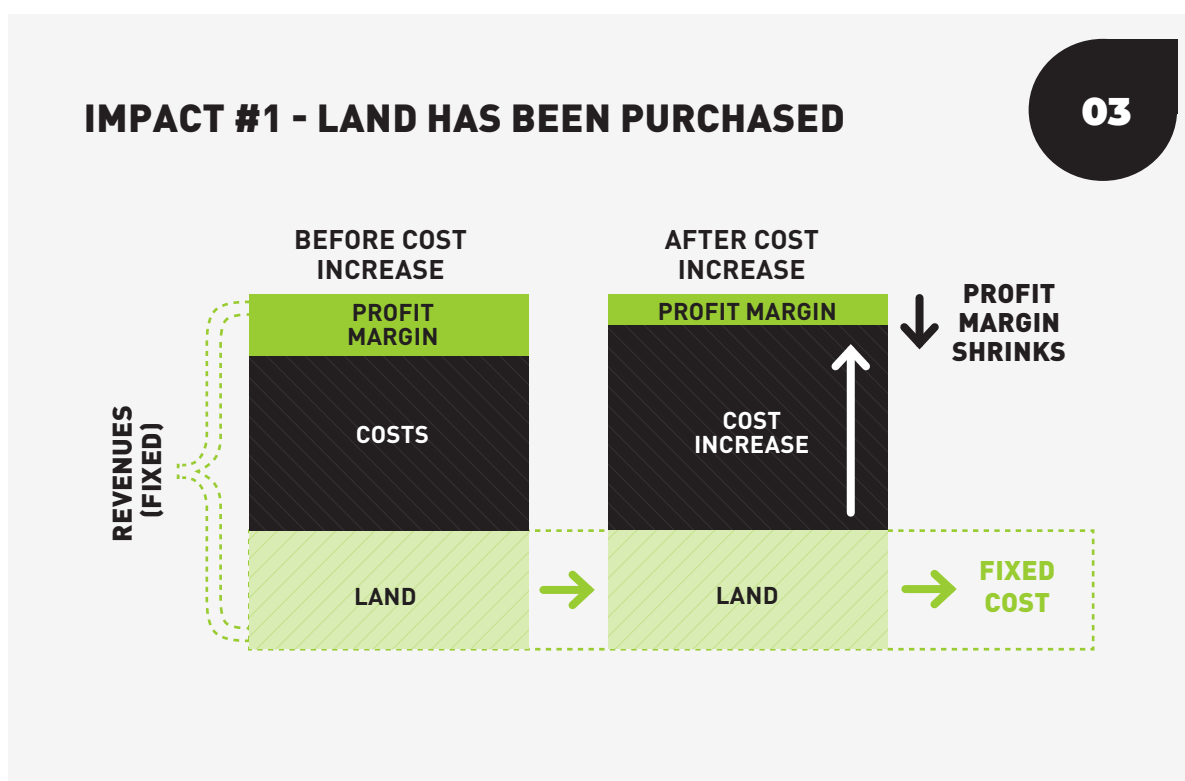
Why this matters for planners:
 If zoning and policy requirements do not create enough value above the existing use, redevelopment will not occur. Planners must understand how permissions and requirements affect residual land value when evaluating whether zoned capacity is likely to be realized.

2.2 How Cost Changes Impact Development Viability

Development cost increases across a market affect both project feasibility and land values. How these costs are absorbed and their potential impact varies depends on the development scenario.

Impact #1 – Land Has Been Purchased / Profit Margins Are Impacted

When hard costs, interest rates, or local government charges rise, developers in a competitive market cannot simply increase prices because prices are set by the market and new supply competes with recently completed projects. Higher costs therefore reduce profit margins. While cost fluctuation is anticipated in development, significant or unexpected increases can erode returns, elevate risk, and discourage developers from proceeding.

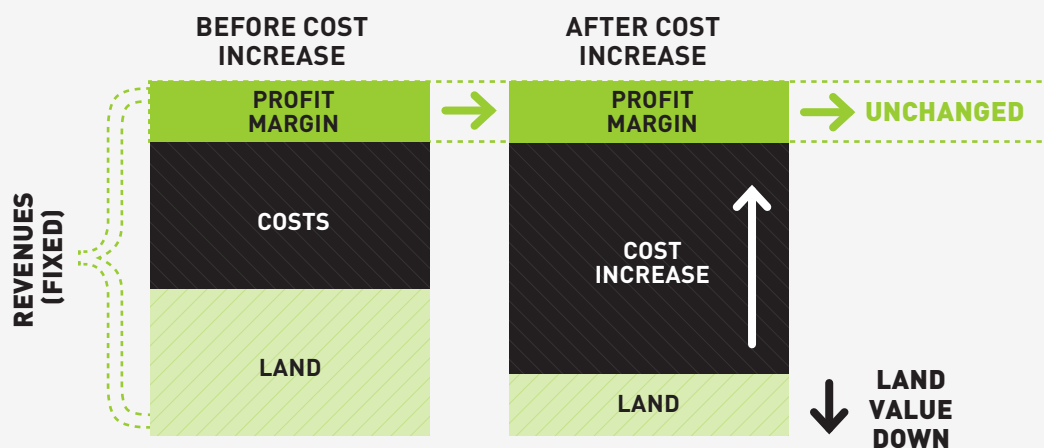


Impact #2: Land Values are Impacted Market-Wide

In the second scenario, higher costs reduce the land value that new development can support. In redevelopment driven markets, lower land values reduce the number of sites where redevelopment is financially viable. In some instances, potential buyers who intend to keep the land under its current use may outbid developers that would otherwise build new housing. This is of particular concern in areas where planners are looking to encourage and focus housing growth through redevelopment. If land use policies create conditions where the current use is more valuable than land values supported by policy. The risk-adjusted future value of redevelopment change is unlikely to occur. This can have long-term implications for the housing supply that put upward pressure on prices.

IMPACT #2 - LAND VALUES MARKET-WIDE

04



Revenues cannot be increased just because costs increase as they are set by the market. As a result, there will be a downward pressure on land values.

Why this matters for planners:

Local government decisions can unintentionally suppress redevelopment if costs triggered by policy reduce land values significantly. Understanding the relationship between costs and land value is essential to ensuring that planned capacity is deliverable.

3.0 HOW PLANNERS AND LOCAL GOVERNMENTS IMPACT CORE ELEMENTS OF DEVELOPMENT VIABILITY

Local government planning decisions shape development viability by influencing what can be built, how long it takes, and what it costs. While broader market forces such as interest rates or construction capacity remain outside local control, planners have significant influence over the conditions that determine whether policy enabled capacity becomes realizable housing supply. As the planning system shifts toward more proactive, Official Community Plan (OCP) focused implementation, a clear understanding of how local government tools affect feasibility is increasingly important.

The following outlines the primary areas where planning decisions affect viability and how these levers can be calibrated to support consistent, financially feasible housing delivery.

3.1 Zoning

Zoning bylaws set the fundamental parameters of development by identifying permitted uses, tenure, densities, heights, and built form. These permissions directly influence both revenue potential and cost structure.

As such, zoning plays a central role in determining whether redevelopment can generate sufficient value to exceed the existing use on a site.

Changes to height, density, or massing affect land values immediately because they alter the amount of development that can be supported under market conditions. Tenure requirements, such as rental only zoning, affects land values as it directly influences the amount of revenue that can be generated at a project. In areas where growth is intended, zoning should create enough value to incentivize redevelopment. In some locations, existing buildings support significant market value, which means zoning must lift supported land value above the current use before development becomes viable. Understanding this relationship helps planners and local government decision-makers determine where additional height or density is necessary to increase zoned capacity.

A financially grounded zoning framework, aligned with the OCP, supports more predictable outcomes, reduces the need for site specific negotiation, and increases confidence that planned capacity will translate into delivered units.

Increasing the supply of zoned, serviced viable development sites through widespread upzoning is also important as it will reduce competition for limited sites and limit land value escalation.

Land Value vs. Property Value

A common concern heard from planners is *'If I change zoning permissions to allow more height or density, won't there be inflationary pressure on land?'*

The answer is not necessarily.

Changes to zoning impact land value, but not necessarily market value. For example, zoning may be changed to increase permissible building height from 3 storeys to 5 storeys. The increased development permissions may make it seem like there has been an increase in the market value of the site. True, land value supported by zoning has likely increased. However, if there is a high value building on the site, such as a two-storey retail building, the market value may be unchanged and the building is still worth more than the land value. Planners must be aware of the relationship between these two competing drivers of value. Increasing zoning to six storeys may be the threshold at which development supported land value finally exceeds the value of the existing building and development potential is unlocked.

At this point, land values will increase due to the increased allowable density; but in a productive way: the site becomes attractive for redevelopment, competitive bids increase, and new housing capacity is unlocked. While property taxes may rise due to the increased property value, this can incentivize turnover in growth areas, and the owner often benefits through increased property value.

Key Recommendation:

Zoning in areas intended for growth should be financially tested to ensure zoning supported land values are higher than the value of the existing use. Standardized zoning districts and pre zoning approaches reduce risk and increase transparency, particularly when rezoning timelines and soft costs are included in viability testing.



3.2 Building Layout and Design

Elements of building layout and design are often established through zoning and development permit areas, but they may also be shaped through urban design panels, community or social planning inputs, and Council direction during development approvals. The building code is also frequently changing, including ongoing updates to sustainability and seismic requirements. Many lending programs, such as CMHC and BC Housing, add their own requirements for building layout, unit accessibility and energy efficiency. Awareness of these additional pressures is important to avoid unnecessarily layering local government requirements on top of external ones in ways that suppress redevelopment.

Elements Influenced by Planners

- + **Building Materials:** Through the design review process, planners or urban designers may require specific materials or design elements at a project. For example, a project that requires a brick façade will add cost relative to a project that is required to use vinyl siding. Consideration of the cost and materials or option to use alternative materials can allow developers to remain flexible if costs increase.
- + **Site Layout:** Every square foot of buildable area contributes to project revenue. Requirements such as increased setbacks, step-backs, road dedications, view corridors, or access reconfiguration can reduce net floor area and limit floorspace efficiency. Even small reductions in buildable envelope or efficiency (ex. long hallways, non-standard floorplates) can affect revenue potential and land value.
- + **Bedroom Mix:** Many local governments encourage or mandate a proportion of two and three bedroom units to support family housing. While this is important to meet social objectives, larger units generally achieve lower revenue per square foot than studios or one bedrooms. As a result, minimum family unit requirements can reduce overall revenue potential and the amount of financing a rental project can secure (see Section 4.2 on Rental Financing). A balanced approach that recognizes both housing objectives and proforma realities can help maintain viability and achieve social objectives.
- + **Environmental:** Requirements such as onsite stormwater retention, green roofs, electric vehicle readiness, step code adoption, or Passive House certification advance sustainability goals but increase both hard and soft costs. These may require specialized consultants, additional engineering, or upgraded mechanical systems. The resulting upfront costs must be incorporated into financial testing of zoning to ensure projects remain viable, alongside consideration of any long term operating cost savings.

Elements not Controlled by Local Government

- + **Financing:** Interest rates are beyond the influence of local governments, while financing from certain lenders, such as BC Housing and CMHC can also include additional sustainability, affordability and accessibility requirements. These can result in additional costs and complexity that affect project's ability to secure financing, particularly when facing long approval timelines. Planners must remain cognizant of these factors, as interest carrying costs and consulting fees can increase significantly during approvals, ultimately influencing the size of loan that both private sector and non-profit developers are able to obtain.
- + **Building Code:** The building code is frequently being updated with many local governments moving towards Step Code 4 and Step Code 5. These changes must be considered when undertaking viability testing.

Key Recommendation:

Planners should understand the financial implications of design and layout expectations. Strong internal coordination and dialogue with external agencies help reduce complexity, shorten timelines, and lower costs. Alignment across departments ensures design expectations remain supportive of viability.



3.3 Infrastructure Works and Servicing Requirements

Servicing requirements can significantly influence feasibility, especially when major infrastructure improvements are required to facilitate development. Even modest upgrades can escalate quickly when soft costs, contingencies, and financing costs are incorporated into early feasibility modelling.

Uncertainty regarding infrastructure for servicing requirements forces developers to carry high contingencies during early proforma work, often pushing marginal projects into non-viable territory. Clear servicing expectations support accurate land pricing and reduce risk for both the local government and the developer.

Financial Analysis Example – Preliminary Financial Estimates to Add a Sewer Pipe

Because early capital estimates must account for a range of hard costs, soft costs, contingencies, and financing charges, upgrades that appear modest at first can quickly translate into significant impacts on the proforma. In cases where servicing upgrades are unknown, developers must assume high construction contingencies, often 30 to 40 percent, to account for risk. As a result, a \$1 million sewer servicing upgrade can escalate to \$1.8 to \$1.9 million in early feasibility modelling once contingencies, soft costs, and financing are incorporated. This alone has the potential to push a project from viable to marginal.

FINANCIAL MODELING EXAMPLE - COST OF A SEWER PIPE		
Cost of Sewer Upgrade		\$1,000,000
Construction Contingency	35%	\$350,000
Construction Subtotal		\$1,350,000
Soft Costs	9%	\$121,500
Design Contingency	10%	\$135,000
Escalation Contingency	10%	\$135,000
Cost of Financing	6%	\$81,000
Total Cost		\$1,822,500

Note: All financial figures are hypothetical for demonstrative purposes and do not represent a real project.

Key Recommendation:

Local governments should provide clear, predictable, and upfront servicing requirements. Embedding expectations in OCPs, design guidelines, and engineering standards enables early understanding of servicing obligations. Staff should also review completed projects for hidden costs that could affect development viability. Finally, permitting fees should be clearly communicated and tied to the actual labour and materials required to administer the process, ensuring fairness and predictability for applicants.

3.4 Parking Requirements

Parking is often one of the highest cost elements for residential development. Below grade parking in particular adds significant hard and soft costs and can quickly erode profitability for higher-density developments (See Financial Analysis Example below to show how small increases in parking requirements can reduce viability significantly). Even modest increases in stall counts can reduce margins to levels that prevent projects from proceeding. Surface parking requirements for SSMUH projects also carry substantial costs, not only in construction, but in the opportunity cost of allocating site area to parking rather than usable green space for residents.

When parking requirements exceed what is financially supportable, applicants must pursue exceptions, additional studies, and negotiation processes, each of which adds time, cost, and risk. A proactive approach to parking standards which integrates transportation demand management and environmental planning considerations, can help local governments support both transportation, climate and viability objectives.

Financial Analysis Example – The Impact of Changing Parking Standards

The exhibit on the following page shows the two impacts of high parking ratios. A project which proceeds with 1 stall per unit can expect an industry standard profit margin. However, the \$70,000 per stall in hard costs increases to \$82,000 per stall once soft costs, contingencies, management and financing are considered. However, increasing the number of stalls to just 1.25 stalls per unit is sufficient to erode the return on costs to below 9 percent. It is likely that a large share of developers would not proceed with such a project and the development would be put on hold. If the parking mandate was set at 1.5 stalls per unit, the profit margin would fall below 3 percent. Under this scenario, the project would be unlikely to proceed.



Multi-Unit Residential Apartment Project with 97 Units

	1 stall per unit at \$70,000 per stall	1.25 stalls per unit at \$70,000 per stall	1.5 stall per unit at \$70,000 per stall
Project Revenue	\$44,090,349	\$44,090,349	\$44,090,349
Project Costs			
Demolition	\$91,101	\$91,101	\$91,101
Landscaping	\$151,835	\$151,835	\$151,835
Municipal Servicing	\$184,371	\$184,371	\$184,371
Municipal Upgrades	\$447,590	\$447,590	\$447,590
Site Servicing	\$250,000	\$250,000	\$250,000
Hard Costs	\$17,721,039	\$17,721,039	\$17,721,039
Parking Costs	\$6,790,000	\$8,487,500	\$10,185,000
Design, Construction & Escalation Contingency	\$1,281,797	\$1,366,672	\$1,451,547
Soft Costs	\$1,884,241	\$2,009,008	\$2,133,774
Management Fee	\$288,020	\$307,091	\$326,163
Development Cost Charges	\$1,731,914	\$1,731,914	\$1,731,914
Amenity Cost Charges	\$309,375	\$309,375	\$309,375
Property Tax During Development	\$109,881	\$109,881	\$109,881
Construction Financing	\$1,045,611	\$1,110,079	\$1,174,539
Other	\$312,414	\$331,676	\$350,936
Total Project Costs	\$32,599,189	\$34,609,132	\$36,619,063
Land Cost	\$6,800,000	\$6,800,000	\$6,800,000
Profit Margin	\$5,004,160	\$2,994,217	\$984,285
Profit Margin %	15.4%	8.7%	2.7%

Note: Figures do not represent a specific project and are for demonstrative purposes only.

Key Recommendation:

Setting parking requirements that balance financial viability with on street network capacity, availability of other transportation options and proximity to daily needs can improve outcomes for local governments and developers.

4.0 RETURNS, RISK, AND TIMING

Development viability depends not only on revenues and costs but also on the timing, risk, and financing conditions under which projects proceed. Profit margins and lending requirements reflect these risks and are essential components of any real estate project.

4.1 Profit Margins

Market-based, private development projects require a profit margin that reflects the return on total development cost. Industry-standard rates are typically estimated at 15 percent, though this varies by developer based on their objectives and risk profile. Although 15 percent can appear high, several factors explain why this level is necessary:

- 1 **Time Horizon of Returns.** Development cycles span multiple years, from land acquisition through design, approvals, construction, and absorption. A 15 percent return on capital invested in the project over several years results in a far lower annualized yield, particularly when equity is tied up for long periods.
- 2 **Opportunity Cost and Risk Adjusted Returns.** Real estate development competes with many other, less risky investment opportunities. For example, investors may earn approximately 8 percent annually in public markets, 6 percent from purchasing existing income-producing real estate, of 2 to 4 percent from a risk-free government GIC. Development sits at the higher end of the risk spectrum, involving entitlement risk, construction risk, market risk, and financing risk. To attract capital away from safer alternatives, development returns must be meaningfully higher. If the rate of return is materially less than 15 percent, developers may not be incentivized to undertake projects which would impact the housing supply.



3 Large Variability in Actual Return: Delays, cost escalation, interest rate changes, and unforeseen site conditions can significantly erode returns. The required margin therefore includes a buffer to absorb typical risk. Lower target returns would not adequately protect equity or lenders, especially given the variability inherent to development.

4 Lending Requirements and Industry Standards. Access to land acquisition, construction, and long term financing requires that projects demonstrate they can meet standardized profit thresholds set by lenders through proforma analysis. These benchmarks persist because they reflect real risk, and competition among lenders ensures they are not arbitrarily inflated. The persistence of industry standard profit margin reflects standardized underwriting which is linked to the level of risk involved.

Key Recommendation:

It is important to understand that the industry-standard profit margin is not a bonus but a requirement for accessing financing and delivering new housing. While returns can appear high, particularly during periods of rapidly rising prices and stable costs, those windfalls reflect market conditions, not inflated target margins. When establishing land use policy, zoning, or development charges, the expected profit margin should be treated as a fixed cost necessary to make projects financeable and support housing supply.

Note: The 15 percent return is a return on total project cost, including financing. It does not represent the return on equity.



4.2 Capital and Lending Risk

Strata Projects

Strata development typically relies on both land acquisition financing and construction financing, each carrying different risks. Because early project stages are not backed by an income producing asset, which generates long term revenues and/or rent, interest rates are higher and equity requirements are substantial.

Developers often purchase land before securing zoning and rely on land loans to cover design, due diligence, rezoning, and other soft costs. Once approvals are in place, lenders usually require presales of 60 to 70 percent before releasing construction financing. Terms depend on presale momentum, developer track record, and market conditions. Slow sales can reduce the size of the loan the bank will lend and increase equity needs.

Key Recommendation:

This financing sequence highlights the value of predictable, timely approvals. Local government policies that align zoning with OCP direction, reduce reliance on public hearings, and standardize zoning districts can shorten timelines and lower financing risk. Greater certainty supports viability and helps ensure that planned supply becomes delivered housing.

Example – Strata Lending Requirements

A developer acquiring land for \$5 million may obtain a land loan of 60% loan to value (\$3 million) to carry the site through rezoning and pre-development. Upon achieving zoning and 50% presales, this may then be refinanced into a \$25 million construction loan, with a portion of proceeds used pay off the land loan.



Rental Projects

Rental projects rely on a financing structure that differs significantly from strata development.

While strata projects recover capital through unit presales, rental projects must finance the full cost of construction up front and depend on long term stabilized income to support a mortgage. As a result, they require two types of financing: construction financing during development and long-term financing once the building is leased and operational.

During construction, lenders typically require higher equity contributions from rental developers, when compared to condominium projects, because there is no presale revenue to offset risk. Once the building reaches occupancy, long-term financing is issued based on the value of the income producing asset rather than the cost to build. The size of this long term loan is determined by the project's net operating income (NOI) and lending criteria such as loan to value ratios and debt coverage ratios (DCR). A DCR of about 1.2 is common in the residential sector, which means only approximately 83 percent of NOI after operating expenses can be used for

debt service, with the remainder reserved to manage risk.

Because loan proceeds are tied directly to NOI, any factor that reduces revenue or increases operating costs reduces the supportable loan amount. Construction cost escalation also increases the equity required to close the financing gap, and unexpected changes can create last minute capital needs. Viability is therefore sensitive not only to capital costs but also to long term operating inputs such as achievable rents, insurance costs, property taxes, maintenance, vacancy assumptions, and required capital reserves.

Mixed use projects introduce additional considerations. Many government lending programs apply higher DCR requirements to commercial space, which lowers the supportable loan amount and increases equity needs. Planners should be aware of these effects when requiring ground floor commercial or other non residential components in rental buildings.

Key Recommendation:

Rental development is more challenging to finance but can benefit from supportive local policy. Increased density, reduced parking requirements, DCC and ACC waivers, and expedited approvals improve feasibility. Access to CMHC and BC Housing programs can increase loan capacity through lower DCRs and longer amortization, although these programs often require below market units that reduce NOI. Planners should be aware of the narrow margins typical of rental projects and how policy decisions influence both operating and capital feasibility.

5.0 MONITORING AND MARKET RESPONSIVENESS

Monitoring and Policy Testing

Understanding development viability is essential because the supply of zoned, serviced, and financially feasible sites ultimately determines whether housing can be delivered. While planning policies can create capacity on paper, ongoing monitoring is required to ensure that this capacity remains realizable under changing market and cost conditions.

Local governments should regularly test whether zoning, land use designations, and development charges continue to create sufficient value to support acquisition, redevelopment, and financing. Even when policies have been thoroughly calibrated, project viability will fluctuate with shifts in interest rates, construction costs, market demand, and labour availability. Persistent gaps between planned capacity and actual development activity signal the need for policy adjustments.

Monitoring is important for two reasons:

- + It helps planners and local governments understand whether development activity is occurring where it is planned and whether the local government is on track to meet its housing targets.
- + It identifies barriers such as escalating costs, insufficient density, design expectations, or servicing constraints that may be undermining feasibility.

Active construction should not be assumed to reflect current feasibility, as previous projects may have been approved under more favourable conditions. Regular testing helps identify emerging challenges early and supports timely adjustments to zoning, infrastructure strategies, or design requirements.

For areas designated for growth, local governments are encouraged to develop financial viability assessment models for intended built forms. To remain accurate and useful, these models should be updated regularly with coordinated input from planning and real estate staff. Ideally this testing would be updated every one to two years, or at least once every five years in line with the OCP and zoning by-law update cycle now required in BC.

Recent provincial legislation requires local governments to test Amenity Cost Charges, Density Benefit Bylaws and Inclusionary Zoning Bylaws to ensure they do not deter development. While zoning viability testing is not yet mandated, planners can use similar approaches to assess whether planned capacity remains deliverable in areas experiencing or expecting growth.

6.0 CONCLUSION AND KEY TAKEAWAYS

Bulletins 1.1 and 1.2 together provide the foundation for understanding how provincial legislation, local planning tools, and development economics interact to shape housing delivery in British Columbia. Issue 1.1 outlined the major legislative reforms now guiding planning practice and demonstrated why OCPs, zoning bylaws, and approval pathways must offer clear, realistic, and financially grounded (re)development opportunities. It emphasized the shift toward a proactive, planned system where certainty and predictability are central to enabling housing supply.

Issue 1.2 builds on that foundation by examining the core economic components that determine whether housing projects can proceed. Revenues, costs, profit requirements, financing, land value dynamics, and market risk all affect whether policy enabled capacity becomes real, deliverable supply. The bulletin outlines how planners influence these components through zoning, design expectations, servicing requirements, parking standards, and process timelines. It also highlights areas outside local government control, such as interest rates or construction cost inflation, that nonetheless determine feasibility and must be understood to interpret project outcomes and market conditions.

Together, the two bulletins reinforce the importance of aligning planning policy with development economics. In a housing system where feasibility is highly sensitive to timing, cost, and risk, planners play a crucial role in ensuring that policy direction leads to actual delivery. This involves embedding feasibility testing in OCP updates, monitoring whether planned capacity is translating into applications and completions, and adjusting standards, permissions, or servicing expectations where persistent gaps emerge.



The following bulletins in the series will expand on these foundations.

Series 2 examines the cost and funding of infrastructure and amenities, including how levies and charges can be calibrated to support both growth and deliverability.

Series 3 explores inclusionary housing and inclusionary zoning, offering guidance on how to successfully structure and implement affordability requirements based on leading practices and respective of local context.

SERIES 01

FUNDAMENTALS OF HOUSING
DEVELOPMENT ECONOMICS

ISSUE 1.2 - UNDERSTANDING THE CORE
ELEMENTS OF DEVELOPMENT
VIABILITY FOR PLANNING
PRACTITIONERS