

DATE: May 28, 2026

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SUBJECT: **Financial Analysis for Rental Tenant Relocation Assistance Project**

## 1.0 INTRODUCTION

### 1.1 BACKGROUND AND CONTEXT

In 2024, the Province of BC passed *Bill 16 – Housing Statutes Amendment Act, 2024*, which provides municipalities with the authority to develop tenant protection bylaws that require owners to provide additional support over the Residential Tenancy Act (RTA) for tenants facing displacement due to redevelopment. In response to this, the City of Nanaimo (the City) has retained Urban Systems Ltd. (USL) to present an economic and policy-based assessment of potential new tenant protection requirements. This work is intended to support Council's consideration of how tenant compensation or support measures would interact with redevelopment economics where older purpose-built rental stock may be redeveloped.

This analysis is built around a series of representative case study pro forma financial analyses, reflecting different rental redevelopment contexts. For each case study site, detailed financial pro forma modelling was undertaken to reflect current obligations under the RTA, followed by testing of enhanced protection scenarios layered atop the existing Provincial framework.

The purpose of this work is not to evaluate individual development proposals, or to set prescriptive policy outcomes. Rather, its purpose is to provide City staff and Council with an understanding of trade-offs between tenant protections and redevelopment feasibility, and to identify whether tenant protections may be practical. The analysis work was completed largely in the second quarter of 2026. Results summarized in this report are all based on market conditions (rents, condo pricing, construction costs, financing rates) current as of Q2 2026.

### 1.2 ASSUMPTIONS AND LIMITING CONDITIONS

This report is based on high-level, case-study financial modelling rather than site-specific analysis for any individual property or landowner. As with other policy-level financial analyses, the results should not be interpreted as a definitive assessment of financial feasibility for any one site. Rather, the modelling is intended to provide a general understanding of the relative feasibility of conceptual redevelopment forms, the key drivers of project performance, and the extent to which different tenant protection measures may affect redevelopment economics under current City land use assumptions.

This analysis is concerned solely with tenants of residential rental buildings.

More detail on key assumptions that must be understood as limitations to this analysis are provided in **Appendix A**.

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In the event that material changes occur that could influence the assumptions identified, the analysis, research findings and conclusions contained in this report should be reviewed or updated accordingly.

## 1.3 MARKET CONTEXT

### 1.3.1 Macro-Economic Conditions

Development on Vancouver Island, and across much of British Columbia, is facing challenging conditions at the time of this analysis and report preparation. As a result, relatively few development opportunities in some markets are currently being underwritten as feasible. This challenging dynamic can be attributed to a number of factors:

- **Economic slowdown and uncertainty:** Canada is experiencing modest GDP growth, with forecasts pointing to mild recession later this year. This has dampened consumer and business confidence.
- **Risk-averse lending environment:** banks have tightened underwriting standards, requiring higher pre-sales and stronger borrower covenants. Developers face higher equity requirements, which reduces leverage and constrains project feasibility.
- **Labour market pressures:** while unemployment has ticked up nationally, skilled construction labour remains scarce, keeping wage pressures elevated.
- **Population growth moderation:** immigration targets have been reduced, slowing household formation and moderating long-term demand growth. This affects both rental and ownership demand projections, and achievable pricing.

While the number of variables and specific input assumptions included in most development pro forma models are extensive, here we highlight a few of the key factors that are affecting the viability of new developments most significantly. It is important to understand this full range of external factors that are influencing the viability of development projects, and within them, be able to identify which variables are within or beyond the immediate control of the City.

### 1.3.2 Pricing

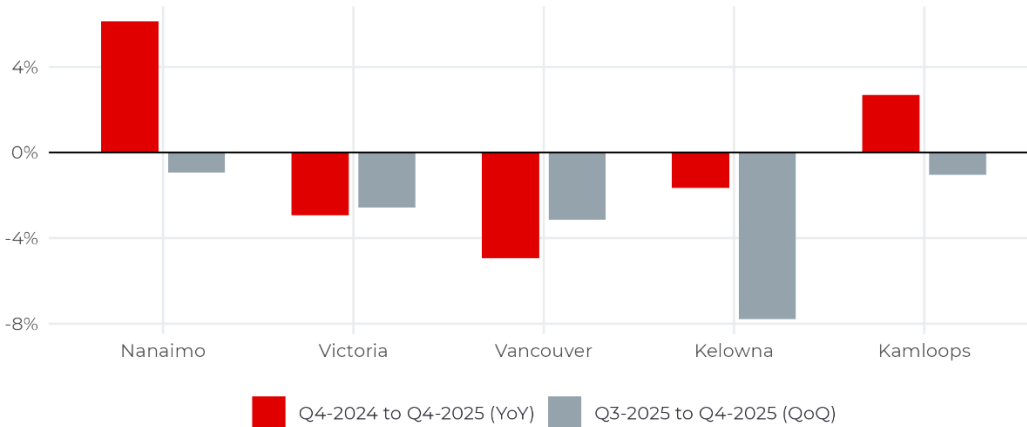
Since falling from pandemic highs in 2022, home prices in the Nanaimo region have seen little growth, with modest declines more recently.

High mortgage costs have dampened buyer demand, while the number of homes available for sale has increased. This has given buyers more choice and negotiating power, shifting the market away from the highly competitive conditions seen during the pandemic period.

In Nanaimo, this has resulted in a more balanced market: homes are still selling, but with less urgency and fewer bidding pressures. As a result, prices have flattened, and so too has revenue potential for developers.

Rental trends have diverged somewhat from the ownership markets. While rent growth has slowed overall, Nanaimo is one of the few communities where rents have continued to rise in recent months, even as many other markets across BC have experienced declining rents. Persistently high rents may help support project revenues, but ongoing cost pressures continue to constrain overall project viability.

Figure 1: Percent Change in Average Asking Rent (2-Bedroom)



Source: Statistics Canada Table 46-10-0092

Table 1: Average Asking Rents (2-Bedroom)

	Nanaimo	Victoria	Vancouver	Kelowna	Kamloops
<b>Q4 2024</b>	1,960	2,730	3,250	2,410	1,860
<b>Q1 2025</b>	2,020	2,680	3,170	2,200	1,840
<b>Q2 2025</b>	2,030	2,710	3,160	**	1,940
<b>Q3 2025</b>	2,100	2,720	3,190	2,570	1,930
<b>Q4 2025</b>	2,080	2,650	3,090	2,370	1,910

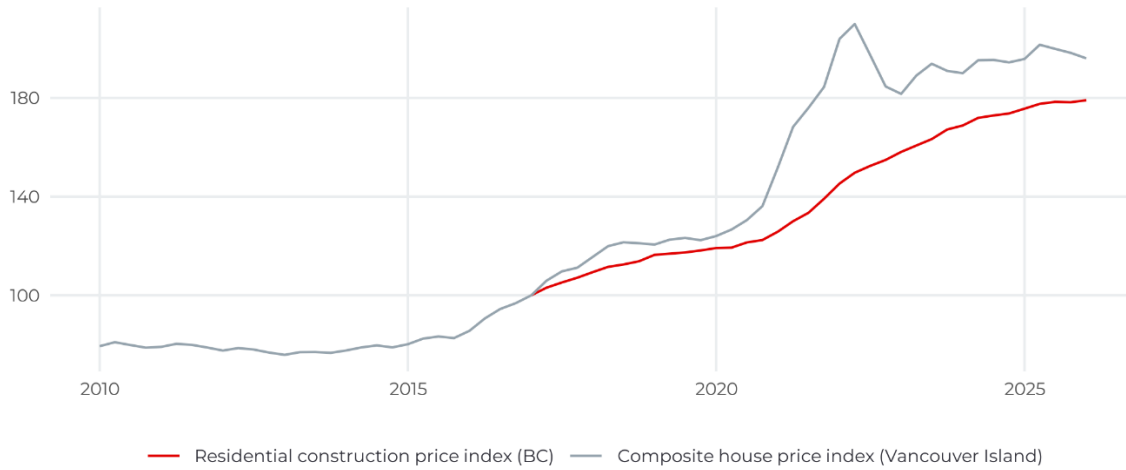
\*\*Data suppressed

Source: [Statistics Canada](#)

### 1.3.3 Costs

Construction costs have increased substantially in recent years, more rapidly than home prices. Many factors have likely led to rising construction costs: high cost of materials (most notably concrete), higher labour costs, supply chain challenges and uncertain trade relationships, and changing building standards (e.g. through the building code), to name a few.

Figure 2: House Prices and Construction Costs



Sources: CREA MLS and Statistics Canada

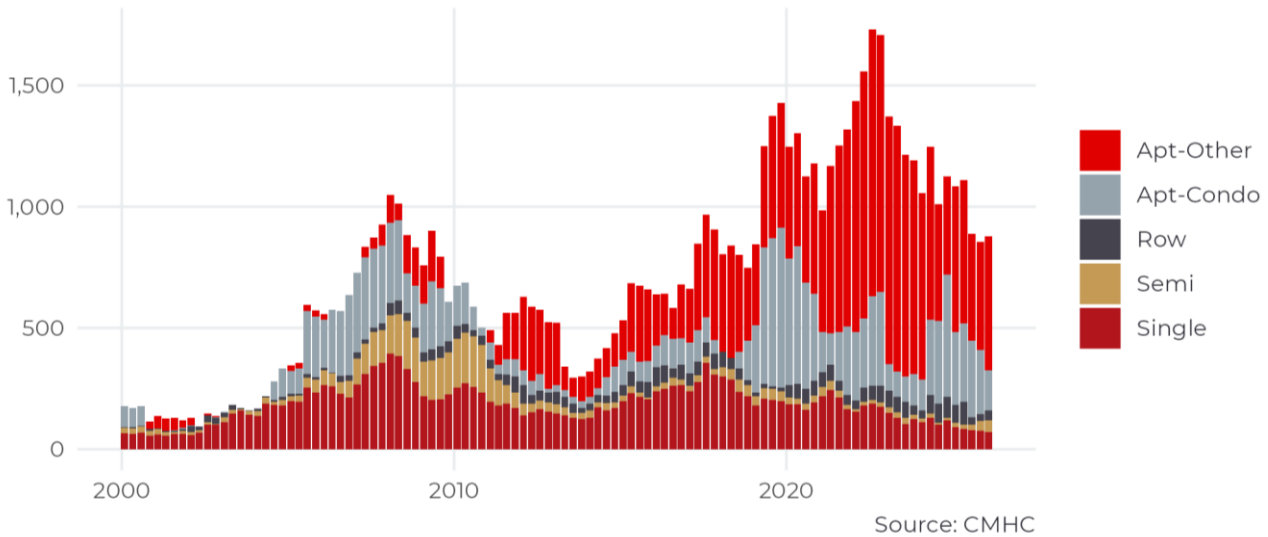
### 1.3.4 Inventory

New construction activity slowed in Nanaimo in 2025 after a particularly strong year in 2024. The pullback was mainly due to fewer purpose-built rental apartment units being started. At the same time, the inventory of units under construction has been declining steadily, though it remains higher than levels Nanaimo has typically seen in the past. Most homes currently under construction are rental and condominium apartments that began when market conditions were more favourable for development. These projects will continue to add to housing supply in the short term.<sup>1</sup>

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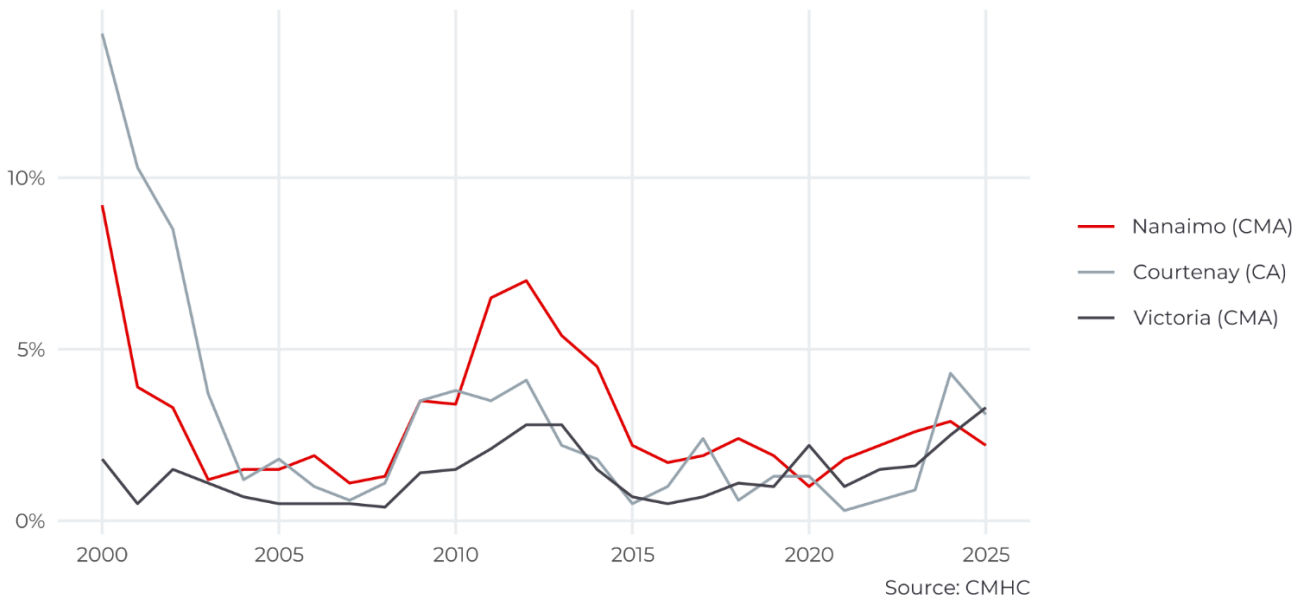
<sup>1</sup> As per data from CMHC Starts & Completions Survey

Figure 3: Units Under Construction by Type for Nanaimo (CY)



New additions to the purpose-built rental housing stock have contributed to a rise in vacancies in recent years, but less so than in other markets. With vacancy rates consistently below 3%, average rents have increased significantly over the past few years, underscoring ongoing supply constraints in the market. The slower pace of new construction in the rental market segment in 2025 signals limited new rental supply coming to market, potentially reinforcing pressure on existing rental stock.

Figure 4: Purpose-Built Rental Vacancy Rates



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## 1.4 IMPLICATIONS

- **Current market outlook is hurting developer incentive to build.** Slowing economic and population growth, combined with high mortgage costs and an increase in available housing supply, is contributing to weakened demand among buyers and renters. This puts downward pressure on revenue growth potential for new projects, in turn affecting developer incentive to take on new projects.
- **Projects are increasingly unable to carry additional costs.** In previous, more favourable market environments, developments had more capacity to carry additional costs (i.e., enhanced tenant protection policies, ACCs, etc.). However, with construction cost escalation outpacing revenue growth potential, this is becoming increasingly challenging.

## 2.0 CURRENT TENANT PROTECTION POLICY FRAMEWORK

Presently, protections for tenants of rental buildings facing evictions in the City are provided through the *Residential Tenancy Act (RTA)*. Under the RTA, when an owner proposes to end a tenancy the tenant protections the owner must provide include:

- Four months notice to end tenancy for renovation or demolition
- Two months notice to end tenancy for landlord use of property
- One month's rent

## 3.0 EVALUATION DESIGN: CASE STUDIES, ASSUMPTIONS, AND SCENARIOS

### 3.1 APPROACH

To test the financial capacity of development projects to offer enhanced tenant protection measures, USL conducted a series of pro forma financial analyses to model redevelopment, as follows:

1. **Case study sites:** working with City staff, four (4) case study sites were selected that represent possible candidate sites for redevelopment. The sites were selected from different neighbourhoods in the City and are representative of a range of site conditions that would likely be considered relatively attractive for redevelopment of older purpose-built rental stock (under appropriate market conditions). These include sites designated in City Plan (Official Community Plan [OCP]) for low-rise redevelopment (up to 6-storeys) and townhouse redevelopment. The selected test sites include those with older existing lower density rental buildings (built prior to 1980).
2. **Development scenarios:** USL confirmed with City staff what the base case redevelopment scenarios would likely be for each site, including confirmation of building heights, densities, unit mix and parking. This step assumes that the current RTA tenant protection policies are enacted, no development incentives are accessed (e.g. revitalization tax exemptions, fee waivers etc.), and no enhanced protections are required.
3. **Land values:** we estimated market value of each site under present land use policies and current use, to determine the likely minimum cost to a developer to acquire each site for the purposes of redevelopment. The analysis assumes that a developer would acquire development sites based on market values as established by the most recent BC Assessment roll (2026).
4. **Market research:** our team then conducted market research to establish the likely input costs for pro forma development, looking at 6-storey wood frame construction (condo and rental development) and townhouse development. Where possible, data collected for the recently completed *Financial Feasibility Analysis for Density Bonusing, Inclusionary Zoning and Tenant Protection* (Urban Matters, 2025) report was used. To reflect ever-changing market conditions, developers who provided information for previous rounds of financial testing were contacted to update previously established assumptions.
5. **Base pro forma:** using all of the above input information, we developed baseline pro formas to test the financial performance of redevelopment at each site, assuming current RTA tenant protection requirements. This establishes a "base case" to gauge baseline financial performance, from which we may then evaluate the relative impact of new enhanced requirements. Each pro forma financial model focuses on developer **profit-**

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**on-cost** as the primary 'screening' metric for viability.<sup>2</sup> This is measured as the completed value of the project, less the total project costs, divided by the total project costs (including land). We then evaluated baseline financial performance, to test whether there is any basis for considering enhancing tenant protections under prevailing market conditions.

6. **Enhanced Compensation Testing:** using the baseline pro formas as our starting point, we re-ran each pro forma to assess the impact on project returns of potential (hypothetical) new tenant protection requirements, focusing on: (a) Enhanced rental compensation and moving costs support, (b) Right of first refusal (ROFR) and moving cost support (for rental projects), and (c) vulnerable tenant and early move-out compensations.

## 3.2 CASE STUDY SITES AND DEVELOPMENT ASSUMPTIONS

Four case study sites were used as the basis for the financial analysis. These sites were selected by City staff, in consultation with USL, to represent portions of the City's older rental stock that may be candidates for future redevelopment. Redevelopment assumptions and associated density parameters were provided by the City to reflect current City Plan (OCP) policy direction.

- **Site 1** represents the redevelopment of a medium-density apartment building within a Secondary Urban Centre, into either a 6-storey rental or condo multi-family building at a density of 1.25 FSR.
- **Site 2** represents a smaller, medium-density apartment building on a small lot within the City Centre, an area of higher value, into either a 6-storey rental or condo multi-family building at a density of 1.25 FSR.
- **Site 3** represents the redevelopment of a large site with multiple, medium-density apartment buildings into a 3- to 6-storey mixed development of rental or strata multi-family building(s) and strata townhouses at 0.45 FSR.
- **Site 4** represents the redevelopment of three, multi-family residential buildings within a low density and lower-valued area of the City into a 4-storey rental or condo multi-family building at 0.45 FSR.

Table 2 details the nature of each site and the development typology assumptions.

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<sup>2</sup> Profit on cost is a common developer / lender screening metric. We adopt industry-standard profit-on-cost thresholds as reported by developers for the purposes of determining viability. Profit-on-cost of at least 15% would typically be considered "likely viable" by most developers. Profit on cost under 15% but above 10% is "potentially viable", depending on the developer and their specific financing / underwriting conditions. Below 10% is "not likely viable" for most developers, although we do hear of circumstances where developers move projects forward with single-digit returns in some cases.

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Table 2: Financial Testing Site Parameters

Site	OCP Designation	Number of Existing Rental Units	Site Area (Acres)	Land Values per BC Assessment	Tested FSR and Building Typology	Buildable Gross Floor Area
1	Secondary Urban Centre	75 Units	2.68	\$11.6M (\$4.3M/acre)	1.25 FSR Wood Frame Apartment	280,178 sq. ft.
2	Primary Urban Centre	15 Units	0.36	\$3.5 M (\$9.7M/acre)	1.25 FSR Wood Frame Apartment	37,752 sq. ft.
3	Residential Corridor	75 Units	3.98	\$15.1 M (\$3.8M/acre)	0.45 FSR Wood Frame Apartment and Townhome	416,085 sq. ft.
4	Neighbourhood	19 Units	2.25	\$4.3 M (\$1.9M/acre)	0.45 FSR Wood Frame Apartment	156,776 sq. ft.

## 4.0 TENANT PROTECTION POLICY PARAMETERS

Specific parameters for the financial testing of tenant protection policies were provided to USL by the City, based on various tenant protection option packages prepared by CitySpaces. Urban Systems met with City staff and CitySpaces on two occasions to discuss the packages and determine how best to reflect each in the pro forma modelling. Details of each tenant protection package, and how it is captured in the modelling exercise, are outlined below.

### 4.1 RESIDENTIAL TENANCY ACT (PACKAGE 1)

Package 1 estimates the developer’s tenant protection contributions under current RTA requirements, requiring provision of one month’s rent to each displaced tenant household. Average rent is estimated at \$1,398 per month per unit for all test sites, based on the 2025 Average Rent by Year of Construction data for Nanaimo from CMHC, filtered for buildings built before 1980. This is thought to be broadly representative of the types of buildings that would most likely be targets for redevelopment, and is consistent with building age on selected test sites.

Based on the estimated rents and the Package 1 scenario parameters, we have captured the following costs in the Package 1 pro forma:

- **Sites 1 and 3** assume 75 displaced households for a total of **\$104,813 per site**
- **Site 2** assumes 15 displaced households for a total of **\$20,963**.
- **Site 4** assumes 19 displaced households for a total of **\$26,553**.

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## 4.2 COMPENSATION BASED ON TENANCY AND MOVING EXPENSES (PACKAGE 2)

Package 2, as established by CitySpaces, is intended to provide displaced tenants with compensation based on length of tenancy and reasonably expected moving costs.

### 4.2.1 Compensation Based on Tenancy Length

Compensation based on length of tenancy was tested at 3-, 6-, and 8-months of rent provided to the displaced tenant. Average rents are estimated using the same methodology as outlined previously (based on older rental stock rents as tracked by CMHC), resulting in the following compensation amounts:

- 3-months: \$4,193 per displaced unit
- 6-months: \$8,385 per displaced unit
- 8-months: \$11,180 per displaced unit

### 4.2.2 Moving Expense and Assistance

The assumed costs for moving expenses and assistance are estimates provided by CitySpaces, which are based on the size of the rental unit they are leaving, as follows:

- \$875 for bachelor and one bedroom rental units
- \$1,125 for two-bedroom rental units, or
- \$1,375 for three-bedroom or larger rental units

A blend of typical unit size distributions is used in the modelling, based on the older rental stock universe as covered by CMHC. On this basis, the estimated average moving expense assistance requirement is \$1,010 per unit.

### 4.2.3 Total Package 2 Compensation

Using the assumptions above, Package 2 provides a total average per unit compensation of:

- 3-month: \$5,201 per unit
- 6-month: \$9,393 per unit
- 8-month: \$12,188 per unit

Table 3 on the following page shows the total Package 2 costs as captured in the pro forma.

Table 3: Total Package 2 Compensation

			3-Months Compensation		6-Months Compensation		8-Months Compensation	
Site	# of Households Displaced	Total Moving Costs (A)	Total Comp Costs (B)	Total Package 2 Costs (A + B)	Total Comp Costs (C)	Total Package 2 Costs (A + C)	Total Comp Costs (D)	Total Package 2 Costs (A+D)
1	75	\$75,625	\$314,438	<b>\$390,165</b>	\$628,875	<b>\$704,603</b>	\$838,500	<b>\$914,228</b>
2	15	\$15,125	\$62,888	<b>\$78,033</b>	\$125,775	<b>\$140,921</b>	\$167,700	<b>\$182,846</b>
3	75	\$75,625	\$314,438	<b>\$390,165</b>	\$628,875	<b>\$704,603</b>	\$838,500	<b>\$914,228</b>
4	19	\$19,125	\$79,658	<b>\$98,842</b>	\$159,315	<b>\$178,499</b>	\$212,420	<b>\$231,604</b>

### 4.3 RIGHT OF FIRST REFUSAL AND MOVING COSTS (PACKAGE 3A)

Package 3A tests the impact of right of first refusal (ROFR) and returning moving costs for tenants who elect to take up the ROFR. The ROFR would be offered in any instance where tenants are displaced for a redevelopment that includes new rental homes and therefore would not apply to strata or other non-rental redevelopment scenarios. For Site 3, which includes strata townhouses, only the multi-family units under the rental scenario are eligible for ROFR.

Unlike other enhanced tenant protection measures, which are straightforward, one-time commitments that can be anticipated and budgeted for in advance, the ROFR obligation introduces a significant degree of uncertainty for the developer. The actual uptake of ROFR is unknown, and its overall impact depends on how many displaced tenants choose to exercise this option relative to the total number of new units available. This means that both the amount and timing of any revenue impacts are highly variable and cannot be predicted at the outset. As a result, the financial implications of ROFR on project revenue projections are inherently uncertain. Further discussion on these considerations can be found in Section 7.3.1.

To evaluate ROFR in the Nanaimo context, two pricing frameworks were tested, assuming either 25% or 50% uptake (i.e., 25%-50% of existing tenants taking up the option):

- ROFR units offered at 10% below CMHC average rents in Nanaimo, for an average rent of **\$1,519 per unit**
- ROFR units offered 10% below new market rental rates of \$2,100 (see Appendix A) at **\$1,890 per unit**

The 10% discount on rents is within the range offered by other BC municipalities for ROFR. Some municipalities offer deeper rent discounts, of between 20% (City of Langley, District of Saanich, City of Maple Ridge) and 25% (City of Coquitlam). Due to the relatively challenging economics of development today, a 10% discount was chosen to demonstrate the minimum expected impact to project performance as a result of ROFR policies, as project performances decreases with increased discounts.

For this analysis, rents discounted to CMHC average and to new market rents were both tested, to reflect variations in different BC municipality ROFR policies. Because CMHC rents consider average rents across all apartments in the City, regardless of building age and quality, rents at the average represent significant discounts to new units and therefore have stronger negative impact for projects that adopt a ROFR based on discounted CMHC average rents.

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Return moving costs are based on the same structure outlined in Section 4.2.2. For Package 3A, that results in the total moving costs set out below:

Table 4: Total Package 3A Return Moving Assistance Costs

Site	25% Uptake	50% Uptake
1	\$19,125	\$38,250
2	\$4,000	\$6,875
3	\$19,125	\$38,250
4	\$4,875	\$10,250

## 4.4 VULNERABLE TENANT AND EARLY MOVE-OUT COMPENSATION (PACKAGE 3B)

Package 3B tests the impact of vulnerable tenant and early move-out compensations. Package 3B adopts the maximum combined compensation components, as developed with CitySpaces, in order to stress test a potential ‘maximum’ policy set, excluding Package 3A (ROFR).

### 4.4.1 Compensation for Vulnerable Tenants

Compensation for vulnerable tenants provides:

- Further moving cost and rent compensation based on tenancy to that offered in Package 2, **for 55% of tenants**, which reflects the estimated proportion of renters categorized as ‘vulnerable’ within the City.<sup>3</sup> Four months rent are provided, equating to an additional \$5,590 per unit, along with enhanced moving costs of \$1,625 per unit, for a combined total of \$7,215 per eligible unit. This is in addition to the \$12,190 per unit provided under Package 2, resulting in total compensation of \$18,810 per eligible unit.
- An allowance of \$1,000 per unit for minor modifications provided to those with disability status, which CitySpaces estimates to be **22% of tenants**.

The potential effect of early eviction notice on project feasibility, as proposed by CitySpaces, was not explicitly modelled in the financial analysis. This reflects the expectation that construction would not typically begin immediately following eviction, such that the timing effect on project performance is likely to be negligible.

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<sup>3</sup> This estimate was developed by CitySpaces and represents the proportion of vulnerable tenants across the Nanaimo market. This figure is applied to individual case study sites.

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Table 5: Total Compensation for Vulnerable Tenants

Site	Package 2 Compensation Based on Tenancy Length for Vulnerable Tenants (8-Months) (A)	Additional 4-Months Rent Compensation for Vulnerable Tenants (B)	Enhanced Moving Costs (C)	Total Rent Compensation and Moving Costs (A+B+C)	Minor Modifications for Disability Status Tenants (D)	Total Compensation for Vulnerable Tenants (A+B+C+D)
1	\$458,380	\$229,190	\$66,625	<b>\$754,195</b>	\$17,000	<b>\$771,196</b>
2	\$89,440	\$44,720	\$13,000	<b>\$147,160</b>	\$3,000	<b>\$150,160</b>
3	\$458,380	\$229,190	\$66,625	<b>\$754,195</b>	\$17,000	<b>\$771,196</b>
4	\$111,800	\$55,900	\$16,250	<b>\$183,950</b>	\$4,000	<b>\$187,950</b>

#### 4.4.2 Early Move-Out Scaled Compensation

Tenants who elect to move out after a development application has been submitted (i.e., rezoning or development permit), but before an official eviction notice is issued, are assumed to receive a portion of the compensation that would otherwise be available under Package 2 (Section 4.2). Because the timing of these decisions is inherently variable and difficult to quantify, the analysis assumes compensation equal to 50% of total Package 2 compensation for 25% of tenants. This equates to **\$1,902 per unit**.

Table 6: Total Early Move-Out Compensation

Site Number	Total Early Move Out Compensation
1	\$142,676
2	\$28,535
3	\$142,676
4	\$36,145

#### 4.4.3 Total Package 3B Compensation

For the remaining tenants that are not eligible for either vulnerable tenant or early-move out scaled compensation, it is assumed that they are provided Package 2 compensation.

Table 7 on the following page presents an estimate of the total Package 3B compensation for each scenario.

Table 7: Total Package 3B Compensation

Site Number	Package 2 (Non-Vulnerable Tenants) (A)	Total Vulnerable Tenant Rent Compensation and Moving Costs (B)	Minor Modifications for Disability Status Tenants (C)	Early Move Out Compensation (D)	Total Package 3B Compensation (A+B+C+D)
<b>% of Tenants Compensated</b>	20%	55%	22%	25%	
<b>1</b>	\$167,700	\$771,196	\$17,000	\$106,210	<b>\$1,079,355</b>
<b>2</b>	\$33,540	\$150,160	\$3,000	\$22,360	<b>\$212,935</b>
<b>3</b>	\$167,700	\$771,196	\$17,000	\$106,210	<b>\$1,079,355</b>
<b>4</b>	\$44,720	\$187,950	\$4,000	\$27,950	<b>\$268,620</b>

## 5.0 FINANCIAL ANALYSIS OVERVIEW

### 5.1 STRUCTURE OF FINANCIAL ANALYSIS

For the analysis presented in this report, we have prepared static (point-in-time) pro forma models for each of the typologies identified by the City for testing.

#### Revenues

- In condo tenure projects, we consider the likely achievable prices that units could be sold for, and how achievable pricing may vary by area.
- In rental projects, we consider the stabilized rental revenue a project is expected to achieve once it has been fully leased up, and the estimated sale price that a project could achieve on the basis of these rent levels. The latter is calculated by applying a capitalization (cap) rate to the projected net operating income at stabilized occupancy.

#### Costs

- Land costs – we consider the current fair market values for case study development sites, based on their most recent BC Assessment value. Where land assembly is modelled, we assume that a developer will need to offer a premium over the assessed value, to incentivize current owners to vend land into an assembly.
- Hard costs – this is the total on-site costs for development, including costs to prepare a site, costs to excavate and build sub-terranean space (where applicable), and the cost to build and finish all of the above-grade space.

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- Soft costs – this is everything that is not a direct on-site cost of construction, including all professional service inputs (e.g., architects, engineers etc.), municipal and regional fees and charges, and financing.

## Profit

- We consider profit before tax.

Detailed cost assumptions and pro forma inputs can be found in **Appendix A**.

## 5.2 ASSESSMENT APPROACH

The profit-on-total project costs return metric serves as the key indicator for this analysis. Although developers consider a range of financial metrics in evaluating project finances, the profit-on-cost ratio is frequently employed as a key screening tool to quickly assess whether a project is broadly viable, and worth consideration. The metric is not only a key consideration for developers, but also for lenders who use it to gauge project risk and determine financing terms.

For the purposes of this analysis, the primary consideration is not whether or to what degree a project may be 'viable'; rather, the focus is on the **relative impact** to profit-on-total-cost of each proposed package, compared against a baseline. Under prevailing market conditions and tested redevelopment parameters, case study pro formas indicate that most projects are either marginal or not viable today. We therefore treat this analysis as an **evaluation of the magnitude of change to project returns**, independent of whether the project is already viable or non-viable in absolute terms. The key question therefore is: ***how much does a given tenant compensation package move the profit-on-cost outcome, relative to the base case, and is that move likely to be material or immaterial to a project?***

For the purposes of this analysis, "materiality" is assessed based on the incremental change in profit-on-cost attributable to the tenant compensation package, rather than on whether a given project is viable in absolute terms. This approach allows relative policy impact to be distinguished from broader market feasibility conditions.

The following scale is used:

- Immaterial impact: 0 to 0.25 percentage point change in profit-on-cost.
- Low/modest impact: >0.25 to 0.5 percentage point change in profit-on-cost
- Material impact: >0.5 to 1.0 percentage point change in profit-on-cost
- Highly material impact: >1.0 percentage point change in profit-on-cost

In the current market context, it may be argued that any incremental cost is material because redevelopment economics are already under pressure. While that perspective is understandable, this analysis requires a different lens. The relevant question is not whether an already marginal or non-viable project becomes more challenged, but whether a given tenant compensation measure is large enough to meaningfully influence redevelopment economics in relative terms across typical site and project conditions. Assessing materiality on this basis helps differentiate between minor additional costs and measures that have a more substantive effect on profit margins, thereby supporting a more analytically useful policy framework.

## 6.0 SUMMARY OF FINANCIAL TESTING RESULTS

Financial testing results are presented as the percentage point difference in profit-on-cost for each package in comparison to a hypothetical baseline where no tenant protection policies are applied (including provincially mandated minimums). As noted above, the purpose is to show the magnitude of difference and its materiality.

### 6.1 COMPENSATION BASED ON RTA POLICIES (PACKAGE 1)

Results in Table 8 show that provincially required RTA policies have an immaterial impact on project performance for all scenarios, as one month’s rent represents only a marginal cost relative to the total cost of each project scenario.

Table 8: Change in Profit-on-Cost: Baseline vs. Package 1

Site Number	Rental	Strata
1	-0.1	-0.1
2	-0.1	-0.1
3	-0.1	-0.1
4	0.0	-0.1

### 6.2 COMPENSATION BASED ON TENANCY AND MOVING EXPENSES (PACKAGE 2)

The degree to which Package 2 impacts are material depends on the number of months of compensation being assumed.

- At 3-months of compensation, there is a 0.1 to 0.4 profit-on-cost percentage point impact, meaning that these impacts can be classified as immaterial (on the low end) to low/modest (on the high end). Site 1 shows the greatest impact, owing to the relatively larger tenant displacement in proportion to the expected number of new units being created.
- At 6-months of compensation, degree of impact ranges from low/modest to material (0.3 to 0.8).
- At 8-months of compensation, the degree of impact is material to highly material at three of the four test sites (0.6-1.0 on 3 sites).

Case study sites 1 and 3 demonstrate similar degrees of (relatively higher) impact from Package 2, owing to their having the most existing tenants to compensate (75 units).

While site 2 has the fewest tenants of the four, impacts are relatively more pronounced owing to its relatively small size and consequently less net new units to absorb the impact.

Site 4 consistently shows much lower impact (low/modest impact even at 8-months compensation). This is due to a combination of the site having relatively few existing tenants to compensate (19 units) and relatively large gross floor area of new build to absorb the cost.

Table 9: Package 2 Change to Baseline Scenario Profit-on-Cost

Site Number	3-Month Compensation + Moving Costs		6-Month Compensation + Moving Costs		8-Month Compensation + Moving Costs	
	Rental	Strata	Rental	Strata	Rental	Strata
1	-0.4	-0.4	-0.7	-0.8	-1.0	-1.0
2	-0.3	-0.3	-0.5	-0.6	-0.7	-0.8
3	-0.3	-0.3	-0.5	-0.5	-0.7	-0.7
4	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4

### 6.3 RIGHT OF FIRST REFUSAL AND MOVING COSTS (PACKAGE 3A)

Across the four case studies, introducing ROFR policies has a material to highly material effect on project performance (see Table 10). This magnitude of impact would be sufficient to influence project decisions, particularly under conditions where projects are already economically challenged. Return moving costs (Table 4), which are also included in this package, are not considered to materially change performance on their own; the impacts shown in Table 10 are driven primarily by the introduction of ROFR policies.

Key variables that influence how the different ROFR policy scenarios shape each case study are: (a) the number of tenants living on the site previously and (b) the revenue-generating area of the new development. Site 4 is the least impacted by ROFR policies (consistent with findings for other packages), as it has relatively fewer displaced tenants (19 units) and significant gross floor area for the new build. Even so, the impacts are significant. In contrast, although Site 2 also has few displaced tenants (15 units), it also has the smallest gross floor area for the new build of the case studies, and consequently is the second worst performing case study under this policy.

ROFR scenarios using a discount to new market rents performed consistently better than those based on the more deeply discounted CMHC average rents. At 25% uptake, projects with CMHC-based discounts still experienced significant impacts on returns, while those using market-rent discounts saw only a modest effect. However, at 50% uptake, even the market-rent scenario resulted in a substantial decline in project performance, highlighting the significant risks ROFR policies can pose for developers.

Overall, ROFR impact calculations indicate that this package option should be treated with caution.

Table 10: Package 3A Change to Baseline Scenario Profit-on-Cost

	Discounted from CMHC Average Market Rents		Discounted from Market Rents	
	25% Uptake	50% Uptake	25% Uptake	50% Uptake
<b>1</b>	-3.4	-6.9	-2.1	-4.1
<b>2</b>	-2.6	-5.2	-1.3	-2.6
<b>3</b>	-2.1	-4.0	-1.3	-2.3
<b>4</b>	-1.0	-2.1	-0.6	-1.2

### 6.3.1 Right of First Refusal Feasibility and Underwriting Considerations

The discussion below outlines why ROFR behaves differently than one-time compensation costs in feasibility and lender underwriting. These are important considerations to keep in mind, when discussing potential introduction of a ROFR policy.

- The ROFR represents a sizeable feasibility risk, because it can reduce project revenues in a way that is uncertain in magnitude.** From a pro forma perspective, this is not the same as delivering a defined number of below-market units for a fixed term (i.e., an inclusionary housing policy). Instead, it is an unknown and highly variable possible revenue impairment, in which if a tenant exercises the ROFR, the project experiences a potentially material rent reduction for an indeterminate period, but the same unit may later revert to full market rent upon turnover.
- The ROFR risk is also structurally difficult to offset using standard local government tools.** Development Cost Charges (DCCs) and Amenity Cost Charges (ACCs) for example are not designed to be recalculated or discounted / rebated based on whether a unit is temporarily rented below market due to the ROFR outcome (unlike a true inclusionary housing unit). As a result, there is no automatic mechanism (like a waiver) within the framework to refund or adjust charges where a market unit is temporarily converted to a discounted unit through tenant uptake. While a local government could, in some circumstances, implement DCC / ACC waivers or reductions for defined categories (such as affordable rental housing within for-profit buildings), those tools are best suited to affordability outcomes that are clearly defined and secured, rather than a unit-by-unit tenant-only discount that may or may not occur.
- For redevelopment proposals, especially in a challenging market climate, the uncertainty described above can affect feasibility in two ways: direct revenue impacts and an underwriting risk premium. First, if ROFR occurs, it lowers expected revenues in early years, reducing project returns (as shown in the analysis presented in Section 6.3 above). Second, the uncertainty itself can increase the risk premium applied by lenders and equity partners, which can be as consequential as the revenue reduction (and is not explicitly modelled in this exercise). Canadian guidance for commercial real estate lending emphasizes that underwriting should be forward-looking and consider both normal and stressed scenarios. In practice, lenders would rarely rely on a single uptake assumption; they will

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instead test a base-case uptake assumption alongside downside scenarios, including very high uptake, because ROFR creates a contingent obligation that can affect stabilized income and the path to stabilization. This can translate into more conservative underwriting (e.g., higher required debt service coverage and more robust reserves), which may create barriers for some developers in proceeding.

- **If Council’s objective is partly to influence redevelopment rates, that objective should be made explicit and evaluated transparently.** The envisioned ROFR policy applies broadly to land use applications that result in loss of rental units and establishes ROFR obligation for affected tenants. Because lenders typically test stressed scenarios for contingent policy risk when assessing financeability of a project, any ROFR policy could operate as an implicit development constraint (i.e. a ‘soft cap’ on redevelopment) even without an explicit cap on redevelopment, particularly for more tenant-intensive situations like the replacement of larger-scale purpose-built rental buildings, where the exposure is larger.
- **Context on likelihood of uptake in Nanaimo:** As there is no existing ROFR policy in effect in Nanaimo today, the likelihood and degree of potential uptake is unknown. The City of Victoria has an existing ROFR policy framework, which has seen negligible uptake.

## 6.4 VULNERABLE TENANT AND EARLY MOVE-OUT COMPENSATION (PACKAGE 3B)

When layered on top of Package 2, vulnerable tenant and early move-out compensations deepen the financial impact of these policies. As shown below, the incremental effect generally falls within the material to highly material range depending on development composition, site size, and the number of tenants displaced.

Results in Table 11 indicate an additional reduction in profit-on-cost of approximately 0.5 to 1.2 percentage points relative to the baseline, with the greatest impacts occurring on Sites 1 and 2. This suggests that the incremental burden of Package 3B is meaningful in relative terms, though not necessarily determinative on its own in every instance. However, given already constrained market conditions and the range of other headwinds affecting project margins, even these incremental impacts can still be consequential in practice.

Table 11: Package 3B Change versus Baseline Scenario Profit-on-Cost

Site Number	Rental	Strata
1	-1.1	-1.2
2	-0.8	-0.9
3	-0.8	-0.8
4	-0.5	-0.5

## 7.0 IMPLICATIONS AND POSSIBLE FUTURE POLICY DIRECTIONS

The results in Section 7 suggest a distinction between tenant protection measures that are likely to have lower materiality impacts on redevelopment economics, those that may still be considered but require careful calibration, and those that are more likely to introduce material or highly material impacts under current conditions. In particular, the testing shows that fixed, one-time compensation measures generally produce more limited and predictable impacts than ROFR, while the degree of impact within fixed-compensation packages varies meaningfully depending on the level of compensation and the extent to which additional supports are layered in.

The policy directions below are organized to identify: (i) a 'preferred' near-term policy direction, (ii) additional options that may still be considered with careful calibration, and (iii) options that are generally not recommended on the basis of the current findings.

### 7.1 PREFERRED NEAR-TERM POLICY DIRECTION

- On the basis of the materiality findings in Section 7, the most supportable starting point is a package that relies on defined and predictable obligations rather than contingent revenue impacts (i.e., ROFR). This approach would limit the degree to which the policy itself becomes a major additional feasibility risk.
- **Within that framework, Package 2 at the 3-month level appears to be the strongest enhanced option for near-term consideration.** Relative to the other measures tested, this package generally remains within an immaterial to low/modest range of impact and therefore represents the clearest opportunity to improve tenant support beyond provincial minimums while maintaining a comparatively lower degree of financial impact on project returns. Package 1 is of course the lowest-impact benchmark, but among policy options that go meaningfully beyond the RTA, Package 2 at 3-months presents the most balanced near-term position.
- A middle-ground pathway could centre on Package 2, with some Package 3B components added on (such as additional compensation for vulnerable tenants). This would remain manageable financially. This could be built around Package 2 as the core component (most supportable at 3-months, but potentially at 6-months if Council is prepared to accept somewhat greater materiality), combined with limited Package 3B-type supports.

### 7.2 ADDITIONAL OPTIONS REQUIRING CAREFUL CALIBRATION

- If the City wishes to move beyond the preferred near-term pathway, the most supportable next step would be an expansion of fixed compensation rather than a shift toward open-ended obligations. In materiality terms, Package 2 at 6-months begins to move into low/modest-to-material territory and may still be considered if Council is prepared to accept somewhat greater feasibility sensitivity. Similarly, selected Package 3B-type supports may be appropriate.
- If some form of ROFR is considered, it should be approached as a distinct and more consequential policy tool rather than as part of the preferred middle-ground package. Section 7 shows that ROFR is the dominant financial sensitivity in the analysis, with impacts that are material to highly material

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under the scenarios tested. This does not necessarily mean ROFR should be ruled out in all circumstances, but it does suggest that it should be considered cautiously, with limited rent discounts, careful attention to likely uptake, and a clear understanding that even a relatively modest ROFR design can move impacts well beyond the range associated with Package 2.

### **7.3 OPTIONS GENERALLY NOT RECOMMENDED UNDER CURRENT CONDITIONS**

- ROFR tied to CMHC average rents, or other similarly deep-discount rent frameworks, is generally not recommended under current conditions. Based on the findings in Section 7.3, this type of approach is among the most material policy options tested and increases the likelihood that ROFR moves from a contingent obligation to a more significant and recurring revenue impairment. Relative to the City's other options, it sits at the high end of the materiality spectrum and is difficult to characterize as a balanced near-term measure if the objective is to enhance tenant support without materially shifting redevelopment economics.

## APPENDIX A: PRO FORMA ASSUMPTIONS

Revenue and cost assumptions are informed primarily by information collected through developer interviews conducted in 2025. Where interview information was insufficient, alternate data sources were used and informed estimates were prepared by USL.

### UNIT SIZE AND REVENUE ASSUMPTIONS

Table 12 shows the revenue and average unit size assumptions that underpin the rental pro forma used in this testing.

Table 12: Unit Size and Revenue Assumptions

	Wood Frame Strata	Townhouse Strata	Wood Frame Market Rental	Source
Unit Size	770 sq. ft.	1,300 sq. ft.	700 sq. ft.	Per developer interviews Zonda Urban NHS Data
Revenue	\$600/sq. ft.	\$450/sq. ft.	\$3.00/sq. ft. per month (\$2,100 per unit per month)  Assumes average rental revenue escalation of 1.0% from now to development completion	Per developer interviews Zonda Urban NHS Data
			Cap Rates  • Market Rental: 5.00%	Per Colliers 2024 Year in Review Report

### TIMELINE AND BUILDING EFFICIENCY ASSUMPTIONS

Table 13: Timeline and Building Efficiency Assumptions

	Assumptions	Source
Development Timeline	Site 1: 24-month approval (includes rezoning), 12-month construction  Site 2: 12-month approval (no rezoning required), 18-month construction	Per Developer Interviews USL Estimate

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	Site 3: 12-month approval (no rezoning), 36-month construction  Site 4: 12-month approval (no rezoning required), 18-month construction	
Building Efficiency	82% (Wood Frame) 100% (Townhouse)	Per Developer Interviews

## COST ASSUMPTIONS

### Hard Cost Assumptions

Table 14: Hard Cost Assumptions

	Assumptions	Source
Demolition Costs	\$20/sq. ft. of existing structure	USL estimate
On-Site Servicing	\$3,500 per linear metre of frontage	USL estimate
Hard Costs (above grade, below grade, landscaping, demolition, site works, servicing, contingency)	Wood Frame/Townhouse Blended: \$246-\$332  Including underground parking: \$160/sq. ft., assuming 380 sq. ft. per parking space	Per Developer Interviews

### Soft Cost Assumptions

Table 15: Soft Cost Assumptions

	Assumptions	Source
Development Permit Fees	Per City Schedule	City of Nanaimo
Soft Costs Related to Rezoning	\$300,000	USL Estimate
Development management, professional fees and other soft costs (engineering, design, legal, survey, appraisal, accounting, warranties, insurance, permits, other professional fees + contingency)	17% of hard costs plus soft cost contingency of 5% of soft costs	USL estimate with development industry input

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Development Cost Charge(s) (DCCs)	<p><b>Municipal DCCs:</b> Apartment: \$14,444.83 per unit Townhouse: \$19,887.37 per unit</p> <p><b>Regionals DCCs</b> For apartment and townhouse: \$25.74 per square meter of building gross floor area (maximum of \$4,622.37 per unit)</p>	<p>Per City of Nanaimo Bylaw No. 7348</p> <p>Per Regional District of Nanaimo Bylaw No. 1547</p>
Amenity Contribution Charges (ACCs)	<p>Apartment: \$2,186.33 per unit Townhouse: \$3,591.83 per unit</p>	Per City of Nanaimo Amenity Cost Charge Bylaw 2026, No. 7440 via April 20, 2026 Council Report
Tenant Protection Cost	As outlined in Section 5.0	
Property Tax	Per City Schedule. Applicable for time throughout development process from land holding to construction completion.	City of Nanaimo
Sales Commissions	Sale of Strata Residential: 2%	USL estimate with development industry input

Table 16: Financing Cost Assumptions

	Assumptions	Source
Financing (75% on construction 50% on land)	<p>Land and Construction Loan Interest Rates: 5.95%</p> <p>Plus financing fees at 1.50% of construction costs</p>	USL estimate with development industry input

Table 17: Land Cost Assumptions

	Assumptions	Source
Property Transfer Tax	Based on existing BC Assessment site value and tax rate	City of Nanaimo
	Varies by case study site as listed in site parameters section based on 2026 Assessment.	BC Assessment USL Research

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	15% Premium included for Land Assembly Assumed closing costs of 2%	
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