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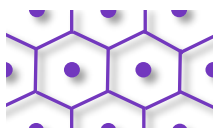
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Our Ref: 1912944:PF/NL

26 March 2019

Mr. Kevin Neatt

Director, Planning & Development

Clayton Developments Limited

255 Lacewood Drive, Suite 100C

Halifax NS B3M 4G2

Dear Mr. Neatt:

**Re: Opinion of Property Value Impacts – The Fairways, Riverview, NB**

Clayton Developments is engaged in the development of a master planned residential community known as The Fairways, located in Riverview, NB. The project has been proceeding under a secondary plan and zoning regime that originates from 2011. This zoning has been amended from time to time, and Clayton has most recently applied for amendments to change an area zoned R-1 under the 2011 plan to R-2 to enable the construction of semi-detached housing units in place of detached. The application arises from trends in market demand experienced by the project so far; semi-detached housing has attracted high interest from purchasers, and demand for detached housing has been low.

At a March 11<sup>th</sup>, 2019 public hearing on the proposed amendment, local residents raised concerns about the potential for the zoning change to reduce the value of existing developed properties. This concern was raised primarily by residents of the earlier phases of The Fairways project, but was also voiced by residents in the external areas abutting the project.

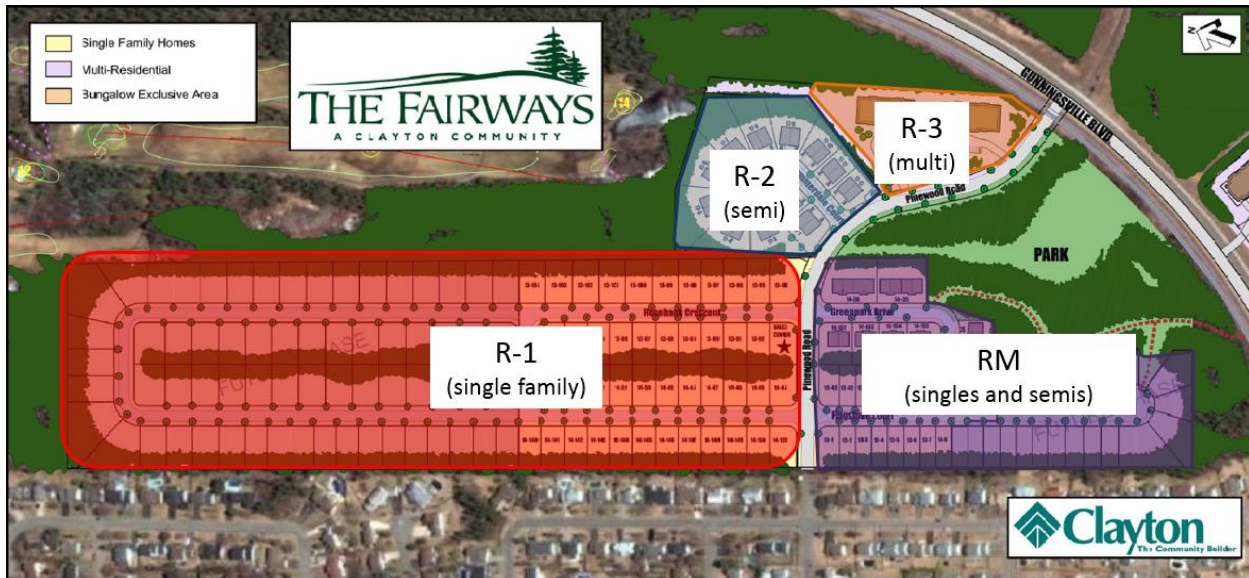
In response, Council requested additional information on how property values may be affected if the development moves forward under the proposed changes. This letter of opinion is intended to provide the additional detail required to properly evaluate these public concerns as Council weighs its decision.

**SUMMARY**

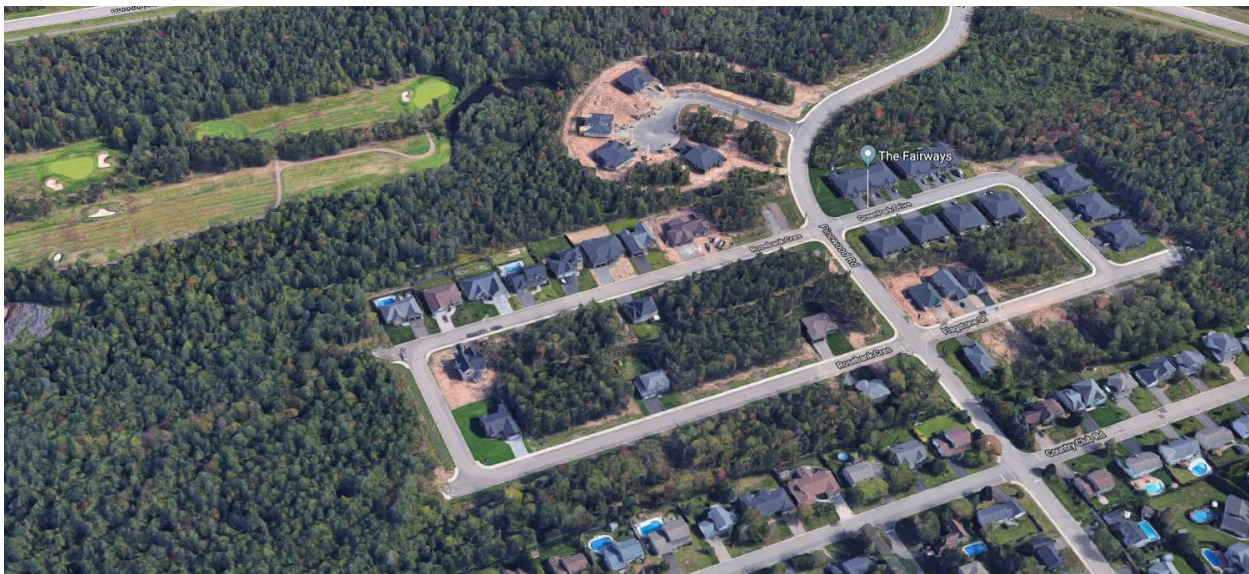
- Changing some R-1 zoned areas to R-2 to enable the construction of semi-detached housing units is not a significant change in land use or neighbourhood character. Design strategies have been implemented to mitigate potential site-specific adjacency issues.
- We do not expect the proposed zoning amendment to create a material negative impact to property values for detached houses in the area, or in the earlier phases of The Fairways specifically. In examining similar arrangements in other residential areas of Riverview, we can find no clear correlation between price of single family homes and proximity to semi-detached housing.
- The current zoning is misaligned with market demand. Continuing development under this zoning regime has a number of potential implications. We believe these pose a greater risk of negative property value impacts than the proposed zoning amendment.

## SUBJECT SITE AND FACUTAL INFORMATION

The Subject Site is a new community subdivision project located in Riverview, New Brunswick, known as The Fairways. The project is roughly 65 acres in gross area, the development of which is guided by a secondary plan which enables a mix of single detached, semi-detached, and multiunit residential buildings with attendant infrastructure and greenspace. The project is partially developed, and these initial phases have included both single detached and semidetached housing units. The images below show the overall concept plan for the project with its current zoning, and the state of development circa 2017.



The Fairways – Development Concept and Present Zoning (Source: Clayton Developments)



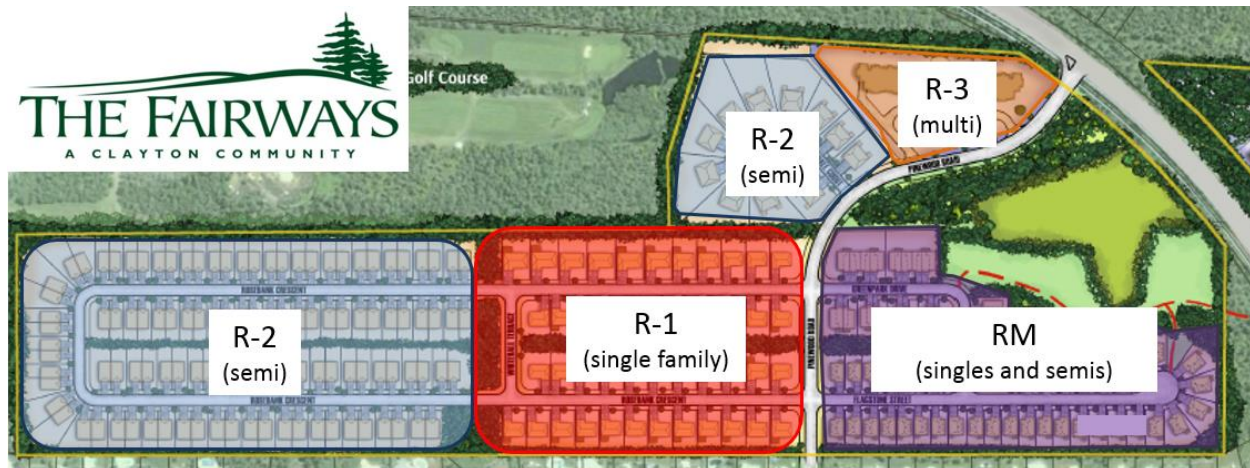
The Fairways – Aerial Image of Development (Source: Google Maps, current to 2017)

The current zoning was approved in 2011 (with amendments in 2012 and 2016) and permits the following quantum and mix of housing types:

Single Unit Dwelling	150 units
Semi-Detached Dwelling	18 units
Multiple Unit Dwelling	234 units
<b>Total</b>	<b>402 units</b>



As initial phases of the project have been developed and sold, the pattern of demand in the current market has not matched the 2011 unit mix. Demand for single detached dwellings has been lower than expected, while semi-detached units have attracted substantially higher demand. As a result, the developer has request an amendment to the 2011 zoning to change the second phase of development on Rosebank Crescent from R-1 to R-2 to allow for development of a larger proportion of semi-detached dwellings. This amendment would result in the following distribution of zoning within the project area:



Development Concept with Proposed Zoning (Source: Clayton Developments)



Rosebank Crescent Phase 2 with proposed development (Source: Clayton Developments)

The proposed quantum and mix of housing types for the total project is:

Single Unit Dwelling	83 units
Semi-Detached Dwelling	156 units
Multiple Unit Dwelling	206 units
<b>Total</b>	<b>445 units</b>

## BACKGROUND

Prior to examining the case of the Subject Site specifically, it is useful to first outline some basic information on the theory and practices which underlay property values and how they feature in the public discourse.

### Determinants of Property Value

Real estate values are not inherent to a property; they are determined by the balance of supply and demand in local real estate markets. Changes in the forces affecting supply and demand happen at a variety of scales and degrees of visibility. Together they can have significant impacts to property values regardless of what a homeowner may do with the property itself. The Appraisal Institute of Canada identifies four Factors of Value that affect the balance of supply and demand. They are summarised as:

#### Utility

The ability of the property to satisfy a human need or desire. For residential properties, utility is created by the size, type, and design of the home itself, the land it is situated on, as well as its location relative to desirable amenities and services.

#### Scarcity

The present and anticipated future supply of housing relative to the demand for it.

#### Desire

The strength of a purchaser's wish for housing beyond its' essential life-supporting functions, and the degree to which purchasers prioritise this wish over their other spending options.

#### Purchasing Power

The ability of potential purchasers to participate in the market as dictated by their financial wealth and the availability of credit.

Within this overall context of market supply and demand, the Appraisal Institute of Canada also identifies a number of principles that determine the market value of a particular property relative to other similar ones in the area. The most relevant principles to this discussion are:

#### Conformity

Property values are created and sustained where the characteristics of the property are aligned with the local market expectations for the areas. For example, the lack of a garage may present no issue to a house located in an older neighbourhood where off-street parking has always been limited, while the same house would trade at a significant discount if located in a new suburban subdivision. Conformity can also apply to the market segments that a neighbourhood may attract, for example a luxury custom home may not achieve its maximum value if located in an area of predominantly smaller, starter homes.

#### Externalities

In addition to the characteristics of the property itself, values are significantly influenced, positively and negatively, by factors external to the site. For example, the use and enjoyment of a property can be affected by the design and use of adjacent private property, such as architecture which support a sense of character in the neighbourhood, or commercial uses that introduce noise in evening hours. The location of public services and infrastructure can also create externalities, such as increased amenity from new recreation facilities, or undesirable odours from waste management facilities.

#### Anticipation

Property values are not only a function of the benefits that ownership currently provides, but also the expectation of future benefits that ownership would create. For example, current values will be higher in a particular areas if purchasers in the market anticipate stronger future value appreciation.

### **Substitution**

The value of a property is affected by the alternative options that purchasers may substitute in its place. If a property has few potential substitutes, it will tend to have a higher value, and stronger value growth over time. For properties where many substitutes exist, value trends will be limited by the price at which the substitutes can be acquired.

### **Property Value Concerns in Public Consultation**

Any person who regularly attends hearings on issues of community development is likely to agree that the most common point of public feedback is regarding potential for negative impacts to the value of nearby residential properties. This is entirely understandable as Canadian society is characterised by high rates of home-ownership, and principle residences are usually the single largest asset a household possesses. Neighbouring residents are thus highly sensitive and risk-adverse when it comes to events that are perceived to affect home values.

However, most residents are limited in the resources and expertise they can draw upon in judging whether something poses a risk to their property value. Commonly, when these concerns are expressed in a public forum, the supporting evidence takes the form of the following statement:

*"If [the issue under consideration] had been in place when I was looking for a home, I would not have bought in this neighbourhood".*

In other words, most members of the public are understandably limited in the task of identifying and quantifying potential negative impacts to the market value of their home. They can only consider their personal perspective of a hypothetical situation, and then extrapolate this to an estimation how the market as a whole may function. They have very little awareness of how their situation fits into the broader availability of housing options in the market (supply), or the degree to which their individual outlook is representative of the full pool of buyers (demand).

As a result, to existing residents the value impact of a planning or development decision is usually viewed as the product of its effect on their personal use and enjoyment of the property. In actuality, this is a poor predictor of market behaviour as it is biased by sentimental factors and unique lived experience in the property that no other buyer in the market possesses. Quality of life impacts are an important consideration in the planning process, but it is largely a separate issue from market value impacts.

## **DISCUSSION**

Property values are a product of real estate markets; a web of complex and interrelated factors that all play out in the local balance of supply and demand. The proposed change is a response from the developer to clear evidence that conditions have evolved since the current zoning was approved in 2011. It is a strategy to realign the supply of housing provided by The Fairways project, with the demand that exists in the local market. In this context, there are no "neutral" choices. The decision on changing the present zoning is not one of weighing the risk of diverging from an otherwise safe, stable position. It is more akin to arriving at a fork in the road and having to choose the best path forward.

Thus, where the basis for the public concern is a desire to avoid a reduction in the market value of their properties, the sensible approach is to consider the potential outcome of both choices: will market values for existing single-detached properties in the area be best served by the current zoning, or the proposed zoning?

### **Impact of Implementing Proposed Zoning Change**

In reviewing the current and proposed development concepts, it is our professional opinion that approving the zoning amendment to allow semi-detached housing to be built in the next phase of development on Rosebank Crescent would not create a material reduction in the property values of either detached homes developed in earlier phases of the project, or homes in the adjacent neighbourhoods.



The planning and appraisal professions readily accept that new development and changes in land use can create negative externalities that impact the market value of existing real estate. In general these impacts fall under two categories: broader neighbourhood-based impacts that result from a change in the nature, perception, or character of an area, and acute site-specific impacts that result from incompatibilities between the new development and its immediate environs.

First, for broader area impacts, we consider whether the proposed amendment represents a material change in the nature or character of the area. In the planning and appraisal professions, detached and semi-detached housing are generally considered to be two housing forms from the same overall category; low-density, ground-oriented housing. The project itself already contains a mix of single detached and semi-detached housing which has set the expectation for the nature of the area. Further, the lot standards, and design requirements proposed for the semi-detached housing is generally in line with the nature of the overall neighbourhood. The semi-detached units will require similar architectural treatments and relatively generous lot frontages. In other words, the semi-detached units can be expected to maintain conformity with the overall neighbourhood character.

Second, we believe the proposed design features of the project adequately mitigate potential negative externalities for adjacent detached housing. In particular, the introduction of vegetated buffers provides adequate separation distances to create a soft transition in the neighbourhood between housing types. Further, the minor overall change in unit count has been analysed to confirm no greater traffic impacts would result. And finally, the design of the housing units themselves keep building heights low and serve to maintain a sense of privacy between abutting properties.

This opinion is informed predominantly by our experience and familiarity with these types of residential developments throughout Atlantic Canada, where a close mixing of single detached and semi-detached housing is common. Master planned communities, by their very scale, require a mix of housing styles at various price points in order to reach a sufficiently broad market and ensure that a full project absorption is achieved within an acceptable time period. It is essential to ensure that the project remains economically viable for the developer until all units have been sold and/or developed; protracted absorption periods will result in high holding costs, possibly rendering a project unsustainable. By contrast, exclusive/boutique developments serving only a single housing style and aimed at a specific price threshold must be developed in relatively small numbers due to the limited demand for the product.

As a result, housing units in a master planned development are inherently tolerant of other housing styles and price points, provided it has been designed to ensure there is adequate mitigation of adjacency issues between different housing styles. The Fairways is an example of a large scale project supporting a mix of housing styles and price points. It was never designed as an exclusive single family development, and the semi-detached and multifamily buildings are positioned in close proximity to the single family (detached) housing on adjacent streets. In order to reach the broadest possible market, the single family lots come in a variety of sizes, ranging from 49 ft. (15 m) wide lots along Flagstone, to 70 ft. (21.3m) lots along Rosebank (backing onto McAlister Park, with the largest 81 ft. (24.8 m) wide lots reserved for Rosebank backing onto the golf course lands. The difference in lot size/frontage influences the value of the homes built on these lots, creating a mix of housing prices even for the same housing type (in this case single family detached). Recorded selling prices range from a low of around \$340,000 on the smaller lots to a high of around \$486,000 on the larger lots, with one outlier reported at \$746,000. We can find no clear correlation between price and proximity to the semi-detached housing.

Other master planned developments in the area follow the same strategy. Tuscany Estates, for example, is another of Riverview's planned communities of predominantly single family and semi-detached housing in roughly equal measure. Recent new homes have been selling in the \$300/350,000 range, but again we can find no clear correlation between price and proximity to the semi-detached housing. This is a pattern we see in similar residential developments in the Halifax area and other locations in our region.

In addition to the professional principles and experience we draw upon in forming our opinions, we also believe our position is supported in general by existing research. The property value impact of various changes in land use or certain types of development is a topic of significant academic investigation. Empirical studies tend to focus on more dramatic situations such as the conversion of zoning between

broad use categories (e.g. introducing commercial uses to exclusively residential areas), the provision of major infrastructure (e.g. effect of regional transportation projects), or the intrusion of more 'controversial' residential uses (e.g. homeless shelters, social housing, large multi-unit buildings in low density areas). Even though these studies examine far more drastic land use compatibility questions than the potential effects between semi-detached and single detached housing, in general they typically show that negative impacts can exist in specific instances, but usually no negative impacts are found at the broader neighbourhood level (with the exception of particularly noxious uses, such as heavy industrial).<sup>1</sup> In summary, failure to address and mitigate adjacency relationships between different forms of development can affect values on neighbouring properties, but whatever force it may exert broadly is lost within the overall effect of supply and demand.

No existing research specifically examining the impact of changing predevelopment land from single detached to semi-detached housing was found. In and of itself, this lack of analytical interest provides some evidence that the value externalities between these forms of housing are low. The closest comparable scenario analysed comes from a recent study in Vancouver which examined the impact of introducing accessory dwelling units (aka laneway housing units) in the rear yards of single detached residential properties.<sup>2</sup> This study examined the impact on sale prices of detached housing attributable to having laneway houses in general proximity (within 100m), as well as directly adjacent. It found that in either case, the presence of a laneway house was associated with a very small (<1%) and statistically insignificant reduction in selling price. The lack of statistical significance is of particular importance as it means the results were within the margin of error for the analysis method, and therefore cannot be said to prove any actual negative impact. The only instances where the study found statistically significant negative results were in the case of impacts to a smaller submarket of high-value luxury housing. In these instances, a similarly small but statistically validated negative impact was observed. This is logical given that in the market for elite luxury housing, neighbourhood features such as exclusivity are of greater importance, and thus the introduction of lower priced housing options could be expected to create a more powerful externality. This context is not applicable to The Fairways project.

### **Impact of Maintaining Current Zoning**

As previously described, there is no "neutral" choice in this situation. A change of zoning has implications to be considered, but so too does proceeding with development under the approved 2011 zoning regime. It is our professional opinion that, insofar as property values are concerned, maintaining the existing zoning represents a greater risk for negative impacts than implementing the proposed changes.

While it may seem intuitive that the short-term success of a subdivision developer is a wholly separate issue from the long-term expectations of residents in their project, the reality is that early-movers to new housing projects have many aligned priorities with developers when it comes to property values.

The current zoning regime results in a surplus of single detached housing lots for which market demand is low, as evidenced by the absorption rates for these products in the project to date. Based on this clear market data, it can be anticipated that proceeding with development of the current zoning regime will result in a further oversupply of detached house lots. Thus, continuing the project under this housing mix poses several challenges for residents that have already bought into its earlier detached housing phases:

### **Prolonged Development / Construction Period**

Drawing on the principle of anticipation, it is a common strategy for purchasers to view early-entry to a housing project, whether buying pre-build or at completion of early phases, as an opportunity for earning outsized financial returns. They are able to effectively purchase housing at a discount in exchange for the anticipated inconvenience of living near active constructions sites, and potentially having to wait for full delivery of planned neighbourhood amenities such as parks or schools. Once the project is completed, when all amenities are in place and negative externalities

<sup>1</sup> A good summary specific to apartment buildings can be found in Obrinsky, M., & Stein, D. (2007). *Overcoming Opposition to Multifamily Rental Housing [Whitepaper]*. Retrieved March 22, 2019 from Joint Centre for Housing Studies, Harvard University: [http://www.jchs.harvard.edu/sites/default/files/rr07-14\\_obrinsky\\_stein.pdf](http://www.jchs.harvard.edu/sites/default/files/rr07-14_obrinsky_stein.pdf)

<sup>2</sup> Davidoff, T., Pavlov, A., & Somerville, T. (2019). *Not in my neighbour's back yard? Laneway homes and neighbours' property values*. Retrieved March 22, 2019 from Faculty Research and Publications, University of British Columbia: <https://dx.doi.org/10.14288/1.0376805>

are removed, properties can generally be expected to receive a one-time bump in property values.

From this perspective, an extension of the development process both increases the length of anticipated inconveniences, and simultaneously delays events that would have a beneficial impact to property values. These effects could act to suppress growth in the market value of completed detached homes in The Fairways project, particularly in the existing areas of Rosebank Crescent which are closest to the location of future development activity.

### **Greater Price Competition**

Beyond the negative externalities of a prolonged development period, the simple oversupply of detached housing lots will serve to limit the values of existing homes due to the substitution effect. So long as the project overall remains uncompleted, the resale price for existing houses will be tempered by competition with potential new construction on available building lots in the area. As the absorption period for the project increases, this effect becomes more powerful; how much will purchasers in the market be willing to pay for a house that is many years old when opportunities for new construction exist in the same neighbourhood? Until the project achieves completion, price competition with available building lots will serve as a soft cap on market values for existing homes.

### **Stigmatisation and Reputational Damage**

Home values are impacted by factors external to the property itself. In addition to tangible factors such as nearby amenities, intangible factors also have an effect. Particularly in residential subdivisions, neighbourhood reputation and prestige can influence the level of market demand that the area attracts, and thus the strength of local property values. Projects that experience inordinate completion timelines can acquire a stigma of failure and suffer long lasting reputational damage in the local market.

With regards to market values, it is in the interest of current residents of The Fairways as well as the developer to ensure the overall project succeeds to completion, and in the shortest time possible. Achieving this result requires a close alignment between the supply of housing delivered by the project, and the demand for various housing types in the local market. The current zoning regime does not create this alignment, and thus a decision to maintain the status quo itself risks negative impacts to property values for existing residents.

### **CONCLUDING REMARKS**

We believe that community concerns regarding the negative impacts to existing property values, though completely understandable, are unfounded. Having examined the current and proposed development concepts for The Fairways project, we believe that with regards to property values, the latter option presents the best outcome for both the developer and existing residents. We do not anticipate any broad area-based impacts resulting from the rezoning, and appropriate design strategies have been included to mitigate potential impacts resulting from adjacency issues both internal and external to the project. Further, in assessing the implications of not amending the current zoning regime, we believe maintaining the status quo would perpetuate the imbalance of supply and demand currently experienced by the project, which itself poses a risk of negative impacts for existing residents of detached homes in the project going forward.

Yours truly,

TURNER DRAKE & PARTNERS LTD.



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