



Economic Impact Study

Bullock Lake Cottages, Salt Spring Island

December 2012



December 12, 2012

via email: andrew@platformproperties.ca

0915294 B.C. Ltd.
c/o Platform Properties Ltd.
900 – 1200 West 73rd Avenue
Vancouver, BC V6P 6G5

Grant Thornton LLP
Suite 1600, Grant Thornton Place
333 Seymour Street
Vancouver, BC
V6B 0A4
T (604) 687-2711
F (604) 685-6569
www.GrantThornton.ca

Attention: Andrew Sinclair, Development and Acquisition

Dear Andrew:

Re: Economic Impact Study – Bullock Lake Cottages, Salt Spring Island

In accordance with the terms of our engagement, we have completed an Economic Impact Study for a proposed recreational development known as Bullock Lake Cottages, on Salt Spring Island.

This report has been prepared for 0915294 B.C. Ltd. (“the Owner”) and is intended to support the overall development planning process. The information contained within this report should not be used for any purpose other than that disclosed herein.

Our analysis, opinions and conclusions were developed and reported to the best of our knowledge and belief in conformance with the requirements of the Code of Professional Conduct for the Canadian Association of Certified Management Consultants.

If we may be of assistance in the interpretation or application of our findings or in the furtherance of this project, please contact me at your convenience.

Yours very truly,

A handwritten signature in black ink that reads "Grant Thornton LLP".

Doug Bastin, CMC
Partner, Grant Thornton Consulting

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Executive summary

The following points highlight the key factors which will impact the proposed Bullock Lake Cottages (the “Cottages”) development on Salt Spring Island and the economic impact that will be generated from the construction and operations of the proposed development. Upon completion, the project will have contributed approximately \$38,000,000 in economic impact through construction. Through operations on an annual basis, the completed project will contribute approximately \$7,500,000 in economic output, will directly employ approximately 69 people, and will contribute approximately \$660,000 to the local Salt Spring economy through owner usage expenditures alone.

- 1. The development site** - consists of a 35-acre development site on Salt Spring Island. The site has been previously developed, including the construction of 50 units (more or less complete), 73 additional cottage foundations, along with associated roads and servicing infrastructure. A lodge facility previously existed on site (approximately 27,000 sq. ft.); however, it burned to the ground in 2007. The existing use is permitted on site under a former land use; however the Islands Trust did elect to downzone the site in 1996.
- 2. The proposed development** - will include a combination of recreational cottage accommodation uses that include the following:
 - Two phases of development;
 - Up to 123 strata titled cottage units; and
 - An amenity building.
- 3. The development schedule** - consists of two primary phases:
 - Phase I: 50 cottage units (already constructed) and amenity building of +/- 6,000 sq. ft.; and,
 - Phase II: Up to 73 cottage units.
- 4. The accommodation market** - trends suggest that the proposed tourism component is well positioned to satisfy the demands and desires of a growing portion of the traveling public. This, combined with the inherent beauty and recreational potential of Salt Spring Island, highlights a substantial opportunity to capitalize on a growing market in this area of the province.
- 5. The Input/Output Model (“I/O Model”)** – the economic impacts estimated in this study were determined, using the British Columbia multipliers and the Statistics Canada I/O Model.
- 6. The Economic Impacts** – for the construction and annual operations of the Cottages, by phase, are as follows:

Summary of Construction Phase Impacts

The construction of the Cottages (Phase I and Phase II) is expected to take place over a 5 to 10 year period. The direct spending associated with the construction of all components of the proposed development is estimated to be approximately \$38 million. Based on this direct spending, the combined direct, indirect and induced economic benefits resulting from the construction of the Cottages are:

	Phase I	Phase II	Total
Person Years of Employment	40	219	259
Gross Domestic Product	\$2,401,000	\$13,037,000	\$15,438,000
Total Economic Output	\$5,905,000	\$32,057,000	\$37,962,000

Summary of Annual Operating Impacts

Direct spending related to operating Phase I of the Cottages in 2016, a maintainable year, is estimated to be \$2.16 million. Phase II operations (2021) will have direct spending of \$4.74 million. Based on this direct spending, the combined direct, indirect and induced economic benefits resulting from the annual operations are:

	Phase I	Phase II
Person Years of Employment	43	95
Gross Domestic Product	\$1,962,000	\$4,297,000
Total Economic Output	\$3,425,000	\$7,500,000

Summary of Owner Usage Spending Impacts

Annual owner expenditures following the build-out of the Cottages and amenity building, and their associated impacts, are as follows.

Owner Usage Expenditures ¹		
	Phase I	Phase II
Cottages Expenditures	\$94,500	\$190,600
Outside Cottages Expenditures	\$302,000	\$467,500
Annual Expenditures	\$396,500	\$658,100

7. Conclusion – the economic impact of the proposed development is significant, through the construction period and in operations, and will include employment opportunities for Island residents and others along with service and retail revenue opportunities for Island and trade area businesses. Further, the Cottages will advance both the economic development objectives of the Official Community Plan as well as the objectives of the Tourism Development Plan.

¹ Owner usage expenditures are “in addition to” the Annual Operating Impacts summarized above.

Introduction

Scope of engagement

0915294 B.C. Ltd. (“the Owner”) currently owns the Bullock Lake Cottages (the “Cottages”) on Salt Spring Island. The site has been previously developed, including the construction of 50 units (more or less complete), 73 additional cottage foundations, along with associated roads and servicing infrastructure. A lodge facility previously existed on site of approximately 27,000 sq. ft., however, it burned to the ground in 2007.

The Owners’ intention is to complete construction in a phased approach as detailed below, and open the Cottages for sale as secondary homes that may be included in a rental pool for use by the travelling public. Grant Thornton Consulting was engaged by the client to conduct an Economic Impact Study to determine the estimated economic impacts that will be generated by the construction and operation of the proposed development.

Work program

The work program for this engagement consisted of the following steps:

1. Update the operating and financial projections from a previous Feasibility Study (2005).
2. Assess the impact of various user groups; unit owners vs. travelling guests.
3. Review tourism and economic development objectives – Salt Spring Island.
4. Assess supply/demand factors for tourist accommodation, in the Gulf Islands and on Salt Spring Island.
5. Identify comparable properties and benchmark performance against the subject property.
6. Collect and analyze appropriate construction and operational phase and economic and employment multipliers for the project.
7. Conduct an Economic Impact Assessment for the construction and operational phases of the project.
8. Report on the results of the Economic Impact Assessment.

Assumptions

Demand projections were completed for the recreation cottage accommodation units based on the most recent performance of the most similar offerings in the province.

Construction of the Cottages (Phase I and II) is expected to occur over a five to ten-year period. Construction of Phase I will take place in 2013/2014 while construction of Phase II may be staggered over a five-year period, from 2017 to 2021.

Construction costs were provided by the client. Costs associated with Phase 1 are fairly well developed, however are preliminary along with the costs associated with Phase 2 at this stage.

Facility operating costs were estimated by Grant Thornton, and are based on the performance of comparable developments.

Methodology and assumptions

Statistics Canada input-output model

The estimated economic impacts of the proposed Cottages project were derived primarily using the relevant British Columbia multipliers as provided by the Statistics Canada I/O Model. The I/O model uses the Canadian Input-Output tables to track and quantify the economic activity generated by changes in consumption or production. As such, it traces the flow of goods and services amongst various sectors of the economy. The model is maintained by Statistics Canada, and presents one of the most complete and detailed accounting frameworks of the Canadian economy. As such the model has the greatest potential of all major economic models for capturing the flows of goods and services between industries and consumers at relatively detailed levels; the I/O model measures impacts at the provincial level.

The current model is based on 2007 multipliers (the most recent year for which multipliers are available from Statistics Canada) and includes details on 679 commodities in 243 industries, using the North American Industrial Classification System.²

The I/O model is primarily used to predict how an increase or decrease in demand in one industry (e.g., construction) will impact other industries, and, therefore, the entire economy. The model assumes that all industries are operating at full capacity and that supply is perfectly inelastic.

The model measures the following economic impacts:

- *Direct effect* - the change in domestic output required to satisfy an initial change in demand. This would include the actual expenditures and the employment directly generated (each person-year of employment is the equivalent of one full-time equivalent job);
- *Indirect effect* - the change in domestic output generated by the activity in sectors that supply goods and services used in the project;
- *Induced effect* - the overall impact of more income accruing to the household sector;
- *Output* – the simple sum of all expenditures that result from the project under study;
- *Employment* – the total number of full-time equivalent (“FTE”) positions generated by the change in demand;

² Note that according to Statistics Canada, 2007 multipliers are still considered valid estimators of economic impact.

- *Provincial, Federal and Municipal Revenues*³ – estimated provincial and federal share of personal income taxes and commodity taxes (GST and PST), as well as other commodity taxes such as gas taxes or air transportation tax;
- *Gross Domestic Product* - a measure of the value-added (the unduplicated total value of goods and services) to the BC economy by productive activities taking place within the province; and,
- *Total Economic Output* - the overall amount of economic activity created in British Columbia.

Data collection and supporting research

Data sources for this application of the I/O Model are described below, with a more detailed breakdown of the data used, presented in the Study's appendices.

Construction costs

The client provided construction costs for each phase of the proposed development, which were used as inputs for the construction phase of the I/O Model. It should be noted that the proposed development will likely occur over a five to ten-year period. The construction costs provided for the model run are total costs for the five to ten-year build-out period. However, the model does not recognize time and, therefore, accounts for the total build-out construction costs and related impacts over a one-year period. As such, inflation covering the five to ten-year period is not factored into the construction costs used for this analysis.

Development costs for the proposed Cottages project are as follows:

- Phase I - \$ 3,500,000
- Phase II - \$19,000,000

Total Phase I development cost impacts will be assessed in 2014, the year of completion of all Phase I components of the development. Phase II development cost impacts will be assessed in 2021, the likely year of completion of all Phase II components of the development. Total development impacts were determined by adding Phase I and Phase II development impacts.

Operational costs

Grant Thornton LLP provided estimated operational costs for components of the subject property, as noted below.

- Projected operating costs for the accommodation units and the amenity building were based on comparable property performance data.

Operational costs are estimated for a one-year period. Based on the previously described development schedule, the base year for assessing Phase I operating costs is 2016 (year three of operations which is considered to be a maintainable level of performance), and the base year for assessing Phase II operating costs is 2021 (as each of these years represents the likely build-out of

³ Note that the I/O Model provided by Statistics Canada does not calculate municipal property tax revenues.

the Cottages at Phase I and Phase II, respectively). A summary of operating revenues and expenses from 2014 to 2016 and for 2021, by amenity/service, is attached in Exhibit I.

Conducting the I/O Model Analysis

The data for each phase of the development was used to derive the economic impacts for the development as a whole. Four distinct runs of the I/O Model were applied as follows:

Proposed Resort Development I/O Model Runs		
I/O Model Run	Base Year	Description of I/O Model Run
# 1	2014	Phase I: Development Costs
# 2	2016	Phase I: Operating Costs
# 3	2021	Phase II: Development Costs
# 4	2021	Phase II: Operating Costs

The results of the application of the I/O Model for the subject property are presented later in the report.

Economic trends

Introduction

This section of the report presents general socio-economic and tourism industry trends/facts for BC and, more specifically, for the Capital Regional District including the Gulf Islands market area.

General economic conditions – British Columbia

Like other parts of Canada, BC suffered through the economic slowdown in 2008 and 2009; however, BC has had an advantage in terms of the speed of recovery due to the significant infrastructure projects and construction activities related to the 2010 Olympic Games.

The following table presents economic indicators for BC from 2008 to 2011 plus the forecast for 2012.

BC Economic Growth					
Economic Indicator ⁽¹⁾	2008	2009	2010	2011	2012
Real Gross Domestic Product (“GDP”) %	0.2	-1.8	3.0	2.6	1.7
Employment %	2.1	-2.4	1.7	0.8	1.7
Unemployment Rate %	4.6	7.6	7.6	7.5	7.0
Retail Sales %	1.5	-4.4	5.3	2.3	5.0
Inflation %	2.1	0	1.1	2.6	1.7

Source: *Economic Analysis of British Columbia, CUBC*

⁽¹⁾Percentage change from previous year, unless otherwise indicated

While economic growth remained strong in 2012, the rate of growth was slightly lower for GDP, which demonstrated 1.7% growth in 2012 and 2.6% in 2011. The job market in BC has improved since 2009. Employment grew by 1.7% in 2012, which was higher than the growth rate experienced in 2011, while the unemployment rate has declined from 7.5% in 2011 to 7.0% in 2012. Retail sales recovered in 2012 towards 5.0% after a decline from 5.3% in 2010 to 2.3% in 2011. The Inflation rate has declined to 1.7% in 2012.

As indicated by the Central 1 Credit Union, the BC economy is expected to experience growth of 2.2% in 2013, which is higher than the current growth rate 1.7 % for 2012. For the following year’s CUBC is projecting a growth of 2.9% in 2014, 2.7% in 2015 and 3.5% in 2016. The factors associated with these growth projections are identified by the CUBC as:

- Continued domestic demand as the main source of growth for BC;

- Robust consumer spending;
- Continued strength in construction in BC;
- BC's positioning with regard to trade with Asia (while trade with the US will likely suffer, BC is well positioned, both geographically and economically, to take further advantage of trade with Asia).

The CUBC has projected the following economic growth for 2013.

- Real GDP is projected to increase by 2.2% in 2013.
- Employment growth is projected to slow to 1.4% in 2013.
- Inflation is forecast to increase by 1.7% in 2013.

Population

According to BC Stats, the Capital Regional District experienced population growth of 1.1% annually over the five-year time period from 2007-2011, compared with a province-wide population growth rate of 1.5% during the same period of time. Note that within the Capital Regional District, the Gulf Islands experienced annual population growth of 1.9% between 2007 and 2011. The lowest annual growth rate occurs on Salt Spring Island with a rate of 0.7%.

The following table illustrates the population growth for BC, the Capital Regional District and for the Gulf Islands. The second table illustrates Salt Spring Islands' population growth.

Population Growth						
	2007	2008	2009	2010	2011	AAC
BC	4,309,632	4,384,047	4,459,947	4,529,674	4,573,321	1.5%
Capital Region	359,304	364,107	368,024	372,230	374,675	1.1%
Gulf Islands	15,046	15,452	15,727	15,963	16,217	1.9%
		1996	2001	2006	2011	AAC
Salt Spring Island		9,247	9,279	9,640	10,234	
			0.3%	3.9%	6.2%	0.7%

Source: BC Stats

The regional population is expected to grow by 0.89% per year over the next six years, with a total population of 394,280 projected in 2017. For the Gulf Islands, an annual growth rate of 1.2% is projected, with a total population of 17,383 in 2017.

The following table illustrates the population projections.

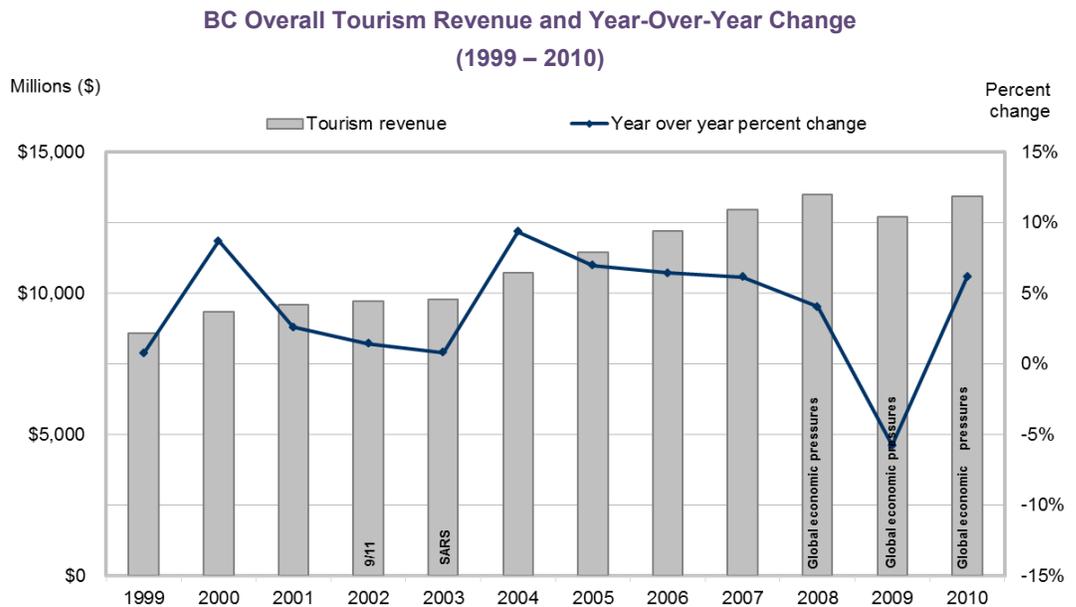
Population Projection							
	2012 (p)	2013 (p)	2014 (p)	2015 (p)	2016 (p)	2017 (p)	AAC
British Columbia	4,615,096	4,663,580	4,715,406	4,770,551	4,827,643	4,886,850	1.15%
Capital Region	377,279	380,366	383,526	386,944	390,497	394,280	0.89%
Gulf Islands	16,377	16,557	16,739	16,941	17,155	17,382	1.20%

Source: BC Stats

Assuming the population of Salt Spring Island grows at a rate similar to that projected for the Gulf Islands, Salt Spring's population would reach approximately 12,475 by 2021, when Phase II is likely to be complete.

Tourism growth

Tourism growth has fluctuated in BC over the last decade, due to several external factors. Overall, however, tourism has grown steadily in the province, with tourism revenues of over \$8 billion in 1999 increasing to over \$13 billion in 2010. Most recently, tourism growth has been impacted by poor global economic conditions which started in 2008 with the worldwide recession. Tourism growth trends are shown in the following graph which documents tourism revenue in the province from 1999 to 2010.



Source: *The Value of Tourism in British Columbia, Tourism British Columbia, 2011.*

Despite fluctuations in visitation in recent years, tourism is expected to continue its long-term growth trend. Tourism revenue increased to \$13.4 billion in 2011. The provincial government's Five-Year Strategy for Tourism aims for tourism revenue growth of 5% per year for BC, with a target of \$18 billion in tourism spending by 2016.

The following tables provide indicators for tourism performance in the Capital Regional District (CRD) and the Gulf Islands. Overall, the data indicates that tourism performance in the CRD has more-less mirrored the tourism performance of BC as a whole, with tourism revenues down.

Room Revenue in \$ '000						
	2006	2007	2008	2009	2010	Average Growth
Victoria	142,711	150,911	142,131	125,821	125,704	-3.1%
Saanich Peninsula	10,709	12,191	12,049	11,001	–	0.9%
Rest of the CRD	29,405	30,577	29,085	27,501	–	-2.2%
Total CRD	182,825	193,679	183,266	164,323	162,657	-2.9%

Source: *BC Stats*

As indicated in the following table, tourism indicators for Salt Spring Island illustrate a recent decline in ferry passenger volumes and visitor traffic to the Visitor Information Centre (VIC).

Salt Spring Island Tourism Indicator				
Indicator	2009	2010	2011	Avg. Annual Change
BC Ferry Passenger Volumes	291,646	292,478	287,770	-0.7%
Visitors to Visitor Information Centre	42,039	35,176	31,286	-12.8%

Source: BC Ferries, Salt Spring Island VIC

While tourism industry performance has generally been in decline since 2008, recent improvements in economic growth in the province and recent increases in tourism spending and visitation throughout the province in 2012 are positive trends for future tourism growth.

Salt Spring Island Official Community Plan

The current Official Community Plan (OCP) for Salt Spring Island contains objectives that support tourism related businesses and acknowledges that tourism is a major economic development driver as evidenced by the economic policies in Section 3.1.1. General directions in the OCP include the following:

- To realize the economic benefit of tourism in the community;
- The economic benefits would be realized by a number of businesses on the island;
- To make land use decisions that encourage tourism in the shoulder and off seasons; and,
- To encourage tourism that blends well with the community and complements the rural nature of the Island.

The Bullock Lake Cottages project will generate significant economic benefits to a wide range of businesses, on and off island. In addition, the ownership model proposed will generate occupancy, revenue and economic benefits in the shoulder and off season, and the development plan for the Cottages supports the concept of blending with the rural nature of the community. Accordingly, and given its economic impact, the Cottages further the economic development objectives in the OCP.

Salt Spring Island Tourism Development Plan

In the Salt Spring Island Tourism Development Plan (2010-2013), prepared under the Community Tourism Foundations Program, the “tourism vision” is expressed as:

To deliver a unique visitor experience that embraces the authenticity of the community, celebrates its local distinctiveness, and contributes to the overall sustainability of Salt Spring Island.

To advance tourism on the Island, product development is required; specific product identified in the plan includes the following:

- Arts and culture product;
- Agritourism product;
- Nature-based and marine resources – for developing ecotourism;

- Strengthen the retail sector product;
- Strengthen festivals and events; and,
- Develop winter product.

Conclusion

Economic growth in the province has been a positive factor in recent years while population growth has slowed. Tourism growth in BC has also been positive over the past 15 years even though the trend changed in 2008 and 2009.

Tourism growth in BC, in terms of overnight visits, is projected to increase by 2.7% in 2013, a positive trend.

For the Gulf Islands and Salt Spring Island to realize a portion of the projected growth in visitation, they need to offer additional product and activities that are appealing to the various visitor markets.

Development project overview

Overall development concept

The Owner proposes to amend the Official Community Plan and Land Use Bylaw to permit the phased completion and operation of up to 123 recreation cottages and construct a +/- 6,000 square foot amenity building. More specifically, the project is envisioned in two phases as outlined below.

Phase I

Phase I involves completion of the existing 50 cottages and construction of the +/- 6,000 square foot amenity building.

The cottages are strata titled and would be sold to individual owners. Owners would then have the option to include their unit in a managed rental pool for rent as guest accommodation to the travelling public. The units are intended as second-home vacation cottages occupied by owners or guests, and accordingly, owners would not be permitted to occupy the units as their primary residence.

The +/- 6,000 square foot amenity building is proposed as a multi-purpose building to serve community, unit owners, and tourism related uses.

The strata corporation or their designate will own and operate the amenity building.

Phase II

Phase II consists of the construction of up to an additional 73 cottage units on the existing foundations on the site. These may be constructed after complete occupancy of Phase I and subject to market demand. Construction will be contingent on sufficient water supply and septic capacity. The ownership structure is intended to be the same as Phase I described above.

Destination nature

Given the location and size of the proposed development project, it would be classified as a destination, meaning that the development contains, in and of itself, the necessary guest attraction capabilities; for investors and guests.

A characteristic of destination tourist projects is that customers/patrons pre-book their stay – the market does not typically include walk-in traffic.

Accordingly, when considering the nature of competition for the proposed Cottage development, other destination tourist accommodation offerings in the trade area would be considered

competitive. The offerings that we have considered to be competitive to the proposed development on Salt Spring Island include:

- Poet’s Cove Resort
- Brentwood Bay Lodge
- Tigh Na Mara Resort
- Wickaninnish Inn
- Black Rock Resort

The competitive properties identified above typically offer a unique location and concept and a wide range of guest amenities.

Due to the concept contemplated for the subject property, the Bullock Lake Cottages should be a good fit with existing accommodation offerings on Salt Spring Island. The advantages that the proposed development contemplates include:

- Timing of development – only 50 units (cottages) built in Phase I, with Phase II planned as demand warrants it and the required servicing is available.
- The Amenity Building – designed to provide a venue for local residents, unit owners and visitors to Salt Spring Island.
- Guest units that are significantly larger than existing accommodation on the Island.

Salt Spring Island accommodation

Accommodation properties on Salt Spring Island include 15 hotels/motels/resorts and 90 bed and breakfasts (“B&Bs”), in addition to an unknown number of vacation rental properties. A summary table of the Island’s accommodation supply, excluding vacation rentals, is presented below. This is followed by a listing of the larger hotel/resort properties on Salt Spring Island.

Salt Spring Island Accommodation Supply Summary		
	Total Number of Properties ⁴	Total Number of Accommodation Units
Hotels/motels/resorts	15	213
Bed & Breakfast establishments	90	201
Total	105	414

Source: BC 2012 Accommodation Guide and GT Research

Salt Spring Island Hotel/Resort Accommodation Inventory		
Name	Rack Rates (\$CDN)	# of Units
Hastings House	\$395 - \$745	18
Cusheon Lake Resort	\$154 - \$232	16
Salt Springs Spa Resort	\$109 - \$299	13
St. Mary Lake Resort	\$120 - \$175	9
Maple Ridge Cottages	\$167 - \$209	5
Seabreeze Inn	\$105 - \$195	26
Harbour House	\$99 - \$239	36
Lakeside Gardens Resort	\$90 - \$150	15
Wetherly Inn	\$235 - \$315	4
Salt Spring Inn	\$60 - \$165	7
Total		149

Source: BC 2012 Accommodation Guide and GT Research

⁴ The actual number of hotels/motels/resorts and B&Bs may exceed the numbers illustrated above – as some operators choose not to list their establishment in either the BC Accommodation Guide or similar publications.

As illustrated above, none of the hotels/resorts that currently exist on Salt Spring Island provide the product type that will be available through the Bullock Lake Cottages and amenity building. Visitor seasonality on the Island is evidenced in the wide range of rates typical of Salt Spring Island properties, as hotels are forced to significantly reduce rates during the off-season in order to compete for limited visitor demand. The Cottages will have a positive effect on visitor seasonality.

Strata titled units

The 50 constructed units along with the location for the amenity building has already been strata titled, and the Owner intends to strata title the additional units in Phase 2. Each accommodation unit will be sold to individual owners, who would then have the option to include their unit in a managed rental pool.

The strata guest accommodation model differs from conventional vacation resorts, as follows:

- Occupancy levels at strata properties tend to be higher, due to owner usage;
- Strata projects tend to be larger, due to the strata owner investment and typically include more in the way of guest amenities; and,
- The economic impact of a strata titled accommodation will be higher, due to the impact of owner usage.

The impact of these characteristics (for the subject property) on the accommodation market generally includes:

- New demand created for accommodation and other events; and,
- The ability to attract visitors in the non-peak season.

For the purposes of our analysis, we have assumed that approximately 80% of the unit owners will put their unit in the rental pool. This is based on strata owner preference at several similar development projects.

Conclusion

The concept proposed for the Cottages project will generate visitation to Salt Spring Island and will not compete directly with existing accommodation facilities on Salt Spring. The subject property will, however, compete directly with five other accommodation facilities located within the trade area. These accommodation facilities are larger, have more guest amenities and are of a higher quality level than currently exist at most properties currently operating on Salt Spring. Visitation generated by the Cottages will be less seasonal than that currently realized on Salt Spring.

Operating and financial performance

Introduction

This section of the report summarizes the projected operating and financial performance of the Cottages, for Phase I and Phase II.

Operating performance

To assess the potential operating performance of the proposed development, we reviewed the actual results for accommodation facilities throughout the province and for the properties considered to be “the competitive sample”. The competitive sample includes five properties with a total complement of 480 guest units.

Historical Performance (Market)					
Province	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Forecast 2012
Occupancy %	64.5%	58.9%	60.2%	59.7%	60.0%
ARR	\$134	\$129	\$138	\$130	\$133
Competitor Set					
Occupancy %			61.0%	60.0%	60.5%
ARR			\$225	\$236	\$240

As indicated above, the competitive set has fared very well, in terms of annual occupancy and average room rate, relative to the provincial averages.

The projections for the province and the competitive market, in terms of occupancy and average room rate, are consistent with the projected recovery for the tourism industry in BC.

Projected Performance (Market)				
Province	2013	2014	2015	AAC 2013-2015
Occupancy %	60.6%	61.2%	61.8%	1.0%
ARR	\$135	\$138	\$141	2.0%
Competitor Set				
Occupancy %	61.1%	61.7%	62.3%	1.0%
ARR	\$245	\$250	\$255	2.0%

The projected operating performance for the proposed development is illustrated in the following table. Market share has been used to generate the occupancy and average room rate projections for the subject property and reflect our assumptions regarding the project positioning; as a mid to upper-end destination.

Projected Performance (Subject Property)				
	Phase I			Phase II
	2014	2015	2016	2021
Occupancy %	45%	53%	58%	45%
ARR	\$275	\$281	\$285	\$286
Market Share⁵				
Occupancy %	73%	85%	94%	78%
ARR	110%	110%	112%	110%

The subject property is projected to realize occupancy levels below the average of its direct competitors due to its size and location and average room rates above the average, due to its quality and guest unit size.

Financial performance

Based on the occupancy and average room rate projections prepared for the subject property, the following table summarizes the projected financial performance of the proposed development.

Projected Financial Performance (Subject Property) in '000s				
	Phase I			Phase II
	2014	2015	2016	2021
Total revenue	\$2,365	\$2,797	\$3,102	\$5,918
Income from operations	\$718	\$847	\$938	\$1,753

Exhibit I is a Statement of Projected Revenues and Expenses for the proposed development, which provides detail for the table above.

⁵ Market Share – is the subject property's share of the competitive market, with 100% indicating that the subject property is competing on an equal basis with its direct competitors.

Summary of estimated economic impacts

Introduction

Summaries of the estimated construction and operating impacts of the Bullock Lake Cottages development, by phase, are presented in this section.

Businesses impacted

The businesses that will be positively impacted by the development and operations of the proposed resort include, at a minimum, the following.

Operations Non-Resort	Construction
1. Artisans	1. Architects
2. Agricultural producers/Agritourism	2. Building trades
3. Grocery stores	3. Building materials store
4. Pub/liquor store	4. Landscaping materials
5. Drug/convenience store	5. Furniture suppliers
6. Gas station	6. Hotel equipment
7. BC Ferries	7. Signage
8. Golf courses	8. Security
9. Sightseeing	9. Salt Spring Island/Island Trust
10. Other entertainment	10. Capital Regional District
11. Tourism operators	
12. Float plane operators	
13. Health and wellness providers	
14. Restaurants	
15. Local and other niche retailers	
16. Marinas	
17. Vineyards	
18. Taxi Service	
19. Educators	
20. Outdoor/recreation equipment retailers/renters	
21. Insurance provider	

Cottages
1. Cleaning services and supplies
2. Office services and supplies
3. Catering
4. Events coordination
5. Wedding planners
6. Landscaping services
7. Property/strata management services

Phase I

For the purposes of this study, we have assumed that the development of the first phase of the project will occur over a one year period, in 2013/2014. The construction costs provided for the model run are total costs for the one year build out period.

Construction impacts (Year 2014)

The results of the I/O Model analysis for the Phase I construction of the Cottages project are presented in the table below. Note that these construction impacts include hard (materials, labour, etc.) and some minimal soft (consulting fees, development permits, etc.) costs.

The total economic output and contribution to the province's gross domestic product ("GDP") as a result of Phase I construction are expected to be approximately \$5.9 million and \$2.4 million respectively. Tax revenues generated by the construction of the project at all levels of government are expected to be approximately \$542,000, including direct, indirect and induced impacts.

Construction impacts for Phase I also include 40 full-time jobs over the construction period.

Construction Impacts - Phase I (Year 2014)	Impacts ('000)			
	Direct	Indirect	Induced	Total
Output	\$3,500	\$1,775	\$630	\$5,905
GDP	\$1,014	\$1,037	\$350	\$2,401
Employment*	20	15	5	40
Tax Revenue	\$297	\$133	\$112	\$542

*Full Time Equivalents (FTEs)

Operating impacts (Year 2016)

The following operational expenditures are estimated for a one-year period, using projected operating statistics for Year 2016, a stabilized year of operations. The development is expected to directly employ the equivalent of 32 full time workers annually, with direct expenditures totalling \$2,164,000.

Operating Impacts – Phase I (Year 2016)	Impacts ('000)			
	Direct	Indirect	Induced	Total
Output	\$2,164	\$871	\$389	\$3,425
GDP	\$1,201	\$544	\$216	\$1,962
Employment*	32	8	3	43
Tax Revenue	\$234	\$71	\$71	\$376

*Full Time Equivalents (FTEs)

Phase II

As previously discussed, Phase II of the development includes up to an additional 73 cottages. It should be noted that, of the \$19.0 million in direct construction output generated by Phase II, 100% of the total direct output, is attributed to cottage development.

Construction impacts (Year 2021)

Total Phase II construction impacts are estimated to be approximately \$32,057,000, while total contribution to the provincial GDP is expected to be in excess of \$13,037,000. Direct full time employment generated by the construction of Phase II is expected to be in excess of 219 jobs over the build-out period. Total direct taxes generated by Phase II construction are expected to be \$2.94 million.

Construction Impacts - Phase II (Year 2021)	Impacts ('000)			
	Direct	Indirect	Induced	Total
Output	\$19,000	\$9,637	\$3,420	\$32,057
GDP	\$5,506	\$5,630	\$1,900	\$13,037
Employment*	109	81	29	219
Tax Revenue	\$1,615	\$722	\$608	\$2,945

**Full Time Equivalents (FTEs)*

Operational impacts (Year 2021)

The Phase II operating impacts, as summarized in the following table, reflect the operating output generated by the guest cottages. Phase II is expected to generate \$4.7 million in direct output, and \$2.6 million in direct GDP for the provincial economy. Total tax revenue (excluding property tax) is expected to be \$825,000 in 2021.

Once the subject property is fully developed, it would directly employ 69 people.

Operating Impacts – Phase II (Year 2021)	Impacts ('000)			
	Direct	Indirect	Induced	Total
Output	\$4,739	\$1,909	\$852	\$7,500
GDP	\$2,631	\$1,192	\$474	\$4,297
Employment*	69	18	8	95
Tax Revenue	\$512	\$156	\$156	\$824

**Full Time Equivalents (FTEs)*

Owner usage and spending

Owner usage and spending has been projected based on the following assumptions:

- The majority (80%) of unit owners will put their unit in the rental pool; and,
- All unit owners will use their unit for 3 weeks every year.

Based on the above assumptions, annual owner expenditures following the build-out of the cottages and amenity building, and their associated impacts, are presented in the table below.

Owner Usage Expenditures		
	Phase I	Phase II
Cottages Expenditures	\$94,500	\$190,600
Outside Cottages Expenditures	\$302,000	\$467,500
Annual Expenditures	\$396,500	\$658,100

Conclusion

As indicated by the figures outlined above, the economic impact of the proposed development is significant, through the construction period and in operations, and will include employment opportunities for Island residents and others along with service and retail revenue opportunities for Island and trade area businesses.

The Cottages will advance both the economic development objectives of the OCP as well as the objectives of the Tourism Development Plan.

Exhibits

- Exhibit I – Statement of Projected Revenue and Expenses**
- Exhibit II – Statement of Projected Revenues**

Exhibit I

Proposed Strata Resort, Salt Spring Island

Statement of Projected Revenue and Expenses

	<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>2021</u>	
Units	50		50		50		123	
Rooms Available	18,250		18,250		18,250		44,895	
Rooms Occupied	8,300		9,595		10,508		19,999	
Occupancy ⁽¹⁾	45%		53%		58%		45%	
Average Room Rate	\$275		\$281		\$285		\$286	
Revenue								
Rooms	\$2,282,500	96.5%	\$2,700,000	96.5%	\$2,994,000	96.5%	\$5,714,000	96.5%
Other Operated Departments	82,224	3.5%	96,761	3.5%	108,523	3.5%	204,567	3.5%
Total Revenue	2,364,724	100.0%	2,796,761	100.0%	3,102,523	100.0%	5,918,567	100.0%
Departmental Expenses								
Rooms	799,000	35.0%	945,000	35.0%	1,048,000	35.0%	1,714,000	30.0%
Other Operated Departments	45,000	55.0%	53,000	55.0%	60,000	55.0%	113,000	55.0%
Total Costs and Expenses	844,000	35.7%	998,000	35.7%	1,108,000	35.7%	1,827,000	30.9%
Total Departmental Income	1,520,724	64.3%	1,798,761	64.3%	1,994,523	64.3%	4,091,567	69.1%
Undistributed Operating Expenses ⁽²⁾								
Administrative and General	236,000	10.0%	280,000	10.0%	310,000	10.0%	592,000	10.0%
Franchise/Management Fees	118,000	5.0%	140,000	5.0%	155,000	5.0%	651,000	11.0%
Marketing & Guest Entertainment	177,000	7.5%	210,000	7.5%	233,000	7.5%	444,000	7.5%
Property Operation and Maintenance	83,000	3.5%	98,000	3.5%	109,000	3.5%	207,000	3.5%
Energy and Utilities	83,000	3.5%	98,000	3.5%	109,000	3.5%	207,000	3.5%
Total Undistributed Expenses	697,000	29.5%	826,000	29.5%	916,000	29.5%	2,101,000	35.5%
Income Before Fixed Expenses	824,000	34.8%	972,761	34.8%	1,078,523	34.8%	1,990,567	33.6%
Fixed Expenses								
Insurance	35,000	1.5%	42,000	1.5%	47,000	1.5%	59,000	1.0%
Provision for Capital Replacement	71,000	3.0%	84,000	3.0%	93,000	3.0%	178,000	3.0%
Total Fixed Expenses	106,000	4.5%	126,000	4.5%	140,000	4.5%	237,000	4.0%
Income from Operations	718,000	30.4%	846,761	30.3%	938,523	30.3%	1,753,567	29.6%

Source: Grant Thornton LLP

Notes:

¹ Occupancy projections do not factor in owner usage.

² The following expenses are not included in the Resort Statement of Projected Revenues and Expenses as they are covered by the strata unit holders:

- Property management fees
- Property taxes

Exhibit II Proposed Strata Resort, Salt Spring Island Revenue Projections

ROOM REVENUE DETAILED CALCULATION

				<i>Phase I.</i>			<i>Phase II.</i>	
				<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2021</u>	<u>2022</u>
Room Nights Available								
Summer May 1st - Sep. 30th		<i>Phase I.</i>	<i>Phase II.</i>					
Cottages	#	50	123	7,650	7,650	7,650	18,819	18,819
Winter Oct. 1st - April 30th		<i>Phase I.</i>	<i>Phase II.</i>					
Cottages	#	50	123	10,600	10,600	10,600	26,076	26,076
Total Room Nights Available				<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>44,895</u>	<u>44,895</u>
Occupied Room Nights				<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2021</u>	<u>2022</u>
Summer May 1st - Sep.30th		<i>Phase I.</i>	<i>Phase II.</i>					
Cottages	#	50	123	4,590	5,355	5,738	10,350	11,856
Winter Oct. 1st - April 30th		<i>Phase I.</i>	<i>Phase II.</i>					
Cottages	#	50	123	3,710	4,240	4,770	9,648	10,170
Total Occupied Room Nights				<u>8,300</u>	<u>9,595</u>	<u>10,508</u>	<u>19,999</u>	<u>22,026</u>
Percentage of Occupancy				<u>45%</u>	<u>53%</u>	<u>58%</u>	<u>45%</u>	<u>49%</u>
Room Revenue				<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2021</u>	<u>2022</u>
Summer May 1st - Sep.30th								
Cottages				\$1,596,150	\$1,899,419	\$2,075,793	\$3,819,625	\$4,462,711
Winter Oct. 1st - April 30th								
Cottages				\$686,350	\$800,088	\$918,101	\$1,894,152	\$2,036,470
Total Room Revenue				<u>2,282,500</u>	<u>2,699,507</u>	<u>2,993,894</u>	<u>5,713,778</u>	<u>6,499,181</u>
Annual ARR				<u>\$275</u>	<u>\$281</u>	<u>\$285</u>	<u>\$286</u>	<u>\$295</u>